

Half-year Report of the Board of Directors

HALF YEAR REPORT OF THE BOARD OF DIRECTORS ON THE FINANCIAL STATEMENTS OF THE PERIOD 01/01/2022 – 30/06/2022

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 2022

The operations of the Company proceed according to the plan, yet there was a decrease in the profit compared to the same period of the previous year, due to a large degree to the increased cost of energy.

3. 2022 OPERATING PERFORMANCE

The operating performance during the first semester was little changed versus the respective period of the previous year.

- Turnover for the period was at €14.2 million vs. €13.5 million in the corresponding period of 2021.
- Gross profit margin was at 65.0% of the turnover compared with 70.8% in last year’s corresponding period. In absolute figures, the gross profit was €9.3 million vs. €9.6 million in the corresponding period of 2021.
- Total administrative and sales expenses increased by 4.4% compared with the corresponding period of 2021.
- The company registered operating profit before interest and taxes (“EBIT”) of €7.1 million vs. €7.4 million in the corresponding period of 2021.
- Earnings before interest, tax, depreciation and amortization (“EBITDA”) for the period decreased to €8.2 million vs. €8.6 million in the corresponding period of 2021.
- Earnings after tax (“EAT”) was €6.4 million vs. €6.7 million in the corresponding period of 2021. Net earnings per share (“EPS”) fell to €1.36 from €1.43 in the corresponding period of 2021.

- Total bank loans were fully paid 30 June 2022 as at 31 December 2021. Net debt as at 30 June 2022 stood at €-4.3 million, compared to €-14.5 million at 31 December 2021 (negative figure meaning a net cash position)
- Equity was at €33.3 million on 30 June 2022 (30 June 2021: €45.3 million 31 December 2021: €43.0).

4. FINANCIAL RATIOS ANALYSIS

	30/06/2022 (6 months)	30/06/2021 (6 months)	31/12/2021 (12 months)
Gross margin (Gross profit / Sales)	65.0%	70.8%	70.5%
EBITDA / Sales	57.4%	63.4%	62.1%
EAT / Sales	44.8%	54.9%	49.1%
EAT / Shareholder's equity	19.2%	16.3%	34.4%
Total liabilities / Equity	4.5%	3.7%	2.4%
Bank loans / Equity	0.0%	0.7%	0.0%
Net Debt/ Equity	(13.1%)	(32.9%)	(33.7%)
Net Debt/ EBITDA	(0.53x)	(1.74x)	(0.78x)
Current assets / Total assets	56.9%	65.2%	64.1%
Current assets / Current liabilities	13.3x	21.4x	27.0x

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 2022 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 2022 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.

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 is minimal, given that currently the Company carries no loan obligation. 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 2022, the company was employing a total of 271 persons (30 June 2021: 291 persons; 31 December 2021: 284 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 20, 2022 decided that the retained earnings realized till 31 December 2020 and part of the profit for the year 2021 in the amount of 16,029,054 Euros be allocated for dividends distribution.

During the period ended 30 June 2022 the Company paid dividends to its shareholders in net amount of 15,843,573 Euros and in addition 170,916 Euros relating to taxes on dividend paid. distribute dividends out of the profit for the year 2021.

7. TRANSACTIONS WITH RELATED PARTIES

	Receivables	Payables	Revenues	Purchases	Cash
30/06/2022					

Stone Works Holding Coöperatief U.A., Netherlands	-	-	-	-	-
Pavidis S.A. Marble-Granite Drama Greece	906,431	-	2,965,434	61,390	-
Key Management Remuneration	-	-	-	271,574	-
	906,431	-	2,965,434	332,964	-

8. BRANCHES

At 30 June 2022 there are no branches of representative offices.

9. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to 30 June 2022 until the approval of the interim financial statements, there are no adjusting events reflected in these interim financial statements, or materially significant for disclosure.

10. COVID-19 PANDEMIC IMPLICATIONS ON THE COMPANY

The effect of the Covid-19 pandemic on the performance of the Company has been minimized.

11. PROSPECTS FOR THE REST OF THE YEAR

The effects of the increased cost of energy during the second semester of the year, are difficult to quantify given the unpredictable nature of this cost.

Prilep, September 23, 2022

The
 CHAIRMAN OF THE BOARD
 Christoforos Pavidis