

# Q1 2023 results

## JUGOPETROL AD



Podgorica, April 2023

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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 the first quarter of 2023 recorded an increase of 10% compared to the same period last year.

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

### **Domestic market:**

YTD Retail volumes were 14% higher than last year. The increase was a result of a higher market consumption mainly induced by an influx of temporary residents from Ukraine and Russia. Additionally, our network increased by 1 new petrol station (PS Tuzi) and, after the completion of the major project of reconstruction of our petrol stations, for the first time since 2017 we had the entire network operational again.

Private petrol stations (PPS) volumes went up by 8% vs. LY. Apart from the higher market demand, the increase was also influenced by volumes sold to new customers.

Commercial & Industry (C&I) sales were higher by 3% compared to the same period last year despite a decrease in demand of construction companies caused by a completion of the first section of the highway. The main driver of the increase in this segment was sales to Coal Mine, that we didn't supply in January 2022.

### **International market:**

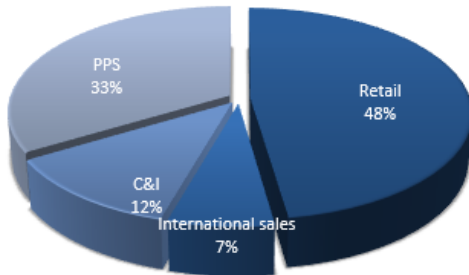
YTD Aviation segment recorded an increase of 81% compared to the same period last year. We have recorded an increase in sales to both fuel services companies (that supplied low cost carriers mainly) and to the national carrier Air Montenegro.

YTD Sales to yachts and other vessels decreased by 40% vs. LY, mainly as a result of the 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.

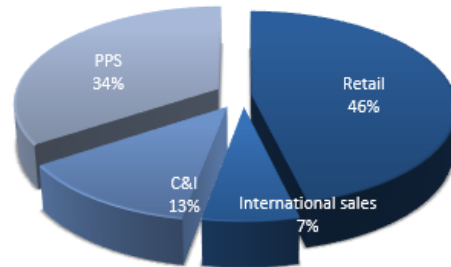


Sales per channel of trade:

**Sales per distribution channel  
Q1 2023**



**Sales per distribution channel  
Q1 2022**



**Product analysis:**

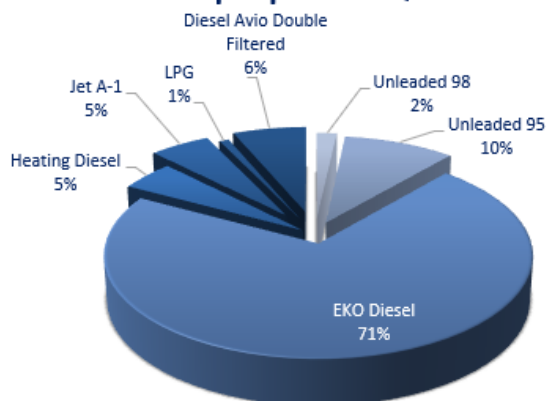
Sales of almost all products improved comparing to the same period last year. The only decrease was recorded in sales of gasoil and was due to the completion of the exploration activities in the coast.

Compared to Q1 2022, we sold 6% more diesel and 27% more gasoline. Due to the increased number of flights, we also recorded an increase of 77% in sales of JET.

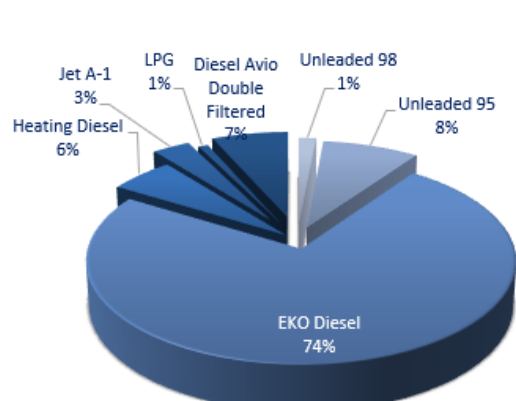
Diesel products hold 77% of our total sales (EKO diesel 71% and DADF 6%), which is a decrease of 4% compared to 2022. Strong performance of premium product Diesel Avio Double Filtered, introduced at our petrol stations in March 2021 (following the decision of the Government to liberalize sales prices of premium products), continues.

Sales per product:

**Sales per product Q1 2023**



**Sales per product Q1 2022**





## Financial results

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 times. Based on our analysis no material uncertainty exist to the Company's ability to continue as a going concern.

Profitability has been steady over the years, as a result of a successful transformation and improved efficiency.

Profitability	Q1 2023	Q1 2022	Q1 2021	Q1 2020
Net Profit Margin %	2.1%	1.0%	-1.1%	-0.3%
EBITDA Margin %	4.2%	3.1%	3.0%	2.5%
Gross Profit Margin %	11.9%	11.5%	18.1%	14.1%

Liquidity has been at a very high level at all times. High values of liquidity ratios mean that the Company has consistently been able to meet its short-term liabilities without any issues. 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.

Liquidity	Q1 2023	Q1 2022	Q1 2021	Q1 2020
Current ratio	2.79	2.89	4.09	4.29
Quick ratio	1.76	1.90	2.98	3.23
Cash ratio	1.03	1.08	1.83	2.12

## Operational update

During Q1 2023, Technical and maintenance department continued with regular tasks of technical maintenance of the petrol station network, as well as various activities on the analysis of development projects (such as petrol stations Radanovici 2, Kolasin 2, etc). At YS Kotor, preparatory work for the new season have been completed. We opened a new rented petrol station Spuž in the first half of April.

The technical team prepared and sent for approval the development project for the construction of photovoltaic power plants at 5 petrol stations, and together with the team from Retail dept. works on projects such as: electric vehicle chargers, car washes, new coffee sales concept, conversion of existing stores into the Kalypso concept, total reconstruction of the building at PS Radanovici, and numerous other smaller projects planned in Capex 2023.

At the Bar Installation, in addition to regular activities on the reception, storage and distribution of fuel, activities on the realization of Capex projects continued. Works were carried out on cleaning and technical inspection of tanks R-1 and R-2, as well as pipeline



reconstruction on R1 in order to prepare tank R1 for the construction of a truck bottom loading station and installation of a VRU. Calibration of tanks R-1, R-2, R-4, R-10 and R16 was carried out. Planned works on anti-corrosion protection of tanks R-10 and R-16 and fuel pipelines and PP system were carried out according to this year's plan. Preparations for the implementation of JIG 1530 continued in accordance with the audit that was carried out at the end of last year.

In Fuels transport unit, regular activities are carried out in process of fuel delivery, vehicle maintenance and control of the entire process.

At air services Tivat and Podgorica regular aircraft supply and maintenance activities are in progress, including preparation of personnel and assets for increased demand expected in summer season. Continuous works on implementation of JIG standard based on audit in 2022, as well as preparations for IATA audit expected in the middle of 2023 at AS Tivat, are in progress.

At the end of Q1 2023 Jugopetrol AD had 98 employees, which is an increase of 5 employees 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. Five trainees are engaged during 2023.

### **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 and all stakeholders.

Planned activities for 2023 aim to contribute to the development of education, sports, and culture.

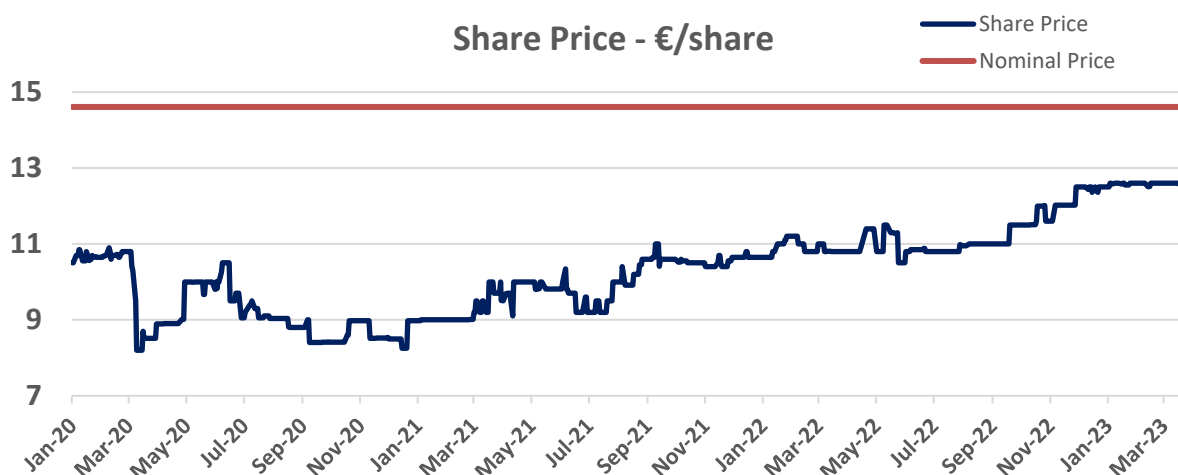
### **Investor update**

Jugopetrol's AD share is one of the most traded shares in Montenegro. During Q1 2023 share price fluctuated in the range of EUR 12.5-12.6 with an average of EUR 12.58.

During Q1 2023 the Company did not buy back its own shares. The total number of shares remained unchanged (4,653,971 with a nominal value of EUR 14.61 each).



## 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>
<b>Financial risks</b>	
Market risk: - 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 2023.</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 2023, the Internal Audit performed the following obligations from the Annual Audit Plan, which were foreseen in the observed period, as well as audits in the context of checking adequate risk management: audit of the process of approving the credit exposure of customers, audit of the NFR contracts, audit of the payment process at petrol stations and internal controls in that sense, audit of the process of delivery of petroleum products by ship in Terminal Bar, follow-up of recommendation regarding the audit of the annual inventories process, follow-up of the process of adequate calibration of tanks at petrol stations, audit of salaries calculation, as well as other payment categories.

In the first quarter of 2023, the Internal Audit Service performed 36 field audits of gas station operations (financial, commercial, HSSE aspect) and 22 in the field of monitoring integral deliveries of petroleum products to gas stations and commercial customers.

In the first quarter of 2023, the Internal Audit continued the monitoring of differences in fuels for each business segment, including retail operations, terminals and secondary transport, based on which it addressed exact recommendations in terms of improving internal controls and monitoring of perceived risks, mainly referring to establishing second level of monitoring, eventual correction of measuring devices and regular reporting and feedback from the relevant sectors.

The internal audit also followed up on the development of recommendations related with creation of five procedures from the domain of administrative, financial and commercial operations, which it believes will further improve risk management, effectiveness and efficiency of operations

### 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.)