

# H1 2022 results

## JUGOPETROL AD



**Podgorica, July 2022**

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Jugopetrol AD continues with its strategic vision of being the leading petroleum company in Montenegro despite facing challenges driven by current global geopolitical developments.

## **Sales results**

Our total fuel sales in H1 of 2022 recorded an increase of 30% compared to the same period last year, mainly due to less restrictive measures against the pandemic.

Overperformances were recorded in both Domestic and International markets, with the greatest positive variances in PPS, Retail and Aviation segments.

### **Domestic market:**

Retail H1 volumes were 22% higher than last year. The increase was a result of a higher market consumption driven by the removal of measures against the pandemic. Additionally, at the end of April we opened a new petrol station Tuzi and after the reconstruction of petrol station in Kotor was completed for the first time since 2017 we had the entire network operational.

Private petrol stations (PPS) volumes went up by 68% vs. LY. As in our Retail, the increase was influenced by lifting the measures against the Covid-19 and was further improved by volumes sold to new customers.

Commercial & Industry (C&I) sales were 5% lower than in H1 2021 due to lower consumption related to highway construction works and completion of activities of exploration of oil and gas in the coast. However, significant part of lost volumes was offset by sales to new customers.

### **International market:**

Aviation segment, which was hit the most by the pandemic, is recovering in 2022 and we sold 117% more than in H1 LY.

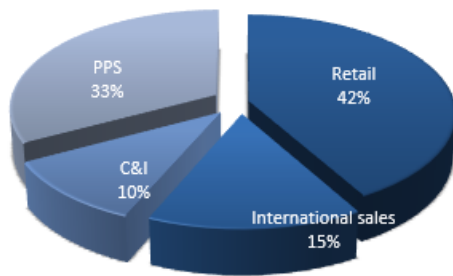
Sales to yachts and other vessels in H1 decreased by 15% vs. LY, mainly as a result of geopolitical developments in Europe and changes in implementation of customs laws, according to which, starting from June 2022, vessels used for private purposes are no longer entitled to tax free fuel.

Volumes in Export segment in H1 refer to sale to regional markets which was a result of supply issues they were facing.

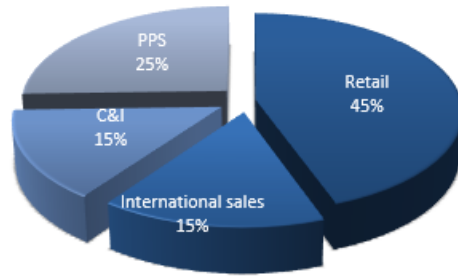


Sales per channel of trade:

**Sales per distribution channel  
H1 2022**



**Sales per distribution channel  
H1 2021**



#### **Product analysis:**

Sales of almost all products improved comparing to the same period last year. The only decrease was recorded with heating diesel and was due to the completion of the exploration activities in the coast. We sold 31% more diesel and 21% more gasoline. Jet upside was 118% since, due to the pandemic impact and the reorganization of the national carrier, we almost had no sales in Aviation segment in H1 2021.

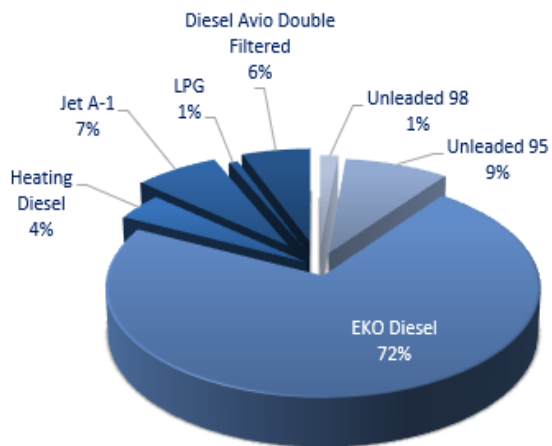
Strong performance of premium product Diesel Avio Double Filtered, introduced at EKO petrol stations in March 2021 (following the decision of the Government to liberalize sales prices of premium products), continues.

Diesel products hold 78% of our total sales (eko diesel 72% and DADF 6%) and this is by 1% higher than in 2021. On the other hand, share of gasolines dropped from 11% in H1 2021 to 10% in H1 2022.

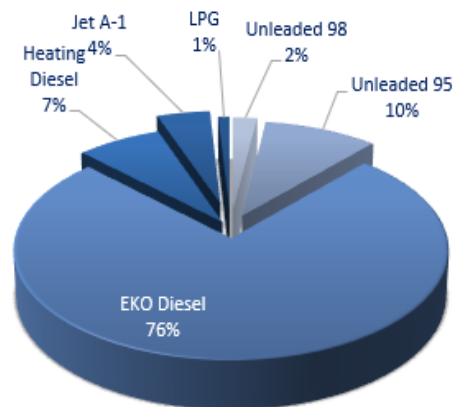


Sales per product:

**Sales per product H1 2022**



**Sales per product H1 2021**



## Financial results

Profitability	H1 2022	H1 2021	H1 2020	H1 2019
Net Profit Margin %	2,9%	2,3%	0,3%	0,3%
EBITDA Margin %	4,7%	2,5%	3,9%	2,4%
Gross Profit Margin %	10,4%	17,4%	17,3%	11,6%

Gross Profit Margin reduced from 17,4% to 10,4% compared to the same period last year due to significant increase in international oil prices which resulted in higher revenue.

Despite the revenue increase, our Net Profit increased at a higher rate, resulting that Net Profit Margin went up from 2,3% in 2021 to 2,9% in 2022. From the same reason, EBITDA margin was almost double than in 2021.

Company's expenses in H1 2022 were 18% higher than LY driven by higher selling variable and maintenance costs.

The cost of depreciation was 4% 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. 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	H1 2022	H1 2021	H1 2020	H1 2019
Current ratio	1,96	2,65	3,79	2,91
Quick ratio	0,84	2,02	2,62	2,02
Cash ratio	0,28	1,35	1,52	1,14

Current ratio slightly below last year, but still high enough to meet all short-term liabilities without difficulty.

Lower quick and cash ratio are due to high trade payables and prepaid VAT. This is a result of our effort to stock-up before the upcoming peak of tourist season.

In 2014, the Tax Authorities initiated an audit for the period between 2011 up to 2014 (inclusive) for all subjects of taxes.

The first four decisions of the inspectors have been annulled by the Ministry of Finance Appeal Committee.

The Company has filed an appeal against the fifth Decision of the Revenue and Customs Administration, however, for the first time since the process began, the Ministry of Finance rejected the appeal and on May 19th 2022 issued a Decision, confirming an outstanding obligation for excise duties and VAT, amounting at approx. €1,5m (including interest).

The Company firmly believes that the claims of the Authorities are unfounded and on June 27th 2022 has submitted a lawsuit to the Administrative Court against the above Decision of the Ministry of Finance.

Based on internal reviews and on the assessment of external lawyers/experts no provision for H1 2022 has been recognized in the company's books.

### Operational update

Jugopetrol 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 Q2 2022, reconstruction or adaptation works of a total of 30 petrol stations were completed, and newly built, rented petrol station in Tuzi started operations.

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 which improved reliability of the system. The procurement of two motor operated



valves is in progress, as is the upgrade of the tank management system. Technical inspection of the pipeline was completed.

In Fuels transport unit, process of upgrading seven road tankers was finished, which improved functionality of the trucks and ensured compliance with truck bottom loading facility at Bar Terminal.

In air services Tivat and Podgorica, regular maintenance activities and preparations for summer season are in place, as traffic increase is expected. Part of pipeline at AS Podgorica that was worn out, in length of about 50 m, was replaced with the new one. Contract was concluded with consulting agency Hansa Consult Project, aiming to align operation of air services with international JIG standards, which will further upgrade work process at air services.

At the end of Q2 2022, Jugopetrol AD had 94 employees, which is by 7 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. Seven 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. Major accomplished activities in the second quarter are the sponsorship of the Olympic Committee of Montenegro, as well as the donation of computers and supporting components to rural primary schools throughout Montenegro.

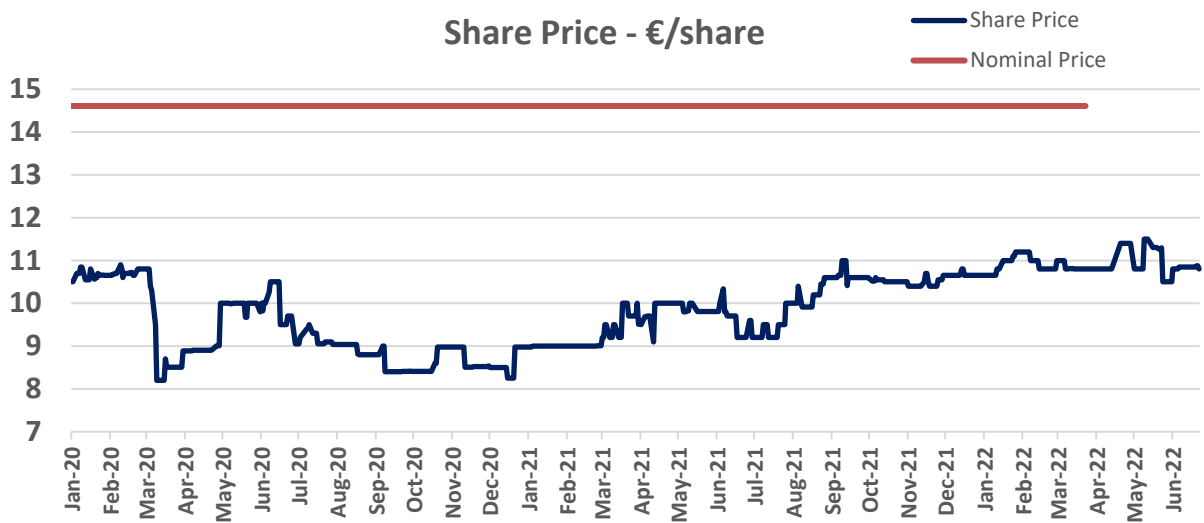
### **Investor update**

Jugopetrol's AD share is one of the most traded shares in Montenegro. During Q2 2022 share price fluctuated in the range of 10,5-11,5€ with average of 10,9€.

The number of shares remained constant.



Share Price - €/share



## 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>



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 coverage with hard collaterals.
Liquidity risk	- Maintaining sufficient cash - Improving rate of collection of receivables - Adjusting the amount of dividend paid to shareholders - Phase capex - Monitoring capital on the basis of the gearing ratio. In Q2 the Company did not use any borrowings from the banks neither it is expected to use any in 2022.
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 of 2022, the Internal Audit Department continued to fulfil the tasks within the domain of the Annual Audit Plan i.e. audit of the purchasing value-commercial and financial aspect, audit of the compliance of items when delivering fuel to the gas station, audit of parking, sealing of tanks and other procedures related to secondary transport. Also, audit through comparison of sales - the dial on the vending machine and cash register, audit of the necessary elements and documentation regarding the opening of the Tuzi petrol station, the audit of the process regarding the lost transaction in the POS system due to the interruption of electricity, audit of the AS Tivat and repeated audit, i.e. follow up of the AS Podgorica as well as further follow-up regarding the calibration of individual reservoirs at petrol stations.

In H1 2022, the Internal Audit Department conducted 27 field audits of petrol station operations and 33 audits of monitoring processes for the supply of petroleum products to petrol stations and commercial customers.

In the second 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.).