

Half-year Report of the Board of Directors

HALF YEAR REPORT OF THE BOARD OF DIRECTORS ON THE FINANCIAL STATEMENTS OF THE PERIOD 01/01/2018 – 30/06/2018

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 2018

On 26 February 2018, Pavlidis proceeded to a public offer to EL.PIS. holders in order to acquire EL.PIS. In the period 01/03/2018 to 28/03/2018, a total of 310,262 EL.PIS. were bought, which represent 6.62% of the total shares of the Company.

On 28 June 2018, Stoneworks acquired an additional 34,449 shares of Mermeren. Therefore, on 30 June 2018 Stoneworks was the holder of 89.14% of the issued share capital of the Company.

3. 2018 OPERATING PERFORMANCE

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

- Turnover for the period was at €19.1 million vs. €12.3 million in the corresponding period of 2017.
- Gross profit was at 69.2% of the turnover compared with 57.0% in last year’s corresponding period. As a result, in absolute figures, the gross profit increased to €13.2 million vs. €7.0 million in the corresponding period of 2017.
- Total administrative and sales expenses decreased by 24.5% compared with the corresponding period of 2017, mainly due to one-off legal fees in the latter.
- The company registered operating profit before interest and taxes (“EBIT”) of €12.1 million vs. €5.5 million in the corresponding period of 2017.
- Earnings before interest, tax, depreciation and amortization (“EBITDA”) for the period increased to €13.3 million vs. €6.6 million in the corresponding period of 2017.
- Earnings after tax (“EAT”) was €10.8 million vs. €4.7 million in the corresponding period of 2017. Net earnings per share (“EPS”) increased to €2.31 from €1.01 in the corresponding period of 2017.

- Total bank loans as at 30 June 2018 were at €1.3 million, unchanged from 31 December 2017 (30 June 2017: €6.9 million). Net debt as at 30 June 2018 stood at €-14.2 million, compared to €-4.7 million on 31 December 2017 (negative figure meaning a net cash position).
- Equity was at €29.2 million on 30 June 2018 (30 June 2017: €15.8 million), increased by €7.4 million in comparison to 31 December 2017 (€21.8 million).

4. FINANCIAL RATIOS ANALYSIS

	30/06/2018 (6 months)	30/06/2017 (6 months)	31/12/2017 (12 months)
Gross margin (Gross profit / Sales)	69.2%	57.0%	58.2%
EBITDA / Sales	69.4%	53.8%	55.6%
EAT / Sales	56.7%	38.4%	40.6%
EAT / Shareholder's equity	37.1%	29.8%	48.7%
Total liabilities / Equity	15.1%	63.2%	19.7%
Bank loans / Equity	4.6%	43.8%	6.2%
Net Debt/ Equity	(48.8%)	0.8%	(21.4%)
Net Debt/ EBITDA	(1.1x)	0.0x	(0.3x)
Current assets / Total assets	69.7%	61.5%	60.2%
Current assets / Current liabilities	7.3x	4.0x	5.2x
EBITDA / Finance cost (net)	229.5x	38.5x	43.9x

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 2018, the Company shifted the major volume of trading to South–East Asia. Nevertheless it continued trading with its major Greek customers, whose trade is mostly directed to exports as well as to its clientele in the Middle East. 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.

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 2018 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 2018, the company was employing a total of 378 persons (30 June 2017: 382 persons; 31 December 2017: 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' Annual Assembly of June 5, 2018 decided to distribute the major part of the profit for the year 2017 in the amount 7,184,580 Euros to reinvested earnings to be used to finance the investment program of the company.

There was no dividend payment during the six months of 2018, since the amount of 3,421,406 Euros that was allocated to gross dividend to shareholders (€0.73 per share) was distributed as pre-dividend according to the decision of the Board of Directors of 11 August 2017.

7. TRANSACTIONS WITH RELATED PARTIES

	Receivables	Payables	Revenues	Purchases	Cash
30/06/2018					
Stone Works Holding Coöperatief U.A., Netherlands	-	-	-	-	-
Pavlidis S.A. Marble-Granite Drama Greece	309,632	-	2,800,043	29,984	-
Key Management Remuneration	-	-	-	157,383	-
	309,632	-	2,800,043	187,367	-

8. BRANCHES

The Company closed the representative office that had in Athens.

9. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

After 30 June 2018 until the approval of these interim financial statements, there are no materially significant events adjusting the interim financial information. The following non – adjusting events are substantially important to be disclosed in the present interim financial statements:

On 27 June 2018, the Company decided to set lower credit limit in amount of Euro 3,500,000 against collaterals of total appraised value of Euro 3,342,752. The Notary act for the new mortgage and pledge on its property, plant and equipment was signed on 09 August 2018.

On 12 July 2018, Stoneworks acquired an additional 5,082 shares of Mermeren, with which Stoneworks becomes a holder of 89.25% of the issued share capital of the Company.

10. PROSPECTS FOR THE REST OF THE YEAR

The financial performance of the second semester of 2018 is expected to continue on the directions set in the first semester.

Prilep, August 30, 2018

The
CHAIRMAN OF THE BOARD
Christoforos Pavlidis
