Half-year Report of the Board of Directors

HALF YEAR REPORT OF THE BOARD OF DIRECTORS ON THE FINANCIAL STATEMENTS OF THE PERIOD 01/01/2019 – 30/06/2019

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 North 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 North Macedonia.

2. IMPORTANT EVENTS OF THE YEAR 2019

On January 31, 2019 CEO Pericles Nikolaou left the Company for personal reasons. He was replaced by Mr. Vasilis Anagnostou, Greek citizen and Mining Engineer, according to the decision of the extraordinary general assembly of March 19, 2019

On 17 June 2019, the Company signed a contract with Teknoxgroup Makedonija DOOEL ("Teknoxgroup") a representative of Caterpillar, for the procurement of quarry equipment for a total value of Euro 5,080,080 over the years 2019-2020.

3. 2019 OPERATING PERFORMANCE

The operating performance during the first semester was lower than in the respective period of the previous year. Bad weather conditions that prevailed in January and February affected the exploitation, resulting in lower production.

- Turnover for the period was at €12.6 million vs. €19.1 million in the corresponding period of 2018.
- Gross profit margin was at 72.5% of the turnover compared with 69.2% in last year's corresponding period. However, because of lower turnover, in absolute figures the gross profit decreased to €9.1 million vs. €13.2 million in the corresponding period of 2018.
- Total administrative and sales expenses increased by 10.5% compared with the corresponding period of 2018, mainly due to higher transport costs.
- The company registered operating profit before interest and taxes ("EBIT") of €7.8 million vs. €12.1 million in the corresponding period of 2018.
- Earnings before interest, tax, depreciation and amortization ("EBITDA") for the period decreased to €8.8 million vs. €13.3 million in the corresponding period of 2018.

- Earnings after tax ("EAT") was €7.0 million vs. €10.8 million in the corresponding period of 2018. Net earnings per share ("EPS") decreased to €1.50 from €2.31 in the corresponding period of 2018.
- Total bank loans as at 30 June 2019 were at €1.2 million, down from 31 December 2018 €1.3 million. Net debt as at 30 June 2019 stood at €-5.0 million, compared to €-25.6 million on 31 December 2018 (negative figure meaning a net cash position).
- Equity was at €25.3 million on 30 June 2019 (30 June 2018: €29.2 million), decreased by €15.8 million in comparison to 31 December 2018 (€41.1 million) mainly due to the distribution of dividends in the amount of €22.8 million.

4. FINANCIAL RATIOS ANALYSIS

	30/06/2019 (6 months)	30/06/2018 (6 months)	31/12/2018 (12 months)
Gross margin (Gross profit / Sales)	72.5%	69.2%	71.1%
EBITDA / Sales	69.7%	69.4%	68.7%
EAT / Sales	55.7%	56.7%	57.1%
EAT / Shareholder's equity	27.7%	37.1%	55.4%
Total liabilities / Equity	12.8%	15.1%	9.2%
Bank loans / Equity	4.8%	4.6%	3.2%
Net Debt/ Equity	(19.8%)	(48.8%)	(62.3%)
Net Debt/ EBITDA	(0.57x)	(1.1x)	(0.9x)
Current assets / Total assets	62.4%	69.7%	75.5%
Current assets / Current liabilities	8.2x	7.3x	12.8x
EBITDA / Finance cost (net)	683.7x	229.5x	307.2x

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

The major volume of trading in 2019 is directed to South–East Asia.

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.
- Most of the trade is conducted on a cash 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 2019 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 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 2019, the company was employing a total of 361 persons (30 June 2018: 378 persons; 31 December 2018: 370 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' Annual Assembly of April 16, 2019 decided to distribute dividends out of the profit for the year 2018 in the amount 22,817,952 Euros.

During the period ended 30 June 2019 the Company paid dividends to its shareholders in the total amount of 22,548,800 Euros and in addition 250,487 Euros relating to taxes on dividends paid.

7. TRANSACTIONS WITH RELATED PARTIES

	Receivables	Payables	Revenues	Purchases	Cash
30/06/2019					
Stone Works Holding Coöperatief U.A., Netherlands	-	-	-	-	-
Pavlidis S.A. Marble-Granite Drama Greece	64,147	-	2,386,057	17,238	-
Key Management Remuneration	-	-	-	106,877	-
	64,147	**-**	**2,386,057**	**124,115**	**-**

8. BRANCHES

At 30 June 2019 there are no branches of representative offices.

9. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to 30 June 2019 until the approval of these interim financial statements, there are no adjusting events reflected in these interim financial statements. The following event is materially significant for disclosure in these interim financial statements:

The company has given bank guarantees in the amount of Euro 3,321,577 to Teknoxgroup in the frame of procurement of quarry equipment. The bank guarantees were issued by Stopanska Banka AD Skopje with collaterals term deposit in the amount of Euro 3,534,434.

10. PROSPECTS FOR THE REST OF THE YEAR

Turnover is expected to increase during the second semester of 2019 compared to the first semester.

Prilep, August 29, 2019

The
CHAIRMAN OF THE BOARD
Christoforos Pavlidis