Q3 2019 results

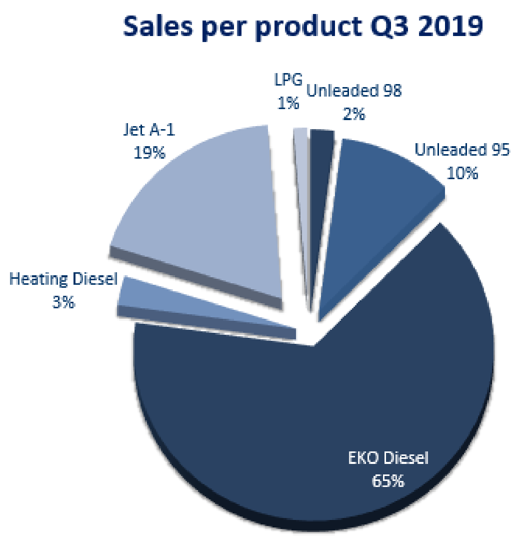
JUGOPETROL AD

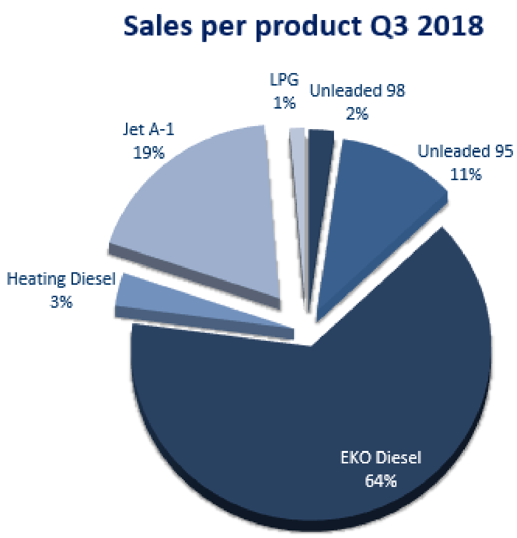
Podgorica, October 2019

During 2019, Jugopetrol AD continued realization of its strategic vision of being the leading petroleum company in Montenegro.

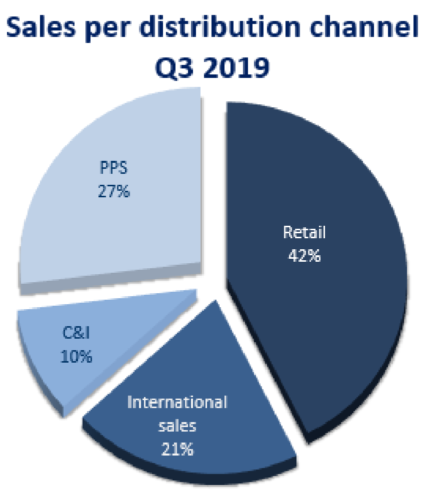
Sales results

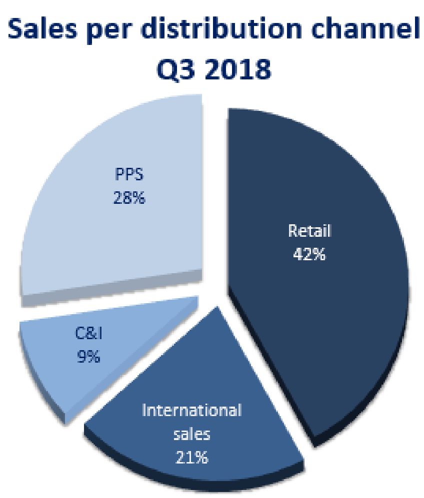
Total fuel sales in the third quarter of 2019 recorded a slight increase of 1% compared to the same period last year. Eko diesel continues to be the leading product, with 65% of total fuel sales.





With some small changes in C&I and International sales, volumes split per distribution channel was the same as last year:





Retail Q3 volumes were by +2% higher than last year, mainly because of fewer stations closed for reconstruction than during Q3 of 2018. Excluding the impact of stations which were closed for reconstruction, the rest of the stations performed better than last years, despite growing competition.

The Company focuses on completing the project of reconstruction of its retail network, which will significantly improve the appearance of stations and make the basis for future growth in sales.

International sales (Bunkering & Aviation) continued trend of growing sales (by +3% vs last year), driven by the higher number of flights in Montenegro.

Sales to yachts and other vessels are subject to high seasonality, and off-season sales are erratic and very difficult to predict. During 2019 Q3, sales were lower than in the same period last year.

Commercial & Industry (C&I) Q3 sales volumes were by +6% higher compared to the same period last year. Jugopetrol AD is the first choice for fuel supply in the C&I segment, with consistency and reliability of supply that characterizes the largest fuel company in the Montenegro market. Knowing the customer needs for many years, Jugopetrol AD can ensure excellent quality of products delivered, the speed of loading and technical excellence of the offered solutions.

Private petrol stations (PPS) sales recorded a slight decrease compared to Q3 2018.

Financial results

Profitability	Q3 YTD 2019	Q3 YTD 2018	Q3 YTD 2017	Q3 YTD 2016
Net Profit Margin %	2,4%	5,3%	6,2%	7,0%
EBITDA Margin %	4,3%	7,1%	8,4%	9,8%
Gross Profit Margin %	12,4%	14,6%	17,7%	20,0%

Nine-month profitability ratios are not at the level of previous years because of Q1 underperformances. The Company's profitability in Q1 was profoundly affected by unfavourable fluctuation of oil prices in the international market. Consecutive decrease in sales prices, defined by the Decree on the establishment of maximum retail prices, which started in December 2018 and further continued in January 2019, was the main reason for a steep drop in the unit margin in all sales segments, which mainly affected Q1 results. From February until May, a slight recovery of the unit margin was recorded, but this increase was still not high enough to offset low values from the beginning of the year. In Q3, margins were again lower than LY.

Concerning expenses, the Q3 YTD Company's operating expenses in Q3 were lower compared to last year.
The cost of depreciation was higher compared to the same period last year, caused by the investment in retail network and new IFRS 16 requirements.

Liquidity	Q3 2019	Q3 2018	Q3 2017	Q3 2016
Current ratio	3,07	4,09	4,53	5,29
Quick ratio	2,23	2,77	2,89	2,95
Cash ratio	1,23	1,45	1,29	1,36

Liquidity has continuously been at a high level. High values of liquidity ratios mean that the Company was always able to meet its short-term liabilities.

Jugopetrol AD has a remarkably strong financial position, emphasized by its low gearing ratio. The Company does not bear any debt, long or short term.

Transition to IFRS 16

The Company transitioned to IFRS 16 in accordance with the modified retrospective approach. The prior year figures were not adjusted. The Group elected to use the exemptions proposed by the standard on lease contracts for which the lease terms end 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The categories of leases identified entirely relate to cars and real estate. In line with requirements of IFRS 16 as of 1 January 2019, contracts that previously had been recognized as operating leases, under new provisions are qualified as the right-of-use-assets and depreciated over the periods of contracts duration.

During the first-time application of IFRS 16, the 'right to use' the leased asset was generally measured at the amount of lease liability, using the average incremental interest rate of 3%. The first time application resulted in recording lease liabilities in the amount of EUR 818.602 and accordingly, right-of-use assets of EUR 818.602 in the Statement of Financial Position as of 1 January 2019. In addition, prepayments for the lease of the petrol station in Lapcici of EUR 65.982 have been reclassified as a right of use asset.

During Q3 2019, there was a decrease in lease liabilities (by EUR-36k) compared to Q2 this year, and on 30 September 2019, these liabilities amount to EUR 1.092.889, and accordingly, the right-of-use-asset amounts to EUR 1.092.889 in the Statement of Financial Position. Additional advance payment for the lease of one petrol station in the amount of EUR 250.000 has been reclassified to the right-of-use-asset in Q1 and the total value of the right-of-use-asset as at 30 September 2019 amounts to EUR 1.298.184.

Operational update

Jugopetrol AD started the project of reconstruction or adaptation of the majority of its petrol stations in 2017, aiming to upgrade the network by the end of 2020. In 2017 and 2018, the reconstruction or adaptation works of a total of 10 petrol stations were completed, and the process continued in 2019. In the first three quarters of 2019, two more petrol stations were reconstructed, and one new petrol station was constructed in Zabljak, thus replacing the old one. As of September 30th, the process of reconstruction of five petrol stations is underway, and it is expected that reconstruction works will start at several more petrol stations by the end of year.

In addition to the petrol station reconstruction project, new substations were constructed at Tivat Air Service and Bar Installation, four new loading arms were installed at Bar Terminal, and four new road tankers were purchased.

Jugopetrol AD is the only oil trade company in Montenegro whose retail network covers the entire country. To retain its market leading position and further develop its services, the Company is planning to moderately expand its network in the coming years. To that effect, a newly constructed petrol station was opened in Zabljak in September; it is more spacious, better-equipped, and more modern compared to the previous one, which was closed after the opening of the new one.

At the end of Q3 2019, Jugopetrol AD had 99 employees, which is by 3 employees less compared to the same period last year. Jugopetrol AD remains committed to the well-being and development of its employees and continues to invest in their education and training.

As in the previous years, Jugopetrol AD is participating in the Government sponsored Internship program. Six trainees were engaged during 2019.

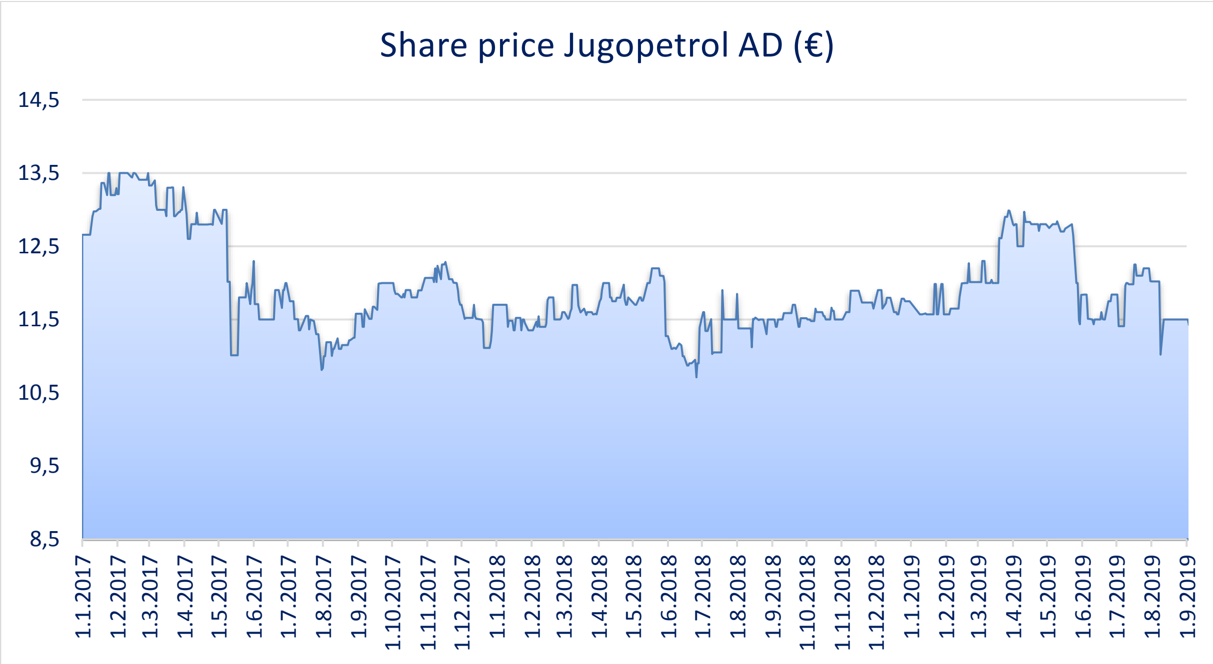
CSR update

Corporate Social Responsibility is an integral part of Jugopetrol AD culture. The Company continues to invest in its socially responsible activities, aiming at contributing to the development of the society. It has been recognized as a socially responsible towards citizens, its employees, all stakeholders and the public in general.

Activities for 2019 are divided into two pillars: road safety and new generations. In Q3 2019, as part of the new generation segment, Jugopetrol AD awarded scholarships to two students from Montenegro for their master’s studies at the University of Piraeus, for the third year in a row.

Investor update

Jugopetrol's AD stock is one of the most traded stocks in Montenegro. As of Q3 2019 share price fluctuated in the range of 11-13€. The number of shares remained constant.



RISK MANAGEMENT

Main risk factors and mitigating measures

The Company is exposed to a variety of macroeconomic (foreign exchange, oil price), financial (market risk, credit risk, liquidity risk), as well as operational risks. In line with international best practices and within the context of the local market and regulatory framework, the Company's overall risk management policies aim at reducing possible exposure to market volatility and / or mitigating its adverse effects on the financial position of the Company to the extent possible.

The Company's overall risk management program focuses on individual risk areas by addressing each class of risk individually. The main risks faced by the Company, as well as the corresponding mitigating measures are described below:

Main risks	Assesment / Mitigating measures
Macroeconomic environment	
Foreign exchange risk	- Functional currency of the Company is EUR and sales and purchases are denominated in EUR, management assessed exposure to foreign currency fluctuations as immaterial - Minor number of transactions in other currencies are converted into EUR on the transaction date
Oil price	- The Company has exposure to the risk of commodity prices of oil. Given that State Decree regulates sales prices, any sharp change in market prices may have an impact on Company´s performance. Company puts efforts on minimizing risk from sudden price changes by keeping level of its stocks in line with expected sales. Overall exposure to price risk is not material for the local market, despite occasional negative impacts, like the one recorded during 2019 Q1.
Financial risks	
Market risk: - Cash flow and fair value interest rate risk	- The Company's exposure to market risk for changes in interest rates relates primarily to the Company's short-term deposits included within cash and cash equivalents. Given the value of current market interest rates cash flow risk is assessed as not material.
Credit risk	- Differentiation of customers' mix - Faster collection of receivables (DSO reduction) - Review of customers' rating status and limits - Increased coverage of debt with collaterals
Liquidity risk	- Maintaining sufficient cash - Improving rate of collection of receivables - Adjusting the amount of dividends paid to shareholders - Phase capex - Monitoring capital on the basis of the gearing ratio. In 2019 the Company did not use any borrowings from the banks
Operational risk	
Safety & Environment	- Application of safety processes and regular inspection of all facilities - Investments to improve levels of safety and environmental protection

Compliance in terms of operational and product quality	- Implementation of necessary measures for full compliance with the existing specifications both on supply chain level and product quality - Investments for adjustment of equipment configuration, in accordance with the local framework
Property and liability risk	- Insurance coverage for a number of risks, including damage of physical assets, personal injuries, business interruption, product or other liability

Overview of Internal Audit System and Risk Management

In the same context, the Company's Internal Audit System and Risk Management include safeguards and monitoring mechanisms at various levels within the organization, as described below:

Risk Identification, Assessment, Measurement and Management
The identification and assessment of risks take place mainly during the strategic planning and the annual preparation of the business and audit plan. The benefits and opportunities are examined in the context of the company's activities, but also concerning different stakeholders who may be affected.

Planning and Monitoring/ Budget
Company's performance is monitored through a detailed budget per operating sector and market. The budget shall be adjusted systematically and Management monitors the development of the Company's financial performance through regularly issued reports and budget comparisons with the actual results.

Adequacy of the Internal Control System
The Internal Control System consists of the policies, procedures and tasks which have been designed and implemented by the Management Team of the Company and Internal Audit Department for the purpose of the effective management of risks, the achievement of business objectives, the reliability of financial and administrative information and compliance with the laws and regulations.

The Independent Internal Audit Department, through periodic assessments, ensures that the identification procedures and risk management applied by Management are sufficient, that the Internal Control System operates effectively and that information provided to the BoD relative to the Internal Control System, is reliable and of good quality.

Roles and responsibilities of the BoD

The role and responsibilities of the BoD are described in the Internal Procedures Manual of the Company, which is approved by the BoD.

Prevention and Suppression of financial fraud

The areas that are considered to be of high risk for financial fraud are monitored through appropriate internal controls and enhanced security measures. In addition to the internal controls applied by each department, all Company activities are subject to audits from the Internal Audit Department, the results of which are presented to the BoD.

Internal Operating Regulation

The Company has compiled relevant internal regulations approved by the BoD. Within the framework of the Regulations, powers and responsibilities are defined which promote the adequate segregation of duties within the Company.

The Company’s Code of Conduct

The Company, in the context of the fundamental obligation of good corporate governance, has drafted and adopted the Code of Conduct, approved by the BoD. The Code of Conduct summarizes the principles according to which any person, employee, any collective body or third party involved in the operation of the Company, should act within the framework of their duties. For this reason, the Code constitutes a practical guide of the day-today tasks of all employees of the Company, but also of third parties who cooperate with it.

Safeguards in Information Technology Systems

The Group’s IT Department is responsible for developing the IT strategy, for training of the staff to the new technologies. The IT Department is also responsible for the support of IT systems and applications through the drafting and updating of operation manuals, in cooperation with an external consultant where this is necessary. The Company has developed a sufficient framework to monitor and control its IT systems, which is defined by a set of internal controls, policies and procedures.

Safeguards for Financial Statements and Financial Reporting

The Company applies common policies and monitoring procedures of accounting department which include, amongst others, definitions, accounting principles adopted by the Company, guidelines for the preparation of financial statements and consolidation. Furthermore, it also runs automatic checks and validations between different transactional and reporting systems. In cases of nonrecurring transactions special approval is required. In this regard, the Internal Audit Department performs additional sampling-based checks in the observed period.

Chart of Authorities

A chart of authorities, depicts assigned authorities to various Company executives, to complete certain transactions or actions (e.g. payments, receipts, contracts, etc.).