

Q3 2021 results

JUGOPETROL AD



Podgorica, October 2021



During Q3 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 Q3 2021 recorded an increase of +41% compared to the same period last year as a result of tourist season which was particularly successful in July and August.

Sales performances recorded an increase in all sales segments.

YTD Retail volumes were by +26% higher than last year driven by Q3 sales (+51% vs Q3 2020).

In addition to sales over performances, the company is 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) Q3 sales volumes were by +46% higher compared to the same period last year and this is the main driver for YTD positive variances of +22%.

Commercial & Industry (C&I) sales volumes were by +40% higher than Q3 2020; Nine month volumes +20% vs LY.

As expected, Q3 and YTD aviation segment performed by far better than LY (+148% and +66% respectively), given that this segment was hit the most by pandemic and that we almost had no sale in Q3 2020.

Sales to yachts and other vessels are subject to high seasonality, and off-season sales are erratic and very difficult to predict. However, since the company concluded sales agreement with a major customer in 2021, sales were significantly higher than in the same period last year.

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



**Sales per distribution channel
Q3 2021**

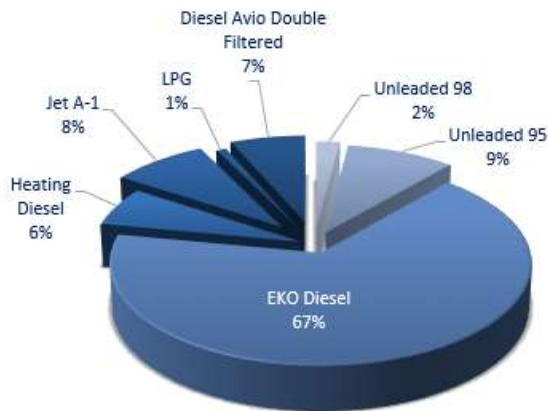


**Sales per distribution channel
Q3 2020**

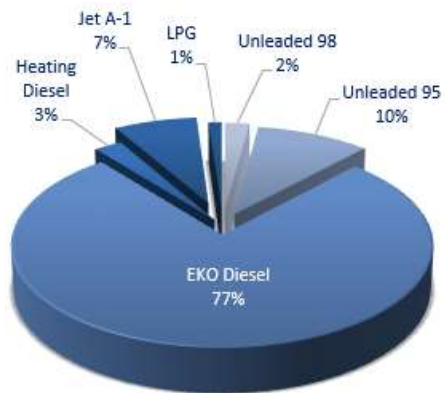


In relation to product mix, Eko diesel continues to be the best selling product, with 67% of total fuel sales.

Sales per product Q3 2021



Sales per product Q3 2020



In addition, 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.



Financial results

Profitability	Q3 2021	Q3 2020	Q3 2019	Q3 2018
Net Profit Margin %	4,4%	3,5%	2,4%	5,3%
EBITDA Margin %	7,1%	7,4%	4,3%	7,1%
Gross Profit Margin %	15,9%	20,4%	12,4%	14,6%

Gross Profit Margin at the lower level of Q3 2020 but improved to Q3 2019. The increase in sales in the third quarter in 2021 had a positive impact on revenue.

Concerning expenses, Company's operating expenses in Q3 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	Q3 2021	Q3 2020	Q3 2019	Q3 2018
Current ratio	2,94	3,47	3,07	4,09
Quick ratio	2,01	2,86	2,23	2,77
Cash ratio	1,17	2,01	1,23	1,45

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 Q3 2021, reconstruction or adaptation works of a total of 28 petrol stations were completed. Reconstruction of PS Plav and tendering procedure for reconstruction of PS Kotor are under way.

Construction works on new rented petrol station in Tuzi are in progress.



At Bar terminal, apart from regular activities on receipt, storage and distribution of increased quantities of fuel due to summer season, 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. Ongoing upgrade of FF system continued in Q3 as well, which improved reliability of the system.

Fuels transport unit in Q3 executed regular operational activities on extended demand during summer season, for own petrol stations, air services and private customers. The third phase of upgrading road tankers is in progress and will be completed during Q4 2021 and Q1 2022, with upgrade of total of seven trucks. 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 aircraft supply took place in increased quantities due to summer demands, as well as maintenance activities. At Air Service Tivat, works on implementation of new video surveillance system based on optical cables is under way. IATA inspection audited AS Tivat in August, and their findings confirmed compliance of infrastructure and operations with international air traffic standards.

At the end of Q3 2021, Jugopetrol AD had 99 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. Activities that have been realized so far are: support 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 in the form of school supplies, travel bags and suitcases, as well as winter holiday. Additional planned activities aim to support the health sector in the fight against the new corona virus, so far the donation of computers and monitors was made to the call centre of the Primary Health Care in Podgorica.

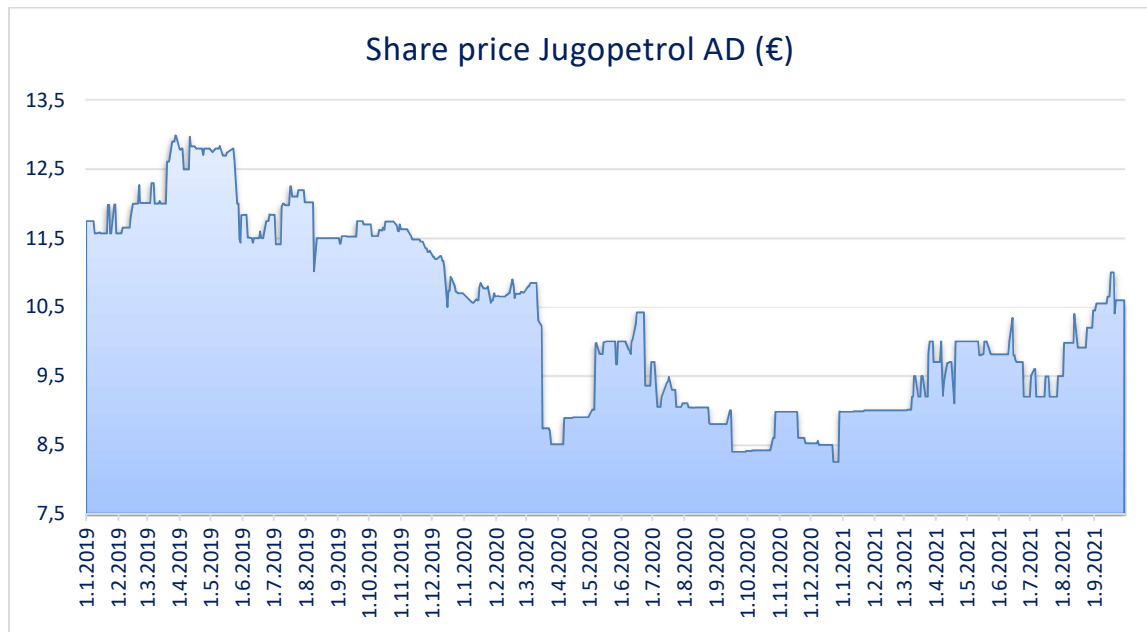


Investor update

Jugopetrol's AD stock is one of the most traded stocks in Montenegro. As of Q3 2021 share price fluctuated in the range of 9-11€. 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. The pay-out commenced on July 23th.



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 - Risk covered with hard collaterals.
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 2021. 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 Q3 2021, the Internal Audit Department continued to fulfil the tasks within the domain of the Annual Audit Plan, i.e. it performed audits of compliance with credit policy and procedures related to the approval of financial and quantity rebates, audit of accuracy of measuring devices on tanks at petrol stations (as a follow-up, the Internal Audit Department initiated five meetings with Operations Division and top management), audit of the necessary certificates related to occupational safety and hazardous materials handling, which are to be held by petrol station employees.



The Internal Audit Department continued with fuel supply audit follow-up in the field of air traffic.

In addition, it has completed the audit of tender procurement process and selection of bids, audit of all operational elements before the opening of Berane 1 petrol station after reconstruction, audit of travel orders, as well as audit of cash register meters and fuel dispenser meters at all petrol stations.

In Q3 2021, the Internal Audit Department performed 21 field audits of petrol station operation and 17 audits of complete deliveries of petroleum products to petrol stations (or 39 tank deliveries), as well as 3 deliveries to commercial customers.

In Q3 2021, the Internal Audit Department continued to monitor fuel differences in each business segment, including retail operations, terminals and secondary transportation, based on which it addressed exact recommendations in terms of improvement of internal controls, primarily bearing in mind the establishment of a second level of monitoring, possible corrections of measuring devices and regular reporting by the relevant divisions.

Roles and responsibilities of the BoD

The role and responsibilities of the BoD are described in the Internal Procedures Manual of the Company.

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.).