

Q1 2020 results

JUGOPETROL AD



Podgorica, may 2020



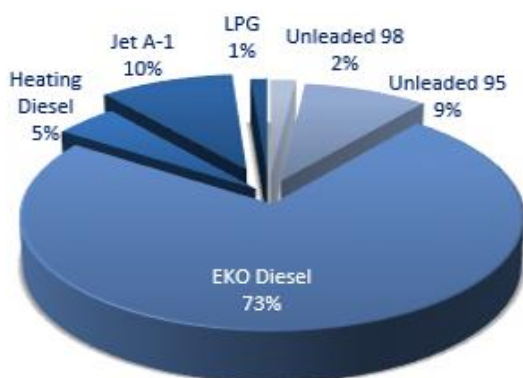
During 2020, Jugopetrol AD continued realization of its strategic vision of being the leading petroleum company in Montenegro.

Sales results

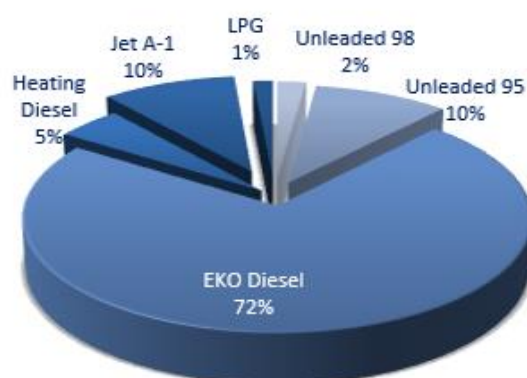
Total fuel sales in the first quarter of 2020 recorded a decrease of -9% compared to the same period last year. Corona virus pandemic was a main driver affecting our sales performances in March 2020. For the month we lost total volumes 19% as compared with March 2019.

Eko diesel continues to be the leading product, with 73% of total fuel sales.

Sales per product Q1 2020



Sales per product Q1 2019



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

Sales per distribution channel Q1 2020



Sales per distribution channel Q1 2019



Retail Q1 sales volumes remained at the same level as last year. 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) Q1 were in line with last year.

Sales to yachts and other vessels are subject to high seasonality, and off-season sales are erratic and very difficult to predict.

Aviation was hit the most by corona pandemic and in March we sold 41% less than last year.

Commercial & Industry (C&I) Q1 sales volumes were by +3% 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) Q1 sales volumes were -3% lower compared to the same period last year. Part of the drop is a result of measures on corona virus (COVID-19) which lowered the market consumption.

Financial results

Profitability	Q1 2020	Q1 2019	Q1 2018	Q1 2017
Net Profit Margin %	-0,3%	-3,9%	3,0%	4,4%
EBITDA Margin %	2,5%	-1,5%	5,2%	7,0%
Gross Profit Margin %	14,1%	9,0%	16,5%	19,1%

Profitability of the Company has improved compared to Q1 LY. The Company's profitability in Q1 LY 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 2019.

Concerning expenses, Company's operating expenses in Q1 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.

During the month of March we have seen macro-economic uncertainty in relation to prices and demand for oil, gas and products driven by the COVID-19 (coronavirus) outbreak and Saudi Aramco's unilateral and aggressive cut of its Official Selling Prices (OSP) in an attempt to prioritize market share rather than price stability, which effectively started a price war. Furthermore, recent global developments and uncertainty in oil supply in March have caused further abnormally large volatility in commodity markets.



The Company has a solid organizational structure basis to address any challenge, a solid balance sheet structure, and high liquidity, which create an additional shielding during this difficult and uncertain environment. Based on our analysis no material uncertainty exist to an Company's ability to continue as a going concern. Policy makers' actions and implementations at European and local level that will mitigate the impact of unprecedented crisis, during and after it, is extremely important.

Liquidity	Q1 2020	Q1 2019	Q1 2018	Q1 2017
Current ratio	4,29	3,12	5,19	4,34
Quick ratio	3,23	2,12	3,28	2,44
Cash ratio	2,12	1,06	1,58	1,16

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.

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 previous period, up to the end of Q1 2020., reconstruction or adaptation works of a total of 16 petrol stations were completed, as well as construction of new station in Žabljak, which replaced the old one; furthermore, new petrol station in Rožaje was rented. As of 31th March 2020, reconstruction of four stations and construction of new petrol station in Berane are in progres. Reconstruction works in 8 more petrol stations, as well as construction of new station in Podgorica are planned to start in following period.

At Bar terminal, preparation works for construction of the new truck bottom loading island are under way, which will upgrade Bar terminal in accordance with latest technical, safety and environmental standards; furthermore, substation is planned to be reconstructed. In Fuels transport unit, comissioning of four new trucks with total capacity of 120.000 liters, delivered at the end of 2019. are in its final stage.

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. Following that strategy, we plan to open newly constructed petrol stations in Berane and Podgorica during 2020.

At the end of Q1 2020, Jugopetrol AD had 97 employees, which is by 4 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. Eight trainees were engaged during 2020.

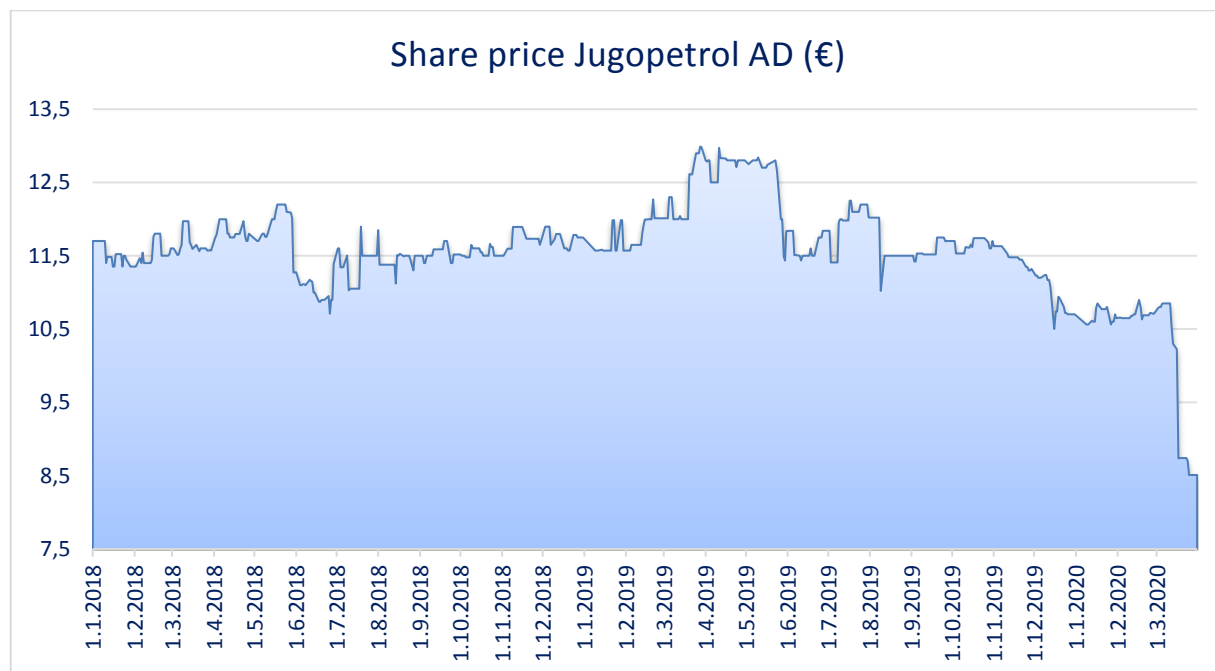
CSR update

Corporate social responsibility alongside with the care for its employees is an integral part of the business of Jugopetrol AD that continuously strives to contribute to the development of the community in which it operates.

Activities for 2020 are mainly divided into two pillars: road safety and new generations. Numerous investments aim to contribute to the development of projects in the fields of education, sports and culture. In the first quarter of 2020, with the outbreak of new coronavirus, the Company allocated its budget to help the Montenegrin health system and organizations directly involved in suppressing the pandemic by donating funds for purchase of two mechanical respirators and fuel to the Red Cross of Montenegro.

Investor update

Jugopetrol's AD stock is one of the most traded stocks in Montenegro. As of Q1 2020, share price fluctuated in the range of 9-11€. 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	<ul style="list-style-type: none"> - 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	<ul style="list-style-type: none"> - The Company has exposure to the risk of commodity prices of oil. However, taken into consideration the fact that selling prices are set by the State Decree following market prices of oil, exposure to price risk is not material for the local market, although there is no 100% safeguard against the international fuel prices fluctuations.
Financial risks	
Market risk: - Cash flow and fair value interest rate risk	<ul style="list-style-type: none"> - 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 current market interest rates cash flow risk is assessed as not material.
Credit risk	<ul style="list-style-type: none"> - Differentiation of customers' mix - Faster collection of receivables (DSO reduction) - Review of customers' rating status and limits - Increased collateralisation.
Liquidity risk	<ul style="list-style-type: none"> - 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 2020. the Company did not use any borrowings from the banks.

Operational risk	
Safety & Environment	<ul style="list-style-type: none"> - 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	<ul style="list-style-type: none"> - 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	<ul style="list-style-type: none"> - 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 takes 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 in relation to the several and 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, by means of periodic assessments, field and administrative audits, 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. In addition, the Internal Audit Department acts in line with the recommendations provided by the HP Group Internal Audit Department and is responsible for their implementation.



During the first quarter of 2020, the Internal Audit Department conducted a follow-up control of recommendations made during 2019, in order to strengthen internal controls and business processes. This Department also implemented relevant audits, in accordance with the Annual Audit plan for 2020, in the field of marketing, safety, information technology systems at petrol stations, and made recommendations for supplementing certain procedures of the Operations Division.

In the first quarter of 2020, the Internal Audit Department continued to monitor fuel differences per each business segment, including retail operations, terminals and secondary transportation.

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, it has drafted and adopted the Code of Conduct, approved by the BoD of the company. The Code of Conduct summarizes the principles according to which any person, employee or third party involved in the operation of the Company, as well as collective body, should act within the framework of their duties. For this reason, the Code constitutes a practical guide of the day-to-day 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 and for staff training to cover any arising needs and 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 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. The Internal Audit Department monitors the compliance of the Accounting Policies Rulebook with the applicable provisions of the Law on Accounting and relevant international accounting standards.

Chart of Authorities

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