

## Half-year Report of the Board of Directors

### HALF YEAR REPORT OF THE BOARD OF DIRECTORS ON THE FINANCIAL STATEMENTS OF THE PERIOD 01/01/2021 – 30/06/2021

*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 2021**

At 12 February 2021 in Public Gazette of RNM was published decision that the Company id awarded to extend concession territory for additional 0,305625 km<sup>2</sup>. At 02 March 2021 the Government of RNM represented by Ministry of Economy and the Company has signed annex agreement for concession and determinate the territory for concession - 2,188135 km<sup>2</sup>

#### **3. 2021 OPERATING PERFORMANCE**

The operating performance during the first semester was much higher than in the respective period of the previous year.

- Turnover for the period was at €13.5 million vs. €7.6 million in the corresponding period of 2020.
- Gross profit margin was at 70.8% of the turnover compared with 69.8% in last year’s corresponding period. In absolute figures, the gross profit rose to €9.6 million vs. €5.3 million in the corresponding period of 2020.
- Total administrative and sales expenses increased by 38.5% compared with the corresponding period of 2020, *mainly due to s settlement agreements for termination of employment with part of the personnel.*
- Earnings before interest, tax, depreciation and amortization (“EBITDA”) for the period increased to €8.6 million vs. €4.9 million in the corresponding period of 2020.
- The company registered operating profit before interest and taxes (“EBIT”) of €7.4 million vs. €3.8 million in the corresponding period of 2020.

- Earnings after tax (“EAT”) was €6.7 million vs. €3.8 million in the corresponding period of 2020. Net earnings per share (“EPS”) rose to €1.43 from €0.81 in the corresponding period of 2020.
- Total bank loans as at 30 June 2021 were at €0.32 million, down from 31 December 2020 €0.98 million. Net debt as at 30 June 2021 stood at €-14.9 million, compared to €-10.5 million on 31 December 2020 (negative figure meaning a net cash position).
- Equity was at €45.3 million on 30 June 2021 (30 June 2020: €42.1 million; 31 December 2020: €38.6 million).

#### 4. FINANCIAL RATIOS ANALYSIS

	<b>30/06/2021</b> <b>(6 months)</b>	<b>30/06/2020</b> <b>(6 months)</b>	<b>31/12/2020</b> <b>(12 months)</b>
Gross margin (Gross profit / Sales)	70.8%	69.8%	60.2%
EBITDA / Sales	63.4%	64.7%	50.1%
EAT / Sales	54.9%	50.1%	39.7%
EAT / Shareholder’s equity	16.3%	9.1%	22.8%
Total liabilities / Equity	3.7%	6.3%	5.6%
Bank loans / Equity	0.7%	2.5%	2.5%
Net Debt/ Equity	(32.9%)	(28.4%)	(27.2%)
Net Debt/ EBITDA	(1.74x)	(2.42x)	(0.95x)
Current assets / Total assets	65.2%	61.8%	58.7%
Current assets / Current liabilities	21.4x	15.7x	17.7x

#### 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 2021 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 2021 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 2021, the company was employing a total of 291 persons (30 June 2020: 360 persons; 31 December 2020: 330 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 May 30, 2021 decided not to distribute dividends out of the profit for the year 2020. 8,291,583 Euros were allocated to retained earnings and 1,500,000 Euros to reinvested profit.

## 7. TRANSACTIONS WITH RELATED PARTIES

	Receivables	Payables	Revenues	Purchases	Cash
<b>30/06/2021</b>					
Stone Works Holding Coöperatief U.A., Netherlands	-	-	-	-	-
Pavlidis S.A. Marble-Granite Drama Greece	708,049	-	1,175,051	192,672	-
Key Management Remuneration	-	-	-	200,889	-
	<b>708,049</b>	-	<b>1,175,051</b>	<b>393,561</b>	-

## 8. BRANCHES

At 30 June 2021 there are no branches of representative offices.

## 9. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to 30 June 2021 until the approval of these interim financial statements, there are no adjusting events reflected in these interim financial statements. The following is materially significant for disclosure in the interim financial statements:

On September 10, 2021 an extraordinary General Assembly of the stockholders of the Company, decided the following:

- Distribution of dividend out of retained earning accumulated until 31/12/2020 at the amount of €2.24 per share (gross). (1 Euro = 61.5 Denars)
- Election of Mr. Triantafyllos Triantafyllou as member of the Board of Directors.

## 10. COVID-19 PANDEMIC IMPLICATIONS ON THE COMPANY

The Covid-19 pandemic continued to affect the performance of the Company, albeit in a much less pronounced way. The effect of the pandemic is gradually being overcome.

## 11. PROSPECTS FOR THE REST OF THE YEAR

Demand of marble products is directly connected to economy growth. Therefore, the prospects for the rest of the year cannot be assessed, as they are dependent on the extent of the global recovery. Nevertheless, there is optimism regarding the period until the end of the year.

Prilep, September 23, 2021

The PRESIDENT OF THE BOARD  
Christoforos Pavlidis