Half-year Report of the Board of Directors

HALF YEAR REPORT OF THE BOARD OF DIRECTORS ON THE FINANCIAL STATEMENTS OF THE PERIOD 01/01/2016 – 30/06/2016

In this report is presented briefly financial information on the Company for the first semester of the current year, as well as important events that occurred in the period, along with their effect on the half-year Financial Statements. The major risk and uncertainties that could be faced are also discussed, along with the prospects until year end. The financial statements were prepared according to the International Financial Reporting Standards.

1. GENERAL

MERMEREN KOMBINAT AD-Prilep (the "**Company**") operates according the Trade Laws (Gazette of RM no. 28/96) of the Republic of Macedonia and its prime activities are exploitation, processing and trade of marble and decorative stones. The quarry, the factory and the administration headquarters of the Company are located in Prilep.

2. IMPORTANT EVENTS OF THE YEAR 2016

The extraordinary General Assembly of 13/04/2016 has elected new members of the Board of Directors. Subsequently, the Board was incorporated as follows:

1. Theodoros Malfas, non-executive member, Chairman of the Board
2. Graham Daniel Medley Thomas, non - executive member
3. Ventseslav Avramov, non- executive member
4. Pericles Nikolaou, executive member, CEO
5. Jasna Azhievska – Petrusheva, executive member
6. Georgios Koliastasis, independent non – executive member

- The Company underwent external audit reiterating its ISO 9001:2008 certification.

3. 2016 OPERATING PERFORMANCE

The performance during the first semester of the year did not fulfill expectations and was much lower than in recent periods.

- The turnover for the period decreased by 26.7% compared to the corresponding 2015 period due to lower yield and lower average quality of excavated material. Moreover, the Company proceeded with substantially increased gross excavation resulting in additional discretionary operating expenditure during the period. The gross profit was at 35.5% of the turnover, down from 57.7% in the corresponding period of 2015. As a result, in absolute figures, the gross profit dropped to €2.0 million or 54.9% lower than in 2014 (€4.4 million).

- The total administrative and sales expenses for the period were at approximately the same levels as in the corresponding period of 2015. (- 1.8%).

- As a result, the company registered operating profit before interest and taxes ("EBIT") of €0.5 million versus €2.9 million in the corresponding period of 2015 (-81.5%).

- The earnings before interest, tax, depreciation and amortization ("EBITDA") for 2016 dropped to €1.8 million vs €4.3 million in the corresponding period of 2015 (-56.6%).

- Earnings after tax ("EAT") was €0.4 million, 85.7% lower than the corresponding figure of 2015 (€2.5 million). Net earnings per share ("EPS") dropped to €0.08 from €0.54 in the corresponding period of 2015.

- The lower financial performance compared to the corresponding period of the previous year (first half of 2015) as depicted by EBITDA and other profitability metrics is attributed to two main reasons: (a) lower yield and lower quality of the marble extracted and (b) a substantial increase of (total) gross production with (deposit) stripping accounting for the largest portion of that increase in volume terms.

  Specifically, with regard to the former, production yield (as measured with stripping excluded from excavated volume) experienced a drop on a YoY basis while the quality of the marble produced was essentially lower. The Company's management believes that marble quarries typically face natural cycles in terms of yield and/or quality. Concerning the total gross production, the management of the Company made the strategic decision to significantly increase the stripping volume of the quarry in order to:
    - (a) enhance the operation's long term sustainability and (production) flexibility, aiming at a better ability to actively manage net output in view of commercial considerations as well as to mitigate the inherent quarry cyclicality in the future; and
    - (b) increase absolute volume capacity (i.e. growth potential) for the future.

  The (stripping) volume extracted during the reporting period shows a more than 2-fold increase compared to the corresponding period of LY, adversely contributing to the total production cost and hence the financial results of the Company for the period. Though fully expensed, the management considers this expenditure as due to a discretionary long-term business strategy (see above mentioned long-term benefits sought).

- Total bank loans as at 30 June 2016 were at €3.2 million, down from €3.3 million on 31 December 2015 (30 June 2015: €4.1 million). Net debt as at 30 June 2016 stood at €631k (negative meaning a net cash position), compared to €104k on 31 December 2015.

- Equity was at €16.1 million on 30 June 2016, decreased by €1.9 million in comparison to 31 December 2015 (€18.0 million) after the distribution of dividends amounting to €2.2 million. (30 June 2015: €15.6 million).

4. FINANCIAL RATIOS ANALYSIS

	30/06/2016 (6 months)	30/06/2015 (6 months)	31/12/2015 (12 months)
EAT / Sales	6.6%	33.5%	30.0%
EAT / Shareholder’s equity	2.3%	16.3%	27.1%
Total liabilities / Equity	43.9%	61.0%	31.0%
Bank loans / Equity	19.6%	26.5%	18.8%
Net Debt/ Equity	3.9%	3.2%	0.6%
Net Debt/ EBITDA	0.3x	0.1x	0.0x
Current assets / Total assets	49.9%	48.5%	47.4%
Current assets / Current liabilities	1.7x	1.6x	2.5x
EBITDA / Finance cost (net)	21.4x	34.1x	33.1x

5. MAIN RISKS AND UNCERTAINTIES

5.1 SUPPLIERS - INVENTORY

The company has no significant dependence on specific suppliers since it exploits marble reserves on the basis of a long-term concession agreement. Consumables and spare parts are purchased from a diversified basis of domestic and international reliable sources.

5.2 CLIENTS

During a period of economic crisis in Greece, the Company continued trading with some of its major customers who operate out of Greece but most of their trade is directed to exports. On the other hand, the Company’s management has minimized credit exposure to Greek customers, and most of the trade is conducted on a cash basis. In addition to the Greek customers, the Company has developed a promising clientele portfolio in South – East Asia and in the Middle East.

The Company’s management believes that the Company is well positioned to face any difficult economic circumstances, on the back of the following factors:

- The Company has a diversified group of old and new customer relationships, most of them on a long-term basis.
- According to the Company’s policy, all major customers’ exposures are secured with different types of collaterals such as bank guarantees and cash deposits. Credit quality of trade receivables as at 30 June 2016 is considered to be good.
- The Company’s major customers have not experienced financial difficulties, while they operate on a global market.

Overall, the Company is in a strong position despite the current economic environment, and has sufficient capital and liquidity to serve its operating activities and debt. The Company’s objectives and policies for managing capital, credit risk and liquidity risk are described in its recent annual financial statements.

5.3 BORROWINGS

The company cooperates for its financing with Komercijalna Banka A.D., a local bank, and its loan contracts are mostly denominated in euro and bearing floating interest rates.

5.4 FOREIGN EXCHANGE & INTEREST RISK

Foreign Exchange Risk. The Company operates internationally and is exposed to foreign exchange risk arising from various payables and receivables primarily with respect to the Euro. The Company does not use any instrument to hedge the foreign exchange risk. The carrying value of the monetary assets and liabilities of the Company which are denominated in foreign currencies is as follows:

The sensitivity analysis includes only monetary items denominated in foreign currencies at year end, and a correction of their value is made for a 1% change in the exchange rate of Euro and for 5% change in the other foreign currency rates. The positive or negative amount indicates increase/decrease in profit or other equity, which occurs when the Denar weakens/strengthens its value against the Euro by +/- 1% and against other foreign currencies by +/- 5%.

Interest Rate Risk. Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligation with a floating interest rate. The Company's management is primarily responsible for daily monitoring of the net interest rate risk position and it sets limits to reduce the potential of interest rate mismatch.

5.5 PERSONEL

The Management of the company is conducted by a team of experienced managers, including executives with international experience and background.

On 30 June 2016, the company was employing a total of 386 persons (337 persons on 30 June 2015, 51 persons on 31 December 2015).

5.6 ENVIRONMENTAL, HEALTH & SAFETY ISSUES

The company abides by the relevant to its nature and activity laws imposing environmental rules as well as by the regulations on health and safety in the workplace.

For the Company, its development and growth go hand in hand with health and safety of all its employees, making health and safety a top priority for the Company.

6. DIVIDEND POLICY

The General Assembly of the shareholders decided on 13/04/2016 to distribute part of the prior years retained earnings realized up to 31 December 2014 amounting to 2,249,692 Euros as dividends or €0.48 per share.

7. TRANSACTIONS WITH RELATED PARTIES

	Receivables	Payables	Revenues	Purchases	Cash
30/06/2016					
Stone Works Holding Cooperatief U.A. Netherlands	-	-	-	-	-
Castleblock Limited Nicosia Cyprus	-	-	-	-	-

NBGI Private Equity London	65,102	-	-	-	-
Stopanska Banka AD Skopje	-	-	-	-	6,625
Key Management Remuneration	-	-	-	186,636	-
	65,102	**-**	**-**	**186,636**	**6,625**

8. BRANCHES

The Company, in addition to its headquarters, has a representative office in Athens.

9. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

After 30 June 2016 until the approval of these interim financial statements, there are no materially significant events adjusting the interim financial information. The following non – adjusting event is substantially important to be disclosed in the present interim financial statements:

On August 17, the Company signed a new 5-year credit limit agreement for Euro 10 million with Komercijalna Banka.

10. PROSPECTS FOR THE REST OF THE YEAR

The financial performance of the second semester of 2016 will mainly depend on the quality and yield performance of the quarry operation. The Company is anticipated to continue its substantially increased gross excavation program during the rest of the year.

Prilep, August 29, 2016

The
CHAIRMAN OF THE BOARD

Theodoros Malfas