

# Q1 2022 results

## JUGOPETROL AD



**Podgorica, April 2022**

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During the first quarter of 2022, Jugopetrol AD continued realization of its strategic vision of being the leading petroleum company in Montenegro, despite challenges faced driven by global geopolitical developments and the corona virus pandemic.

### **Sales results**

Total fuel sales in Q1 of 2022 recorded an increase of 34% compared to the same period last year driven by cumulative impact of improved pandemic situation and market stock up before the significant price increase in March.

Sales overperformances were recorded in both Domestic and International markets.

#### **Domestic market:**

Retail Q1 volumes were by 30% higher than last year. The upside is a result of a higher market consumption as all consumers were stocking up before the March price increase. In addition, first time after 2017, we had almost the whole network operational (only one station was out of function due to reconstruction).

Private petrol stations (PPS) Q1 recorded the biggest upside vs. LY: 61%; overperformances mainly driven by stocking up, but were also positively affected by volumes sold to new customers.

Commercial & Industry (C&I) sales volumes were by -1% lower than Q1 2021 driven by lower consumption related to highway construction. Significant part of lost volumes offset by a sale to new customers.

#### **International market:**

Aviation segment, which was hit the most by the pandemic, recovered comparing to Q1 LY, and for the three months we sold 118% more.

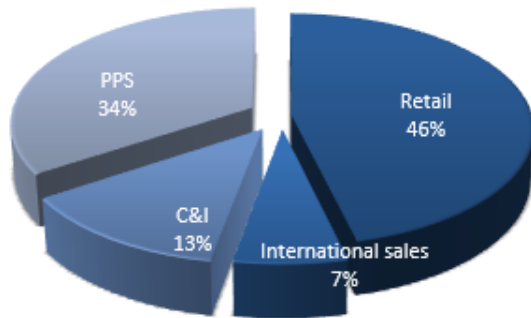
Sales to yachts and other vessels in Q1 decreased by 17% vs. LY, mainly as a result of geopolitical developments and lower demand.

Export volumes in Q1 refer to sale to regional markets which was a result of supply issues they were facing.

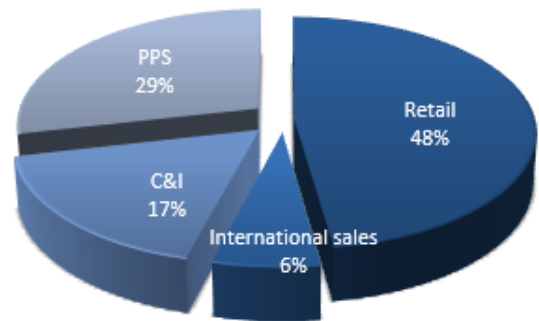


Distribution of sales per channel of trade:

**Sales per distribution channel  
Q1 2022**



**Sales per distribution channel  
Q1 2021**



#### **Product analysis:**

In relation to products, sales of all products were better than in the same period last year. We sold 40% more Diesel and 19% more Gasoline. Jet upside was 125% as, driven by the pandemic impact and reorganization of national carrier, we almost had no sales in Aviation segment in 2021.

We continued with strong performance of Diesel Avio Double Filtered fuel which was introduced at EKO petrol stations in March 2021, following the decision of the Government to liberalize sales prices of premium products.

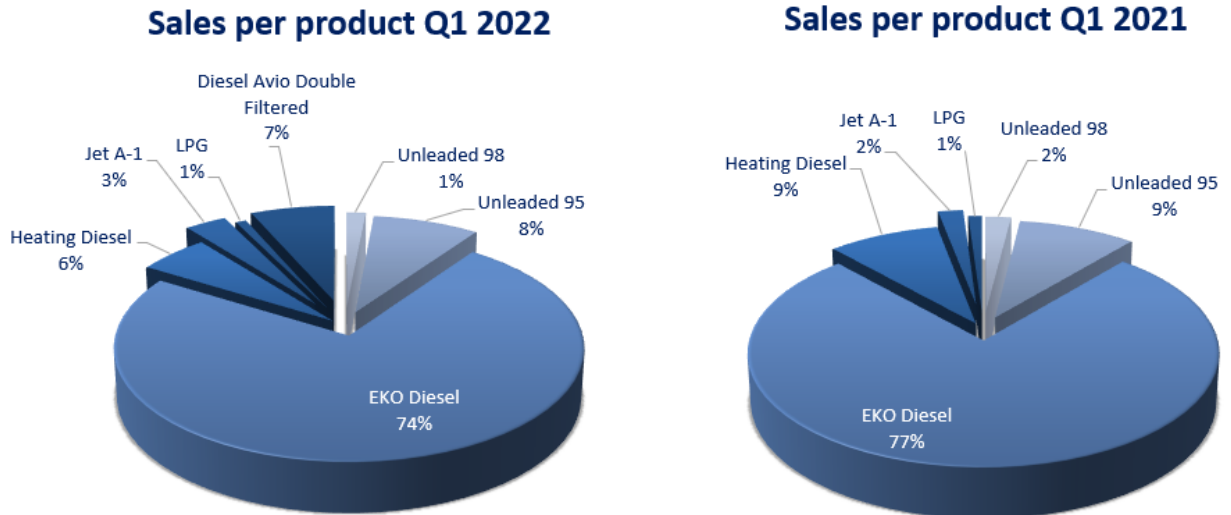
Diesel Avio Double Filtered fuel, with increased cetane number, ensures purity and exceptional engine performance of car. Diesel Avio Double Filtered is an ideal fuel for professional and heavy vehicles with diesel engines Euro 5 and Euro 6.

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.

Combined Diesel products hold 81% of total sales (Eko Diesel 74% and DADF 7%) which is by 4% higher than in 2021. On the other hand, share of Gasoline dropped from 11% in 2021 to 10% for three months of 2022.



Distribution of sales per product:



## Financial results

| Profitability         | Q1 2022 | Q1 2021 | Q1 2020 | Q1 2019 |
|-----------------------|---------|---------|---------|---------|
| Net Profit Margin %   | 1,0%    | -1,1%   | -0,3%   | -3,9%   |
| EBITDA Margin %       | 3,1%    | 3,0%    | 2,5%    | -1,5%   |
| Gross Profit Margin % | 11,5%   | 18,1%   | 14,1%   | 9,0%    |

Gross Profit Margin reduced from 18,1% to 11,5% as Q1 2022 Gross Margin increased by 37% vs LY, but, driven by significant increase in international oil prices, Revenue increased by 115%.

Despite significant Revenue increase, EBITDA % in 2022 higher than 2021.

Concerning expenses, Company's expenses in Q1 2022 were by 20% higher than LY driven by selling variable expenses and fuel shortages.

The cost of depreciation was by 6% 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 in this difficult and uncertain environment. Based on our analysis no material uncertainty exists 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     | Q1 2022 | Q1 2021 | Q1 2020 | Q1 2019 |
|---------------|---------|---------|---------|---------|
| Current ratio | 2,89    | 4,09    | 4,29    | 3,12    |
| Quick ratio   | 1,90    | 2,98    | 3,23    | 2,12    |
| Cash ratio    | 1,08    | 1,83    | 2,12    | 1,06    |

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.

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 2022. In previous period, up to the end of Q1 2022, reconstruction or adaptation works of a total of 29 petrol stations were completed and reconstruction of one petrol station is in progress.

In relation to network expansion, long term lease agreement is signed for a new station in Tuzi. The station is in final stage of construction and expected start of operations is April 2022.

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. The automatization level on terminal has been increased through installation of new motor valves that are remotely operated from the control room.

In Fuels transport unit, process of upgrading seven road tankers was finished. 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.

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 Q1 2022, Jugopetrol AD had 93 employees, which is by 6 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 are engaged during 2022.



## CSR update

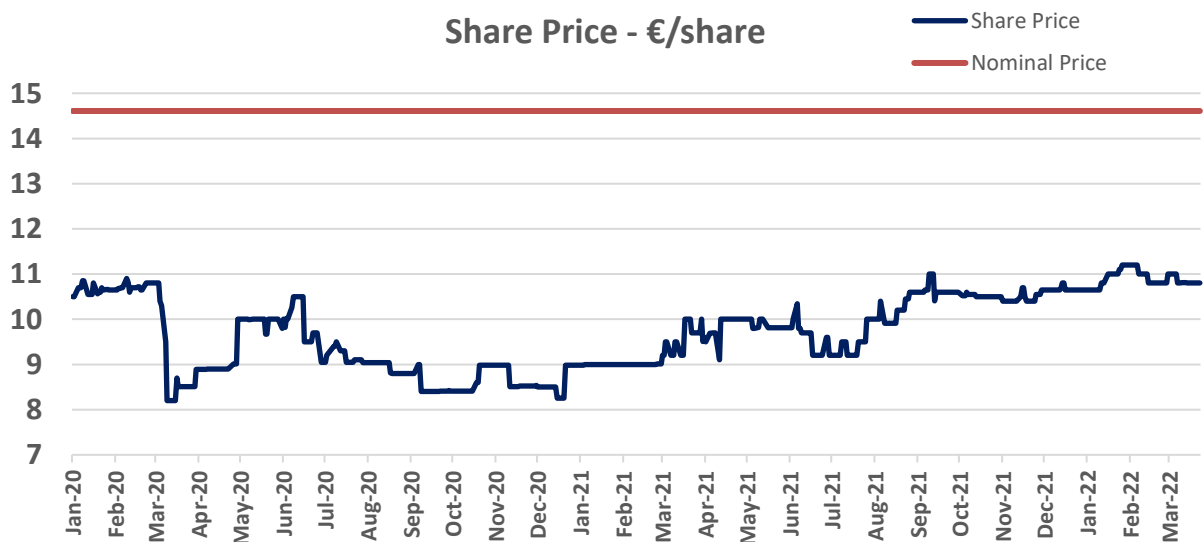
Corporate social responsibility alongside with the care for its employees is an integral part of the business of Jugopetrol AD that continuously strives to contribute to the development of the community in which it operates. The company continues to invest in recognizing its strategy as a socially responsible company towards its employees, all stakeholders, as well as the general public.

Planned activities for 2022 aim to contribute to the development of education, sports and culture. Bigger activities that are planned for 2022 are supports to primary schools in the country, children from the Children's Home "Mladost" Bijela, EKO Mini Volleyball and many other. Additional planned activities aim to support the health sector and road safety.

## Investor update

Jugopetrol's AD share is one of the most traded shares in Montenegro. During Q1 2022 share price fluctuated in the range of 10,7-11,2€ with average of 10,9€.

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.

| Main risks  | Assessment/Mitigating measures   |
|---|--|
| <b>Macroeconomic environment</b>                              |  |
| Foreign exchange risk   | <ul style="list-style-type: none"> <li>- Functional currency of the Company is EUR and sales and purchases are denominated in EUR, Management assessed exposure to foreign currency fluctuations as immaterial.</li> <li>- Minor number of transactions in other currencies are converted into EUR on the transaction date.</li> </ul>   |
| Oil price   | <ul style="list-style-type: none"> <li>- The Company has exposure to the risk of commodity prices of oil. However, taken into consideration that selling prices are set by the State Decree following market prices of oil, and that purchase prices follow the same pattern, exposure to price risk is not considered substantial, although there is no 100% safeguard against the international fuel prices fluctuations.</li> </ul> |
| <b>Financial risks</b>  |  |
| Market risk:<br>- Cash flow and fair value interest rate risk | <ul style="list-style-type: none"> <li>- 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.</li> </ul>  |
| Credit risk   | <ul style="list-style-type: none"> <li>- Differentiation of customers' mix</li> <li>- Faster collection of receivables (DSO reduction)</li> <li>- Review of customers' rating status and limits</li> <li>- Increased coverage with hard collaterals.</li> </ul>  |
| Liquidity risk  | <ul style="list-style-type: none"> <li>- Maintaining sufficient cash</li> <li>- Improving rate of collection of receivables</li> <li>- Adjusting the amount of dividend paid to shareholders</li> <li>- Phase capex</li> <li>- Monitoring capital on the basis of the gearing ratio. In Q1 the Company did not use any borrowings from the banks neither it is expected to use any in 2022.</li> </ul>                                 |
| <b>Operational risk</b>                                       |  |
| Safety & Environment  | <ul style="list-style-type: none"> <li>- Application of safety processes and regular inspection of all facilities.</li> <li>- Investments to improve levels of safety and environmental protection.</li> </ul>   |
| Compliance in terms of operational and product quality        | <ul style="list-style-type: none"> <li>- Implementation of necessary measures for full compliance with the existing specifications both on supply chain level and product quality.</li> <li>- Investments for adjustment of equipment configuration, in accordance with the local framework.</li> </ul>  |
| Property and liability risk                                   | <ul style="list-style-type: none"> <li>- Insurance coverage for a number of risks, including damage of physical assets, personal injuries, business interruption, product or other liability.</li> </ul>   |



## 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 first quarter of 2022, the Internal Audit Department continued to fulfil the tasks within the domain of the Annual Audit Plan i.e. it performed the audit of annual inventory processes at petrol stations and Bar Terminal, the audit of payments and treasury, the audit of salary payments in accordance with the changes of the respective legislative, the follow-up audit of certificates held by petrol stations' employees related to safety and hazardous materials handling, follow-up audit of calibration of the tanks, the audit of deliveries and compliance with contractual obligations with the customers in the PPS segment, inventory and fuel supply audit at Air Fuel Depot Podgorica and audit of sales to vessels at Bar Terminal.





In the first quarter of 2022, the Internal Audit Department conducted 28 field audits of petrol station operations and 34 audits of monitoring processes for the supply of petroleum products to petrol stations and commercial customers.

In the first quarter of 2022, the Internal Audit Department continued to monitor fuel differences in each business segment, including retail operations, terminals and secondary transport, based on which it addressed exact recommendations in terms of improving internal controls, including in the first place establishing 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.).