

## **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 01/01/2017 – 31/12/2017

### **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 31/12/2017. 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 2017**

- On 5 September 2017, Pavlidis Marble – Granite acquired 100% of the equity interests of Stone Works Holdings Coöperatief U.A., the holder of 88.4% of the Company’s issued share capital.
- On 9 October 2017, a new Board of Directors was elected. (See paragraph 7.11).

### **3. 2017 OPERATING PERFORMANCE**

- The turnover for the period increased by 57.1% compared to 2016. The average quality of excavated material was higher than in the previous year, which coupled with higher volume of marble blocks as well as final products sold, accounted for the increased turnover. The gross profit was at 58.2% of the turnover, compared to 45.4 % for 2016. As a result, in absolute figures, the gross profit for 2017 increased to €15.2 million, from €7.5 million for 2016.
- The total administrative and sales expenses for the period decreased by 6.0% vs. 2016.
- The company registered operating profit before interest and taxes (“EBIT”) of €12.2 million versus €4.2 million in 2016.
- The earnings before interest, tax, depreciation and amortization (“EBITDA”) for 2017 rose to €14.5 million vs. €6.8 million in 2016.
- Earnings after tax (“EAT”) was for 2017 €10.6 million and the corresponding figure for 2016 was € 3.5 million.

- Total bank loans as on 31 December 2017 were at €1.3 million, down from €3.7 million on 31 December 2016, i.e. a drop of €2.4 million from December 2016 was registered.
- Equity rose to €21.8 million on 31 December 2017, increased by €2.5 million in comparison to 31 December 2016 (€19.3 million).

#### 4. FINANCIAL STATUS OF THE COMPANY (FINANCIAL RATIOS)

|                                      | 31/12/2017 | 31/12/2016 |
|--------------------------------------|------------|------------|
| Gross margin (Gross profit / Sales)  | 58.2%      | 45.4%      |
| EBITDA / Sales                       | 55.6%      | 40.7%      |
| EAT / Sales                          | 40.6%      | 20.8%      |
| EAT / Shareholder's equity           | 48.7%      | 18.0%      |
| Total liabilities / Equity           | 19.7%      | 28.2%      |
| Bank loans / Equity                  | 6.2%       | 19.3%      |
| Net Debt/ Equity                     | (21.4%)    | (9.6%)     |
| Net Debt/ EBITDA                     | (0.3x)     | (0.3x)     |
| Current assets / Total assets        | 60.2%      | 56.4%      |
| Current assets / Current liabilities | 5.2x       | 5.7x       |
| EBITDA / Finance cost (net)          | 43.9x      | 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

In 2017, the company retained its client base and policy.

##### 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:

| <b>Assets</b>                       | <b>Currency</b> | <b>2017</b>        | <b>2016</b>        |
|-------------------------------------|-----------------|--------------------|--------------------|
| Cash and cash equivalents           | EUR             | 5,865,166          | 5,291,141          |
| Cash and cash equivalents           | USD             | -                  | 2,587              |
| Trade receivables – foreign debtors | EUR             | 472,406            | 1,447,929          |
| Trade receivables – foreign debtors | USD             | 28,591             | 42,960             |
| Trade receivables – foreign debtors | GBP             | -                  | 25,500             |
|                                     |                 | <b>6,366,163</b>   | <b>6,810,117</b>   |
| <b>Liabilities</b>                  |                 |                    |                    |
| Trade payables – foreign suppliers  | EUR             | (1,003,153)        | (493,652)          |
| Trade payables – foreign suppliers  | USD             | (291)              | (369)              |
| Trade payables – foreign suppliers  | GBP             | (80)               | -                  |
| Borrowings                          | EUR             | (1,338,000)        | (3,699,250)        |
|                                     |                 | <b>(2,341,524)</b> | <b>(4,193,270)</b> |

Foreign currency sensitivity analysis

|                         | Net amount       | +1%           | +5%          | -1%             | -5%            |
|-------------------------|------------------|---------------|--------------|-----------------|----------------|
| <b>31 December 2017</b> |                  |               |              |                 |                |
| EUR                     | 3,996,419        | 39,964        | -            | (39,964)        | -              |
| USD                     | 28,299           | -             | 1,415        | -               | (1,415)        |
| GBP                     | (80)             | -             | (4)          | -               | 4              |
| Gain or (loss)          | <b>4,024,638</b> | <b>39,964</b> | <b>1,411</b> | <b>(39,964)</b> | <b>(1,411)</b> |
| <b>31 December 2016</b> |                  |               |              |                 |                |
| 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)          | <b>2,616,847</b> | <b>25,462</b> | <b>3,534</b> | <b>(25,462)</b> | <b>(3,534)</b> |

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

|                                     | <b>2017</b><br>in Euro | <b>2016</b><br>in Euro |
|-------------------------------------|------------------------|------------------------|
| <b>Assets</b>                       |                        |                        |
| <i>Non – interest bearing:</i>      |                        |                        |
| Trade and other receivables         | 521,537                | 1,403,542              |
| Cash and cash equivalents           | 1,488                  | 1,666                  |
|                                     | <b>523,025</b>         | <b>1,405,208</b>       |
| <i>With fixed interest rate</i>     |                        |                        |
| Cash and cash equivalents           | 5,998,196              | 5,562,678              |
|                                     | 5,998,196              | 5,562,678              |
| <b>Total Assets</b>                 | <b>6,521,221</b>       | <b>6,967,886</b>       |
| <b>Liabilities</b>                  |                        |                        |
| <i>Non – interest bearing:</i>      |                        |                        |
| Trade and other payables            | 1,453,308              | 1,025,128              |
|                                     | <b>1,453,308</b>       | <b>1,025,128</b>       |
| <i>With fixed interest rate:</i>    |                        |                        |
| Borrowings                          | 2,234                  | 11,376                 |
|                                     | <b>2,234</b>           | <b>11,376</b>          |
| <i>With floating interest rate:</i> |                        |                        |
| Borrowings                          | 1,338,000              | 3,699,250              |
|                                     | <b>1,338,000</b>       | <b>3,699,250</b>       |

*The nominal interest rate is based on Euribor plus 3.8%*

| Interest rate sensitivity analysis     | Net amount in Euro | +2%      | -2%    |
|--|--------------------|----------|--------|
| <b>31 December 2017</b>                |                    |          |        |
| Borrowings with floating interest rate | (1,338,000)        | (26,760) | 26,760 |
| <b>31 December 2016</b>                |                    |          |        |
| Borrowings with floating interest rate | (3,699,250)        | (73,985) | 73,985 |

## **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 2017, the company was employing a total of 382 persons (382 persons on 31 December 2016).

## **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 extraordinary General Assembly of the shareholders decided on 24/04/2017 to distribute as dividend part of the retained earnings of the Company accumulated up to 31/12/2015 at €1.00 gross per share. Next, the annual ordinary General Assembly of the shareholders decided on 15/06/2017 to distribute as dividend part of the profit of the Company for 2016 at €0.73 gross per share. Finally, the Board of Directors decided on 11/08/2017 to distribute to the shareholders amount €0.73 gross per share as advance dividend of the profits of the first semester 2017.

## 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 |
| <b>Total before increase</b>              |   |                |                  |                |                            | <b>4,218,158</b> | <b>4,218,158</b> |                         | <b>1.00</b> |      |
| <b>Increase (19/12/02 &amp; 23/10/03)</b> |   | <b>468,700</b> |                  | <b>468,700</b> |                            | <b>4,686,858</b> | <b>468,700</b>   |                         | <b>1.00</b> |      |
| <b>Total after the increase</b>           |   |                |                  |                |                            | <b>4,686,858</b> | <b>4,686,858</b> |                         | <b>1.00</b> |      |

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 31/12/2017, the following shareholders held more than 5% of the total voting rights of the Company:

|  | <u>Number</u> | <u>Nominal value</u> | <u>%</u> |
|--|---------------|----------------------|----------|
| <i>Stone Works Holdings Coöperatief U.A. Netherlands</i> | 4,143,357     | 4,143,357            | 88.40    |
| <i>Piraeus Bank S.A.(see Note)</i>                       | 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 09/10/2017 decided the election of a new Board of Directors.

The Board was established as body on the same date, as follows:

1. Christoforos Pavlidis, non-executive member, Chairman of the Board
2. Nikolaos Dimarelis, non - executive member
3. Theodoros Apostolopoulos, non- executive member
4. Periklis Nikolaou, executive member, CEO
5. Jasna Azhievskva – Petrusheva, executive member
6. Zoran Pandev, independent non – executive member

#### 8. TRANSACTIONS WITH RELATED PARTIES

|  | Receivables | Payables       | Revenues         | Purchases      | Cash |
|--|-------------|----------------|------------------|----------------|------|
| <b>31/12/2017</b>  |             |                |                  |                |      |
| Stone Works Holding Coöperatief U.A. Netherlands               | -           | -              | -                | -              | -    |
| Stage Capital Management Ltd United Kingdom (until 05/09/2017) | -           | -              | -                | 42,118         | -    |
| Pavlidis SA Marble – Granite Drama Greece (since 05/09/2017)   | -           | 339,576        | 1,202,991        | -              | -    |
| Key Management Remuneration                                    | -           | -              | -                | 619,377        | -    |
|  | -           | <b>339,576</b> | <b>1,202,991</b> | <b>661,495</b> | -    |

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

## 9. BRANCHES

During 2017 the Company, in addition to its headquarters, had a representative office in Athens which closed on 12/04/2018.

## 10. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

On 26 February 2018, the Company has been informed that Pavlidis S.A. Marble-Granite, the holder of the equity interests of Stone Works Holdings Coöperatief U.A. ("Stoneworks"), holder of 88.4% of the Company's issued share capital, has proceeded to an offer to EL.PIS. holders in order to buy up to 468,700 EL.PIS. at Euro 18,70 per EL.PIS. 310,262 EL.PIS. were bought, representing 6.62% of the share capital.

## 11. PROSPECTS FOR THE NEW YEAR

2018 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 2017. It was held on June 15, 2017 on which the shareholders voted for and approved (1) the Financial Statements and independent auditor's report for 2016; (2) The annual accounts for the period 1 January to 31 December 2016; (3) The report of the Board of Directors (4) The adoption of the internal auditor's report for 2016; (5) The allocation of the profit of 2016 (6) The appointment of the authorized auditor for the Financial Statements of 2017.

It also held two extraordinary meetings during the year 2017:

- On 24 April 2017, which made the following decisions:
  1. Amended the statute of the Company, creating special reserves intended for increase of the basic capital
  2. Decided the transfer of the premium on issued shares amounting to €4,135,552 to the special reserves intended for the increase of the basic capital of the Company
  3. Decided the distribution of retained earnings accumulated until 31/12/2015 at the amount of €1.00 per share
- On 9 October 2017, which elected new members of the Board of Directors (See paragraph 7.11)

It should be noted that in 2017 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 2017.

Prilep, April 24, 2018,

The  
CHAIRMAN OF THE BOARD  
Christoforos Pavlidis