

H1 2021 results

JUGOPETROL AD



Podgorica, July 2021



During first half of 2021, 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 2021 recorded an increase of +18% compared to the same period last year, which was expected given the lockdown the country was facing in April and May of 2020.

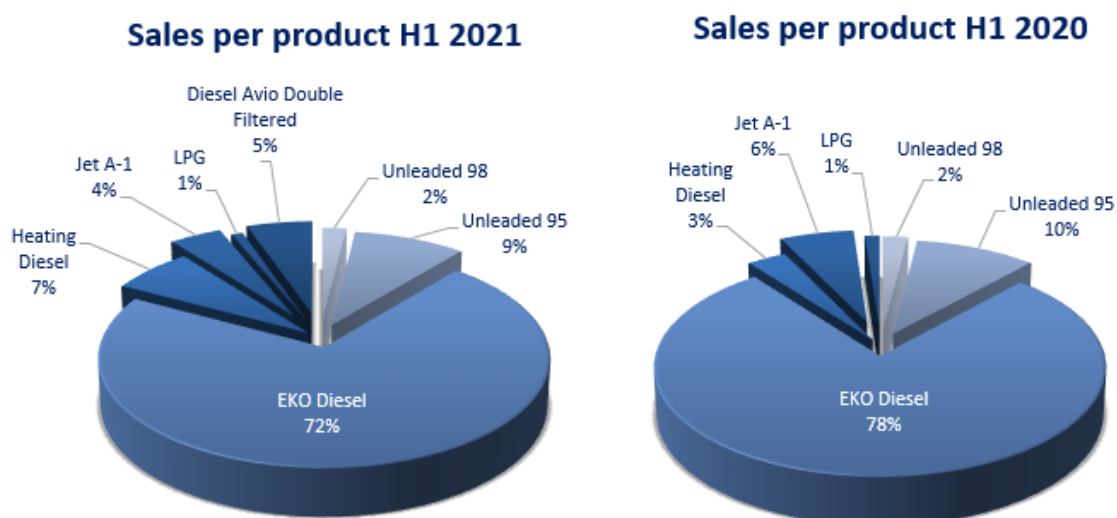
Sales performances recorded increase in all sales segments, except for sales in the aviation sector which has not yet recovered from the adverse pandemic impact.

In relation to products, we introduced Diesel Avio Double Filtered fuel at EKO petrol stations starting from March 10th, following the decision of the Government to liberalize sales prices of premium products.

Diesel Avio Double Filtered fuel, with increased cetane number, ensures purity and exceptional engine performance of car. Diesel Avio Double Filtered is an ideal fuel for professional and heavy vehicles with diesel engines Euro 5 and Euro 6.

Technologically advanced euro diesel for car created by refining additives that improves engine performance and by applying the fuel filter technology used in the aircraft industry.

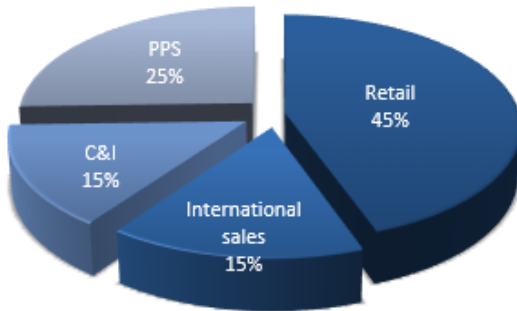
In relation to product mix, Eko diesel continues to be the best selling product, with 72% of total fuel sales.



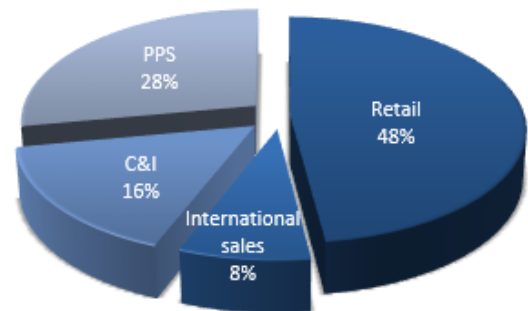
In addition to changes in total sales volumes, the split per channel of trade changed mainly driven by changes in international sales:



**Sales per distribution channel
H1 2021**



**Sales per distribution channel
H1 2020**



Retail H1 volumes were by +9% higher than last year driven by Q2 performances (+31% vs Q2 2020). Despite the adverse 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 +7% higher compared to the same period last year.

Commercial & Industry (C&I) sales volumes were by +6% higher than H1 2020.

Aviation was hit the most by corona pandemic and in H1 we sold -16% less than LY as net result of Q1 underperformances which were higher than positive variance in Q2.

Sales to yachts and other vessels in the H1 increased as compared to the same period last year.

Financial results

Profitability	H1 2021	H1 2020	H1 2019	H1 2018
Net Profit Margin %	2,3%	0,3%	0,3%	4,8%
EBITDA Margin %	5,7%	3,9%	2,4%	6,8%
Gross Profit Margin %	17,4%	17,3%	11,6%	16,2%

Gross Profit Margin at the level of H1 2020 but improved to H1 2019 as lower oil prices in 2021 affecting revenues had a positive impact on this parameter.

Concerning expenses, Company's operating expenses in H1 were higher compared to last year as a result of higher selling variable expenses.

The cost of depreciation was also higher compared to the same period last year, mainly due to investments in retail network.



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 the 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 2021	H1 2020	H1 2019	H1 2018
Current ratio	2,65	3,79	2,91	3,24
Quick ratio	2,02	2,62	2,02	1,84
Cash ratio	1,35	1,52	1,14	0,74

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 most of its petrol stations in 2017, aiming to upgrade the network by the end of 2021. In previous period, up to the end of H1 2021, reconstruction or adaptation works of a total of 25 petrol stations were completed and reconstruction of 3 petrol station is in progress.

New petrol station in Podgorica constructed and put into operations in March. Construction works on new leased station in Tuzi are in progress.

At Bar terminal, extensive preparation works for construction of the new truck bottom loading island are in progress, which will upgrade Bar terminal in accordance with latest technical, safety and environmental standards. Activities on cleaning and technical examination of four storage tanks have been completed, and floors of these tanks have been sandblasted and painted, to maintain fuel quality.

In Fuels transport unit, the third phase of upgrading road tankers is in progress, after that total of seven trucks will be completed. The upgrade will improve functionality of the trucks and ensure compliance with truck bottom loading facility at Bar Terminal.

In air services Tivat and Podgorica, regular maintenance activities are in place, adjusted to decreased volume of air traffic, due to virus pandemic. Old sewage network at Air Service Tivat has been reconstructed, and works on implementation of new video surveillance system based on optical cables is under way. IATA inspection, to ensure compliance with international air traffic standards, is planned for mid-July. At Air Service Podgorica, apart from regular



operational activities, reparation of refueller AC-3 is under way, where new wing pump was purchased, and another one was refurbished.

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.

At the end of H1 2021, Jugopetrol AD had 101 employees, which is by 2 employees more 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. Seven trainees were engaged during 2021.

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. The company continues to invest in recognizing its strategy as a socially responsible company towards its employees, all stakeholders, as well as the general public.

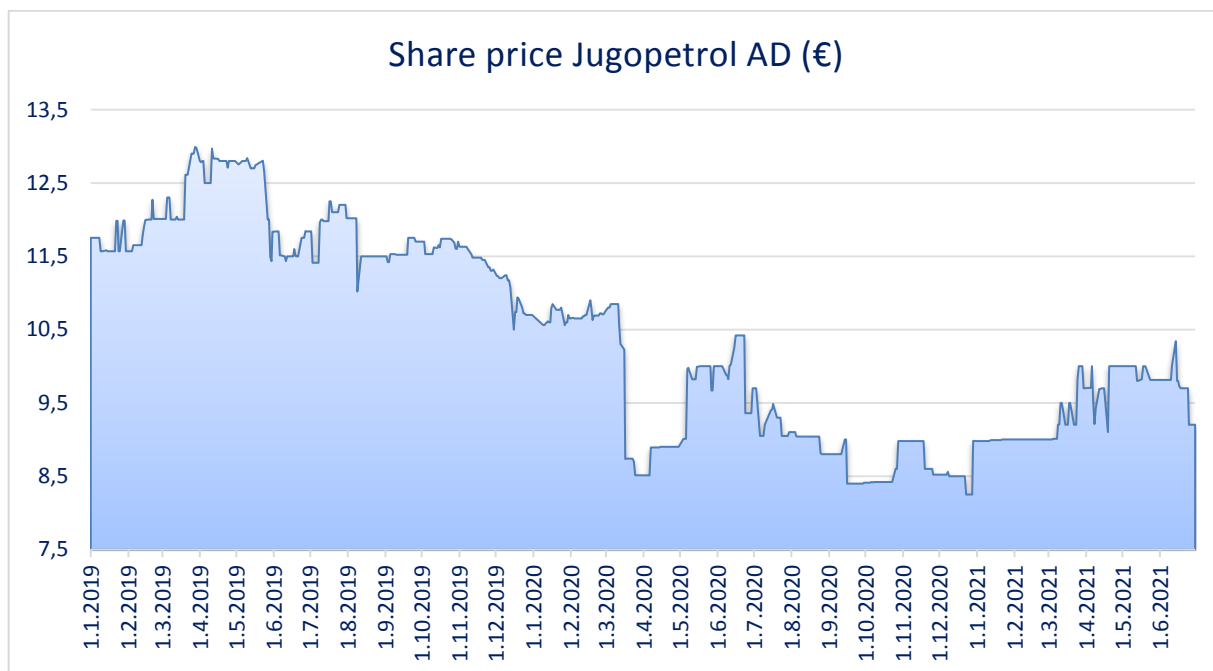
Planned activities for 2021 aim to contribute to the development of education, sports and culture. Bigger activities that are planned for 2021 are supports to primary schools in the country in cooperation with the Montenegrin Olympic Committee through the project "Art competition - Play for your team, play for your school", children from the Children's Home "Mladost" Bijela, EKO Mini Volleyball and many other. Additional planned activities aim to support the health sector in the fight against the new corona virus, so far a donation of computers and monitors was made to the call centre of the Primary Health Care in Podgorica

Investor update

Jugopetrol's AD stock is one of the most traded stocks in Montenegro. As of H1 2021 share price fluctuated in the range of 9-10€. The number of shares remained constant.

On EGM meeting held on March 30th, a Resolution on the second part of 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 €1.396.191,30. Gross dividend per share is €0,30. Net dividend per share is €0,273. The pay out commenced on April 16th.

On AGM meeting held on June 16th, a Resolution of net profit appropriation for the year 2020 was passed. Pursuant to the Resolution, a gross amount of dividend which will be distributed to shareholders is €1.861.588,40. Gross dividend per share is €0,40.



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	- 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	- Differentiation of customers' mix - Faster collection of receivables (DSO reduction) - Review of customers' rating status and limits - Increased collateralisation.
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 2021. 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 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 the second quarter 2021, the Internal Audit Department continued to complete the obligations related to the Annual Audit Plan, i.e. audits of the compliance with internal procedures and processes at the Air Fuel Depot in Podgorica, audits of proper implementation of the Company's Credit Policy, audits of procedures on payments by EKO credit and debit cards, audits of cash and card payments at petrol stations, audits of the accuracy of tank measuring devices at petrol stations and audits of the semi-annual inventory process at Bar Installation.

The Internal Audit Department continued the follow-up audit of NFR contracts and implemented the follow-up audit of marketing contracts.

In the second quarter 2021, the Internal Audit Department performed 22 field audits of petrol station operations, 29 audits in the field of monitoring the deliveries of petroleum products to petrol stations, as well as 9 field audits, i.e. monitoring of deliveries of petroleum products to commercial customers. The Department continuously reported about possible discrepancies based on the monitoring.

In the second quarter 2021, the Internal Audit Department continued to monitor fuel differences in each business segment, including retail operations, terminals and secondary transport, and based on that it addressed exact recommendations aimed at improvement of internal controls, focusing primarily on the establishment of a second level of monitoring, possible corrections of measuring devices and regular reporting by relevant departments.



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.).