Half-year Report of the Board of Directors

HALF YEAR REPORT OF THE BOARD OF DIRECTORS ON THE FINANCIAL STATEMENTS OF THE PERIOD 01/01/2017 – 30/06/2017

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" or "Mermeren") 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. The quarry, the factory and the administration headquarters of the Company are located in Prilep, Republic of Macedonia.

2. IMPORTANT EVENTS OF THE YEAR 2017

On 21 June 2017, the Company was informed that the holders of the equity interests of Stone Works Holdings Coöperatief U.A., Netherlands ("Stoneworks"), the holder of 88.4% of Mermeren's issued share capital, had signed a definitive agreement to sell 100% of Stoneworks to Pavlidis S.A. Marble-Granite, Greece ("Pavlidis"). The completion of the transaction is conditional only on the obtaining of necessary approvals from the Macedonian Commission for Protection of Competition.

On 17 June 2017, and further to proceedings by the Company, the High Court of England and Wales issued a decision holding that the use of the name Sivec by Fox Marble Holdings Plc, UK ("Fox Marble") was in infringement of the Company's EU trademark Sivec® and issued an injunction to prevent Fox Marble from continuing to use this name in relation to its products. The decision has not been appealed (deadline: 26 July 2017) and Fox Marble have published the respective notice on their corporate website as per the order of the Court.

3. 2017 OPERATING PERFORMANCE

The operating performance during the first semester substantially exceeded expectations and the performance of the respective period of last year.

- Turnover for the period more than doubled (+122%) compared to the corresponding period of last year, mainly due to higher volume and average quality of excavated material; nevertheless, the Company continued with gross excavation at high levels. In addition, the Company has secured a project in Middle East enabling its factory to more than triple revenue compared to last year.
- Gross profit was at 57.0% of turnover, significantly increased from last year's corresponding period (35.5%). As a result, in absolute figures, the gross profit increased to €7.0 million, or 256.6% higher than the corresponding period of 2016 (€2.0 million).
- Total administrative and sales expenses for the period stood at €1.6 million, increased by 12% compared with the corresponding period of 2016 (€1.4 million), mainly due to one-off legal fees.

- As a result, the company registered operating profit before interest and taxes (“EBIT”) of €5.5 million vs. €0.5 million in the corresponding period of 2016 (+906%).
- Earnings before interest, tax, depreciation and amortization (“EBITDA”) for the period increased to €6.6 million vs. €1.8 million in the corresponding period of 2016 (+258%).
- Earnings after tax (“EAT”) was €4.7 million, more than ten times the corresponding figure of 2016 (€0.4 million). Net earnings per share (“EPS”) increased to €1.01 from €0.08 in the corresponding period of 2016.
- Total bank loans as at 30 June 2017 were at €6.9 million, up from €3.7 million on 31 December 2016 (30 June 2016: €3.2 million). Net debt as at 30 June 2017 stood at €0.1 million, compared to –€1,854k on 31 December 2016 (negative figure meaning a net cash position).
- Equity was at €15.8 million on 30 June 2017 (30 June 2016: €16.1 million), decreased by €3.4 million in comparison to 31 December 2016 (€19.3 million) after the distribution of dividends amounting to €8.2 million.

4. FINANCIAL RATIOS ANALYSIS

	30/06/2017 (6 months)	**30/06/2016 (6 months)**	**31/12/2016 (12 months)**
EAT / Sales	38.4%	6.6%	20.8%
EAT / Shareholder’s equity	29.8%	2.3%	18.0%
Total liabilities / Equity	25.4%	43.9%	28.2%
Bank loans / Equity	43.8%	19.6%	19.3%
Net Debt/ Equity	0.8%	3.9%	-9.6%
Net Debt/ EBITDA	0.0x	0.3x	-0.3x
Current assets / Total assets	61.5%	49.9%	56.4%
Current assets / Current liabilities	4.0x	1.7x	5.7x
EBITDA / Finance cost (net)	38.5x	21.4x	30.9x

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 the period of economic crisis in Greece, the Company continued trading with its major Greek customers, whose trade is mostly directed to exports. On the other hand, the Company’s management has minimized credit exposure to all its customers, and most of the trade is conducted on a cash basis. In addition to the Greek customers, the Company has developed a 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 2017 is considered to be very 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 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 2017, the company was employing a total of 382 persons (30 June 2016: 386 persons; 31 December 2016: 382 persons).

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 Shareholders' Extraordinary Assembly of April 24 2017 decided to distribute part of the prior years' retained earnings realized up to 31 December 2015 in the amount 4,686,858 Euros, or €1.00 per share as dividends.

The Shareholders' Annual Assembly of June 15 2017 decided to distribute part of the profit for the year 2016 in the amount 3,421,406 Euros or €0.73 per share as dividends.

7. TRANSACTIONS WITH RELATED PARTIES

	Receivables	Payables	Revenues	Purchases	Cash
30/06/2017					
Stone Works Holding Coöperatief U.A., Netherlands	-	-	-	-	-
Castleblock Limited, Nicosia Cyprus	-	-	-	-	-
Stage Capital Management Limited, UK	-	920	-	42,009	-
Key Management Remuneration	-	-	-	162,290	-
	-	**-**	**-**	**204,389**	**-**

8. BRANCHES

The Company, in addition to its headquarters, has a representative office in Athens. However, it is in the process of closing it down.

9. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

After 30 June 2017 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:

The decision of the High Court of England and Wales against Fox Marble, referred to in paragraph 2, has not been appealed until the deadline of 26 July 2017 and Fox Marble have published the respective notice on their corporate website as per the order of the Court.

10. PROSPECTS FOR THE REST OF THE YEAR

The financial performance of the second semester of 2017 is expected to continue on the directions set in the first semester.

Prilep, August 10, 2017

The
CHAIRMAN OF THE BOARD
Theodoros Malfas