Annual Report of the Board of Directors

ANNUAL REPORT OF THE BOARD OF DIRECTORS
TO THE ORDINARY GENERAL ASSEMBLY OF THE SHAREHOLDERS
ON THE FINANCIAL STATEMENTS OF THE PERIOD 01/01/2016 – 31/12/2016

TO THE ORDINARY GENERAL ASSEMBLY

Dear Shareholders,

We are hereby submitting for approval the Financial Statements of the Company for the financial year ended on 31/12/2016. 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

- On 2 February 2016, National Bank of Greece, previously the ultimate owner of Stone Works Holdings Coöperatief U.A. through funds managed by its subsidiary NBGI PE Limited, entered into a definitive agreement to sell 100% of its interests in eleven Limited Partnerships held directly or indirectly by NBG and managed by NBGI PE Limited to funds managed by Deutsche Bank Private Equity ("DBPE") and Goldman Sachs Asset Management ("GSAM"). The management responsibility of the Funds and underlying investments continues to be performed by the existing management team along with other persons appointed by the new fund investors, under a new management vehicle created expressly therefore namely Stage Capital Management Limited. Closing of the transaction was effected on 30 September 2016.

- On 13/04/2016, a new Board of Directors was elected. (See paragraph 7.11).

3. 2016 OPERATING PERFORMANCE

- The turnover for the period increased by 2.0% compared to 2015. The average quality of excavated material was still lower than in the previous year, but the sales exceeded those of 2015 due to higher volume sold. The gross profit was at 45.4% of the turnover, down from 54.5% in 2015. As a result, in absolute figures, the gross profit dropped to €7.5 million or 15.1% lower than in 2015 (€8.9 million). The reduced gross profit is mainly attributed to important expenses for stripping and developing the Quarry.

- The total administrative and sales expenses for the period increased by 6.7% vs. 2015 mainly due to higher write – offs and value adjustments of inventory and fixed assets (€638k in 2016, vs. €390k in 2015).

- As a result, the company registered operating profit before interest and taxes (“EBIT”) of €4.2 million versus €5.7 million in 2015 (-27.4%).

- The earnings before interest, tax, depreciation and amortization (“EBITDA”) for 2016 dropped to €6.8 million vs €8.4 million in 2015 (-19.0%).

- Earnings after tax (“EAT”) was €3.5 million, 29.1% lower than the corresponding figure of 2015 (€4.9 million). Net earnings per share (“EPS”) dropped to €0.74 from €1.04 in 2015.

- The lower financial performance compared to the previous year 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 previous year, 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 on 31 December 2016 were at €3.7 million, up from €3.3 million on 31 December 2015, i.e. an increase of €0.4 million from December 2015 was registered.

- Equity rose to €19.3 million on 31 December 2016, increased by €1.3 million in comparison to 31 December 2015 (€18.0 million).

4. FINANCIAL STATUS OF THE COMPANY (FINANCIAL RATIOS)

	31/12/2016	31/12/2015
Gross margin (Gross profit / Sales)	45.4%	54.5%
EBITDA / Sales	40.7%	51.3%
EAT / Sales	20.8%	30.0%
EAT / Shareholder’s equity	18.0%	27.1%
Total liabilities / Equity	28.2%	31.0%
Bank loans / Equity	19.3%	18.8%
Net Debt/ Equity	(9.6%)	0.6%
Net Debt/ EBITDA	(0.3x)	0.0x
Current assets / Total assets	56.4%	47.4%
Current assets / Current liabilities	5.7x	2.5x
EBITDA / Finance cost (net)	30.9x	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

In 2016, the company further diversified its client base, a policy expected to be continued in the future.

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. During 2016 the Company engaged in a renewed contract with Komercijalna Banka.

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:

Assets		2016	2015
Cash and cash equivalents	EUR	5,291,141	3,111,058
Cash and cash equivalents	USD	2,587	-
Trade receivables – foreign debtors	EUR	1,447,929	958,043
Trade receivables – foreign debtors	USD	42,960	82,800
Trade receivables – foreign debtors	GBP	25,500	-
		6,810,117	**4,151,901**
Liabilities			
Trade payables – foreign suppliers	EUR	(493,652)	(134,307)
Trade payables – foreign suppliers	USD	(369)	(709)
Trade payables – foreign suppliers	GBP	-	(30,218)
Borrowings	EUR	(3,699,250)	(2,765,797)
		(4,193,270)	**(2,931,032)**

Foreign currency sensitivity analysis

	Net amount	+1%	+5%	-1%	-5%
31 December 2016					
EUR	2,546,168	25,462	-	(25,462)	-
USD	45,178	-	2,259	-	(2,259)
GBP	25,500	-	1,275	-	(1,275)
Gain or (loss)	**2,616,847**	**25,462**	**3,534**	**(25,462)**	**(3,534)**
31 December 2015	Net amount	**+1%**	**+5%**	**-1%**	**-5%**
EUR	1,168,998	11,690	-	(11,690)	-
USD	82,091	-	4,105	-	(4,105)
GBP	(30,218)	-	(1,511)	-	1,511
Gain or (loss)	**1,220,870**	**11,690**	**2,594**	**(11,690)**	**(2,594)**

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.

The table below summarizes the Company’s exposure to interest rate risk

	2016 in Euro	**2015 in Euro**
Assets		
Non – interest bearing:		
Trade and other receivables	1,403,542	975,907
Cash and cash equivalents	1,666	1,529
	1,405,208	**977,436**

With fixed interest rate		
Investments in government bonds	-	-
Cash and cash equivalents	5,562,678	3,274,811
	5,562,678	3,274,811
Total Assets	**6,967,886**	**4,252,247**
Liabilities		
Non – interest bearing:		
Trade and other payables	1,025,128	1,334,702
	1,025,128	**1,334,702**
With fixed interest rate:		
Borrowings	11,376	26,327
	11,376	**26,327**
With floating interest rate:		
Borrowings	3,699,250	3,354,465
	3,699,250	**3,354,465**

The nominal interest rate is based either on Euribor or Eurolibor plus 3.8%

Interest rate sensitivity analysis	Net amount in Euro	**+2%**	**-2%**
31 December 2016 Borrowings with floating interest rate	(3,699,250)	(73,985)	73,985
31 December 2015 Borrowings with floating interest rate	(3,354,465)	(67,089)	67,089

5.5 PERSONEL

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

On 31 December 2016, the company was employing a total of 382 persons (351 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 as dividend part of the retained earnings of the Company accumulated up to 31/12/14 at €0.48 per share.

7. DETAILED INFORMATION AND EXPLANATORY REPORT ACCORDING TO THE ARTICLE 4 par. 7 L.3556/2007, as is in force today.

7.1. SHARE CAPITAL STRUCTURE

The evolution and coverage of the share capital of the company from its establishment to date is shown in the following table:

SHARE CAPITAL EVOLUTION									
General Assembly date	**Capital increase amount**		**Coverage in cash**		**Capital after the increase**		**Total shares**	**Nominal value per share**	
Currency	**DEM**	**€**	**DEM**	**€**	**DEM**	**€**		**DEM**	**€**
Completion of privatization					5,500,000	2,812,105	55,000	100	51.13
23/03/01	2,750,000	1,406,052.6	2,750,000	1,406,052	8,250,000	4,218,158	82,500	100	51.13
07/06/02	Redenomination of share capital from DEM to EUR						4,218,158		1.00
Total before increase						**4,218,158**	**4,218,158**		**1.00**
Increase (19/12/02 & 23/10/03		**468,700**		**468,700**		**4,686,858**	**468,700**		**1.00**
Total after the increase						**4,686,858**	**4,686,858**		**1.00**

The share capital of the company amounts to €4,686,858 and it is divided in 4,686,858 common registered shares of nominal value €1.00 each.

7.2. RESTRICTIONS ON TRANSFER OF SHARES OF THE COMPANY

There are no restrictions on transfer of shares.

7.3. IMPORTANT DIRECT/ INDIRECT HOLDINGS

On 31/12/2016, the following shareholders held more than 5% of the total voting rights of the Company:

	Number	Nominal value	%
Stone Works Holdings Coöperatief U.A. Netherlands	4,143,357	4,143,357	88.40
Piraeus Bank S.A.(see Note)	468,700	468,700	10.00

Note: *Piraeus Bank is the issuer of "EL.PIS."(Greek depository receipts) as well as the Custodian of their corresponding shares. One (1) "EL.PIS." represents one (1) common share of MERMEREN KOMBINAT AD Prilep with nominal value of €1.00.*

7.4. SHARES PROVIDING SPECIAL CONTROL RIGHTS

There are no shares which confer special rights

7.5. RESTRICTIONS ON VOTING RIGHTS

There are no restrictions on voting rights.

7.6. AGREEMENTS OF SHARES OF THE COMPANY

The Company is not aware of any agreements between Company's shareholders entailing limitations on the transfer of shares.

7.7. RULES OF APPOINTMENT AND REPLACEMENT OF BOARD MEMBERS AND STATUTE AMENDMENTS DEVIATING FROM THE PROVISIONS OF THE LAW 2190/1920

Not applicable.

7.8. POWERS OF THE BOARD OR CERTAIN MEMBERS ON THE ISSUANCE OF NEW SHARES OR THE PURCHASE OF OWN SHARES OF THE COMPANY.

No relevant powers exist.

7.9. IMPORTANT AGREEMENTS COMING IN EFFECT, ALTERED OR TERMINATED UPON CHANGE IN CONTROL OF THE COMPANY ON TAKEOVER

There is not any such agreement.

7.10. IMPORTANT AGREEMENTS WITH MEMBERS OF THE BOARD OR THE STAFF OF THE COMPANY

There is not any such agreement.

7.11. COMPOSITION OF THE BOARD OF DIRECTORS

The Extraordinary General Assembly of the shareholders of 13/04/2016 decided the election of a new Board of Directors, which has the following composition:

The Board has been established as body as follows:

1. Theodoros Malfas, non-executive member, Chairman of the Board
2. Graham 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

8. TRANSACTIONS WITH RELATED PARTIES

	Receivables	Payables	Revenues	Purchases	Cash
31/12/2016					
Stone Works Holding Coöperatief U.A. Netherlands	-	-	-	408,110	-
Castleblock Limited Nicosia Cyprus	-	-	-	-	-
NBGI Private Equity London	-	-	172,574	49,552	-
Key Management Remuneration	-	-	-	379,858	-
	-	**-**	**172,574**	**837,520**	**-**

	Receivables	Payables	Revenues	Purchases	Cash
31/12/2015					
Stone Works Holding Coöperatief U.A. Netherlands	-	-	-	400,365	-
Castleblock Limited Nicosia Cyprus	-	-	122,546	1,448	-
NBGI Private Equity London	131,102	67,549	131,070	67,699	-
Stopanska Banka AD Skopje	-	-	-	-	6,664
Key Management Remuneration	-	-	-	471,942	-
	131,102	**67,549**	**253,616**	**941,454**	**6,664**

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

10. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE
Nothing to report.

11. PROSPECTS FOR THE NEW YEAR
2017 is expected to be a period of positive operational and financial performance.

12. CORPORATE GOVERNANCE

Corporate Governance principles that the Company follows
In the reporting year, the Company has performed its activities with two bodies: Shareholders Assembly and Board of Directors.

The Shareholder Assembly of the Company held one regular meeting during the year 2016. It was held on June 30, 2016 on which the shareholders voted for and approved (1) the annual accounts and annual operating report for the 2015 financial year; (2) the allocation of the net result; (3) the adoption of the internal auditor's report for 2015; (4) the appointment of the authorized auditor for the Financial Statements of 2016; (5) the election of one non-executive members of the Board of Directors.

It should be noted that in 2016 the Company did not conclude any major transactions such as selling property over 20% of the NBV of the total assets or major transactions with interested parties from which a conflict of interest might arise.

The Board of Directors has performed its duties according to the Law on trade companies and the Statute of the Company, held regularly sessions and undertook all necessary activities to provide for the proper operation of the Company.

Description of the internal control and internal management systems

Internal Control: The BOD is responsible for reviewing the effectiveness of the Company's system of internal control. The internal auditor submitted the appropriate reports timely.

Code of Business Conduct: The Company maintains a Code of Business Conduct and Ethics, including anti-Bribery Policies, which applies to all employees and is signed by all employees.

Organizational Structure: A clear organization structure exists, detailing lines of authority and control responsibilities. The competence of staff is maintained both through rigorous recruitment policies and a performance appraisal system.

Roles and Responsibilities: There are documented approval limits by the Board of Directors for all forms of payments, receipts, bank transfers, and also other responsibilities. Furthermore, there are job descriptions for all positions.

Information Systems: Information systems are developed to support the Company's decision – making processes.

Planning & Monitoring: There is a detailed annual and monthly budget, which was subjected to adequate scrutiny and approved by the Board of Directors. Comparisons are made between actual, historical and budgeted revenues, costs and K.P.I.s with adequately detailed explanations obtained for all significant variances.

Management Accounting System: A detailed management accounting system is in place providing management with financial and operational performance measurement indicators. Detailed management accounts are prepared monthly to cover each major area of the business. Variances from plan and previous forecasts are analyzed, explained and acted on. As well as regular Board discussions, weekly meetings are held by the Senior Management team to discuss performances.

All mentioned above about the financial condition of the Company can be found in the Financial Statements of 31 December 2016.

Prilep, March 15, 2017

The
CHAIRMAN OF THE BOARD

Theodoros Malfas