

Q3 2022 results

JUGOPETROL AD



Podgorica, October 2022



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 for the nine months of 2022 recorded an increase of 16% 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:

YTD Retail volumes were 19% higher than last year. The increase was a result of a higher market consumption driven by the removal of measures against the pandemic. The most significant increase was recorded at the PSs close to the borders, where tourists arriving or leaving the country were refuelling. 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 51% 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 compared to the same period last year, due to lower consumption related to highway construction works and completion of activities of exploration of oil and gas in the coast, and also delays in construction works on major projects had the most significant impact on their negative variances vs. LY. However, significant part of lost volumes was offset by sales to new customers.

International market:

YTD Aviation segment, which was hit the most by the pandemic, is recovering in 2022 and we sold 46% more than in the same period LY.

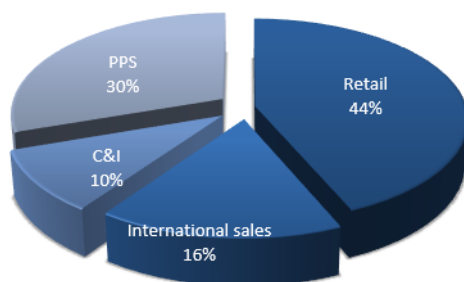
YTD Sales to yachts and other vessels decreased by 57% vs. LY, mainly as a result of geopolitical developments in Europe and changes in implementation of customs laws, according to which, starting from June 2022, vessels used for private purposes are no longer entitled to tax free fuel.

Volumes in Export segment recorded first deliveries since 2015 and by the end of Q3 refer to sale to regional and international markets.

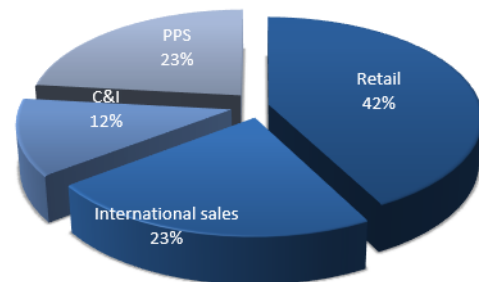


Sales per channel of trade:

**Sales per distribution channel
Q3 2022**



**Sales per distribution channel
Q3 2021**



Product analysis:

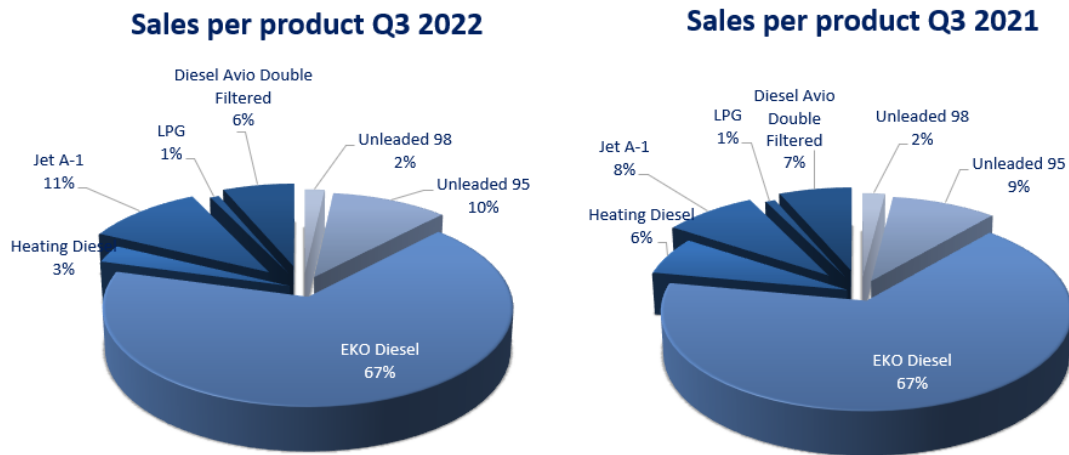
Sales of almost all products improved comparing to the same period last year. The only decrease was recorded with heating diesel and was due to the completion of the exploration activities in the coast. We sold 16% more diesel and 24% more gasoline. As expected, Q3 and YTD aviation segment performed by far better than LY (+22% and +46% respectively), due to the pandemic impact on Q3 2021 and the reorganization of the national carrier.

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 73% of our total sales (EKO diesel 67% and DADF 6%) which is by 1% lower than in 2021. On the other hand, share of gasolines increased from 11% LY to 12% YTD.



Sales per product:



Financial results

Profitability	Q3 2022	Q3 2021	Q3 2020	Q3 2019
Net Profit Margin %	4,2%	4,4%	3,5%	2,4%
EBITDA Margin %	6,0%	7,1%	7,4%	4,3%
Gross Profit Margin %	10,6%	15,9%	20,4%	12,4%

Gross Profit Margin reduced from 15,9% to 10,6% compared to the same period last year due to significant increase in international oil prices.

Despite the revenue increase, our Net Profit Margin went down from 4,4% in 2021 to 4,2% in 2022. Company's expenses YTD were higher 14% than LY driven by higher selling variable and maintenance costs. From the same reason, EBITDA margin was lower compared to the same period last year.

The cost of depreciation was 5% 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	Q3 2022	Q3 2021	Q3 2020	Q3 2019
Current ratio	4,71	2,94	3,47	3,07
Quick ratio	2,55	2,01	2,86	2,23
Cash ratio	0,87	1,17	2,01	1,23

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.

Lower cash ratio is due to trade payables and prepaid VAT. This is a result of our effort to keep stocks volumes on the level to meet market demands during the 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 Q3 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. Reconstruction or adaptation works of a total of 30 petrol stations were completed in first half 2022, as well as start of operations of newly built rented petrol station in Tuzi.

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. Procurement of two automated motor valves is underway, and the upgrade of the stock monitoring system in the storage tank has been completed within the budget for this year. Technical inspection of the pipeline has been completed. The planned works on the anti-corrosion protection of the R21 tank and the fuel pipeline have been implemented according to this year's plan. An audit was carried out by representatives of the Hansa Consult Project in order to harmonize operational work with JET fuel with JIG standards.



In Fuels transport unit, regular activities are carried out in process of fuel delivery, vehicle maintenance and control of the entire process with increased volumes during summer season.

In air services Tivat and Podgorica, regular aircraft supply and maintenance activities are in place during summer season. Compared to Q3 2021, sales at AS Podgorica are higher, while in AS Tivat are lower, due to absence of touristic flights from Ukraine and Russia. Consulting agency Hansa Consult Project, which advises EKO Aviation Greece as well, visited all three terminals, aiming to align operation of air services with international JIG standards.

At the end of Q3 2022, Jugopetrol AD had 96 employees, which is by 3 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. Accomplished activities in the third quarter are celebration of the Olympic day, together with the Olympic Committee of Montenegro, as well as the annual blood donation by the employees of Jugopetrol.

Investor update

Jugopetrol's AD share is one of the most traded shares in Montenegro. During Q3 2022 share price fluctuated in the range of 10,8-11,5€ with average of 11€.

On EGM meeting held on June 2nd a Resolution of net profit appropriation for the year 2021 was passed. Pursuant to the Resolution, a gross amount of dividend which will be distributed to shareholders is €4.514.351,87. Gross dividend per share is €0,97. The pay-out commenced on June 27th.

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
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 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.
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 coverage with hard collaterals.
Liquidity risk	<ul style="list-style-type: none"> - 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	<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 the third quarter of 2022, the Internal Audit Department continued to fulfil the tasks within the domain of the Annual Audit Plan engagements, foreseen within the observed period, as well as audits in the context of checking adequate risk management: audit of fuel differences at the Tivat Air Fuel Depot and the Podgorica Air Fuel Depot (three times), audit of operational costs on a sample basis, audit of the functionality of smart safes, audit of LPG suppliers' compliance with contractual obligations, audit of compliance with cash management procedures at petrol stations, audit of bank guarantees provided by Como Managers. The Internal Audit Department has defined recommendations for preparation of procedures in relation to new services at petrol stations, and performed risk assessment when amending the changes of sell-out procedure and when proposing a change in the increased amount of cash outside smart safes.

In Q3 2022, the Internal Audit Department conducted 32 field audits of petrol station operations and 20 audits of monitoring processes for the supply of petroleum products to petrol stations and commercial customers.

In Q3 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.)