

H1 2020 results

JUGOPETROL AD



Podgorica, July 2020



During first half of 2020, Jugopetrol AD continued realization of its strategic vision of being the leading petroleum company in Montenegro, despite challenges faced driven by corona virus pandemic.

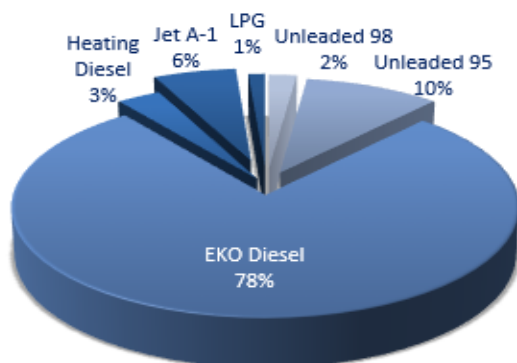
Sales results

Total fuel sales in the first half of 2020. recorded a decrease of -27% compared to the same period last year. Corona virus pandemic was a main driver affecting our sales performances in the period March - June 2020. as during this period we sold -36% less than compared to the same period last year.

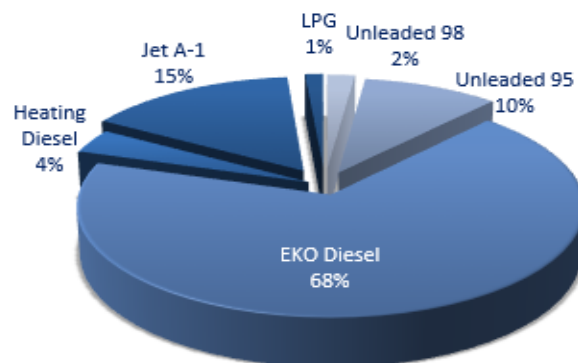
Sales underperformances are recorded in all channels with the exeption of Commercial & Industry which suffered the least from the corona pandemic.

In relation to products, Eko diesel continues to be the best selling product, with 78% of total fuel sales (increase from 68% in 2019 is due to lower share of Jet, which suffered the most from travel restrictions).

Sales per product H1 2020

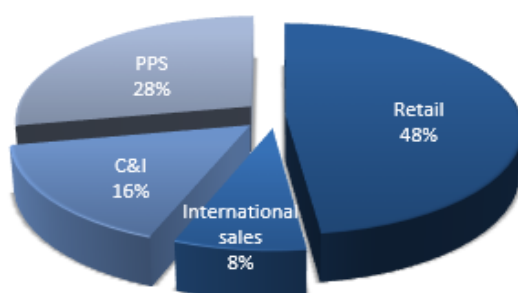


Sales per product H1 2019

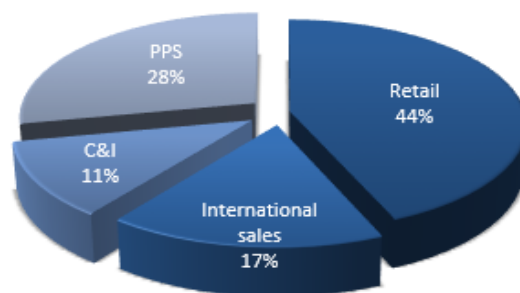


In addition to changes in total sales volumes the distribution per channel of trade changed as following:

**Sales per distribution channel
H1 2020**



**Sales per distribution channel
H1 2019**





Retail H1 volumes were by -20% lower than last year as a result of lower volumes sold in Q2. However, despite the negative impact of pandemic on retail performances, the Company is focused 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.

Private petrol stations (PPS) H1 sales volumes were by -28% lower compared to the same period last year. Like in most channels, this is a result of lower market consumption driven by COVID-19.

Commercial & Industry (C&I) H1 sales volumes were by +2% higher compared to the same period last year. This is mainly driven by increased activities in construction sector, which were not heavily affected by pandemic outbreak. 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.

Aviation was hit the most by corona pandemic and in H1 we sold -72% less than last year (In Q2 only, sales volumes were by -95% lower compared to Q2 2019., due to ban imposed on commercial flights).

Sales to yachts and other vessels were in line with last year.

Financial results

Profitability	H1 2020	H1 2019	H1 2018	H1 2017
Net Profit Margin %	0,3%	0,3%	4,8%	4,4%
EBITDA Margin %	3,9%	2,4%	6,8%	6,7%
Gross Profit Margin %	17,3%	11,6%	16,2%	17,3%

Profitability of the Company is in line with last year. The Company's profitability in H1 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.

This year's profitability was adversely affected by pandemic outbreak from mid-March, after which we lost -36% of our total volumes as compared to the same period last year.

On top of volumes shortfall, during the 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, global developments and uncertainty in oil supply in March have



caused further abnormally large volatility in commodity markets. As a result of sharp decline in Platts prices, our margins suffered in March and April, having rather small contribution to Company's profitability. Fortunately, margins stabilized during June, but not enough to offset poor March and April scores.

Concerning expenses, Company's operating expenses in H1 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.

The sale of idle assets in the Industrial Zone Kotor and in Skaljari was concluded in accordance with a Sale and Purchase agreement signed with the Municipality of Kotor on February 26th, 2020. The total purchase price for these properties was €2.650.000. Based on this transaction the Company recorded a gain of €427.373,85 during May. Additional €1.283.769,22 are expected to be recognized by YE.

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	H1 2020	H1 2019	H1 2018	H1 2017
Current ratio	3,79	2,91	3,24	4,14
Quick ratio	2,62	2,02	1,84	2,41
Cash ratio	1,52	1,14	0,74	0,83

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 H1 2020., reconstruction or adaptation works of a total of 18 petrol stations were completed, as well as construction of two new stations in Žabljak and Berane; furthermore, new petrol station in Rožaje was rented. As of 30th June 2020., reconstruction of four stations and construction of new petrol station in Podgorica are in progres. Reconstruction works in 7 more petrol stations 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, commissioning of four new trucks with total capacity of 120.000 liters, delivered at the end of 2019., has been completed and trucks are in use.

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, the network will be expanded with two newly constructed petrol stations in Berane and Podgorica during 2020.

At the end of H1 2020, Jugopetrol AD had 99 employees, which is by 2 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.

Planned activities for 2020. are mainly divided into two pillars: road safety and new generations. Numerous investments and partnerships aim to contribute to the development of projects primarily in the fields of education, sports and culture. In the first half of 2020, with the outbreak of new coronavirus, the Company by recognizing the severity of situation and the need of community 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.

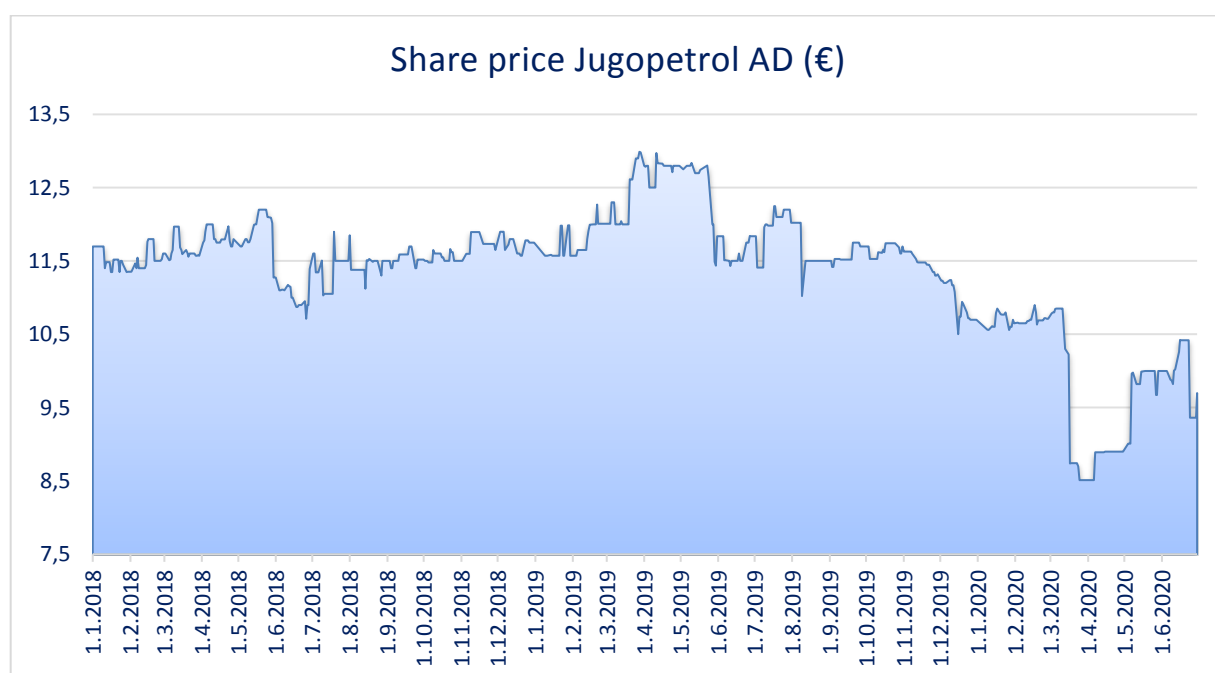
Additionally, Jugopetrol AD donated over 800 humanitarian packages to socially vulnerable households and individuals who are particularly vulnerable in this situation, and humanitarian packages were distributed throughout Montenegro.

In addition to the activities that were realized as a help and response of the company to the pandemic of the new corona virus, Jugopetrol AD managed to realize the greening project of the Roman Square in Podgorica, in cooperation with the Capital City.

Investor update

Jugopetrol's AD stock is one of the most traded stocks in Montenegro. As of H1 2020, share price fluctuated in the range of 9-11€. The number of shares remained constant.

On AGM meeting held on June 18th, a Resolution on net profit appropriation for the year 2019 was passed. Pursuant to the Resolution, a gross amount of dividend which will be distributed to shareholders is €2.326.986. Gross dividend per share is €0,50. Net dividend per share is €0,455. The pay out commenced on July 16th.



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.

In order to strengthen internal controls and business processes, the Internal Audit Department, in the period January - June 2020, conducted a follow-up on the recommendations adopted during 2019 and also performed relevant audits based on the Annual Audit Plan for 2020, in the field of marketing, safety and IT system at petrol stations. This Department also made recommendations on how to supplement certain procedures that fall within the Operations Division competence. Audits related to the financial and accounting treatment of vendors were also performed, as well as audits of payroll, evaluation of new procedures in the field of secondary transport, and follow-up of previously adopted recommendations in the field of human resources policy.



In the period January - June 2020, the Internal Audit Department performed 35 field audits of petrol station operations, and 27 audits in relation to monitoring of deliveries of petroleum products to commercial customers.

In the H1 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.).