

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 FOR THE PERIOD 01/01/2019 – 31/12/2019

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 31/12/2019. The financial statements were prepared according to the International Financial Reporting Standards.

1. GENERAL

MERMEREN KOMBINAT AD-Prilep (the “**Company**”) operates according the Law on trade companies (Gazette of RM no. 28/96) of the Republic of North 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 2019

- On January 31, 2019 CEO Perikles Nicolaou left the Company for personal reasons. He was replaced by Mr. Vasileios 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

- Turnover for the period compared to 2018 decreased by 9.5%. The year started with difficulties due to adverse weather conditions but in subsequent months it was possible to close the most part of the gap.
- Gross profit was at 74.0% of the turnover compared to the gross margin 71.1% in 2018. However, because of lower turnover, in absolute figures the gross profit decreased to €26.8 million, from €28.4 million in 2018.
- Total administrative and sales expenses increased by 29.4% compared to 2018, mainly due to higher transport costs.
- The company registered operating profit before interest and taxes (“EBIT”) of €22.4 million versus €25.1 million in 2018.
- The earnings before interest, tax, depreciation and amortization (“EBITDA”) for 2019 decreased to €24.1 million vs €27.4 million in 2018.

- Earnings after tax (“EAT”) were €20.1 million and the corresponding figure of 2018 €22.8 million.
- Total bank loans as on 31 December 2019 were at €1.1 million, from €1.3 on 31 December 2018.
- Equity was at €38.5 million on 31 December 2019, decreased by €2.7 million in comparison to 31 December 2018 (€41.2 million).

4. FINANCIAL STATUS OF THE COMPANY (FINANCIAL RATIOS)

	31/12/2019	31/12/2018
Gross margin (Gross profit / Sales)	74.0%	71.1%
EBITDA / Sales	66.6%	68.7%
EAT / Sales	55.7%	57.1%
EAT / Shareholder’s equity	52.3%	55.4%
Total liabilities / Equity	7.7%	9.2%
Bank loans / Equity	3.0%	3.2%
Net Debt/ Equity	(30.1%)	(62.3%)
Net Debt/ EBITDA	(0.48x)	(0.9x)
Current assets / Total assets	64.4%	75.5%
Current assets / Current liabilities	13.6x	12.8x
EBITDA / Finance cost (net)	398.0x	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 was 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 31 December 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:

Assets		2019	2018
Financial receivables	EUR	1,448	2,507,605
Cash and cash equivalents	EUR	8,918,921	19,030,955
Trade receivables – foreign debtors	EUR	5,133,660	1,644,977
Trade receivables – foreign debtors	USD	56	31
		14,054,085	23,183,568
Liabilities			
Trade payables – foreign suppliers	EUR	(284,170)	(158,346)
Trade payables – foreign suppliers	USD	-	-
Trade payables – foreign suppliers	GBP	(80)	(80)
Borrowings	EUR	(1,141,235)	(1,298,647)
		(1,425,485)	(1,457,073)

Foreign currency sensitivity analysis

	Net amount	+1%	+5%	-1%	-5%
31 December 2019					
EUR	12,628,624	126,286	-	(126,286)	-
USD	56	-	3	-	(3)
GBP	(80)	-	(4)	-	4
Gain or (loss)	12,628,600	126,286	(1)	(126,286)	1
31 December 2018					
EUR	21,726,544	217,265	-	(217,265)	-
USD	31	-	2	-	(2)
GBP	(80)	-	(4)	-	4
Gain or (loss)	21,726,495	217,265	(2)	(217,265)	2

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

	2019 in Euro	2018 in Euro
Assets		
<i>Non – interest bearing:</i>		
Trade and other receivables	5,129,827	1,811,704
Cash and cash equivalents	1,482	1,537
	5,131,309	1,813,241
<i>With fixed interest rate</i>		
Financial receivables	3,536,422	5,009,889
Cash and cash equivalents	9,167,773	21,924,404
	12,704,195	26,934,293
Total assets exposed to interest rate risk	17,835,504	28,747,534
Liabilities		
<i>Non – interest bearing:</i>		
Trade and other payables	1,316,393	1,193,084
	1,316,393	1,193,084
<i>With fixed interest rate:</i>		
Borrowings	-	-
	-	-
<i>With floating interest rate:</i>		
Borrowings	1,141,235	1,298,647
	1,141,235	1,298,647

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

Interest rate sensitivity analysis	Net amount in Euro	+2%	-2%
31 December 2019			
Borrowings with floating interest rate	(1,141,235)	(22,825)	22,825
31 December 2018			
Borrowings with floating interest rate	(1,298,647)	(25,973)	25,973

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 2019, the company was employing a total of 366 persons (370 persons on 31 December 2018).

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.

The Company is certified with ISO 14001:2015 Environmental management systems and ISO 45000:2018 Occupational health and safety.

6. DIVIDEND POLICY

On 06 April 2019 and according to the Shareholders' Annual Assembly decision no. 02-1960/13, the profit of the Company for the year 2018 in the amount of 22,817,952 Euro (€4.869 per share) was allocated for dividends distribution. During the period ended 31 December 2019 the Company paid dividends to its shareholders in the total amount of 22,562,557 Euro and in addition 252,915 Euro corresponding to taxes on dividend.

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
Total before increase						4,218,158	4,218,158		1.00
Increase (19/12/02 & 23/10/03)		468,700		468,700		4,686,858	468,700		1.00
Total after the increase						4,686,858	4,686,858		1.00

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 31/12/2019, 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>	4,183,021	4,183,021	89.25
<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

On 31 January 2019, Mr. Perikles Nicolaou CEO and member of the Board of Directors resigned for personal reasons. The General Assembly of the shareholders, in its meeting of 19 March 2019, elected Mr. Vasileios Anagnostou in his place. After that, the composition of the Board was as follows:

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

8. TRANSACTIONS WITH RELATED PARTIES

	Receivables	Payables	Revenues	Purchases	Cash
31/12/2019					
Stone Works Holding Coöperatief U.A. Netherlands	-	-	-	-	-
Pavlidis SA Marble – Granite Drama Greece	1,195,979	-	8,986,045	22,889	-
Key Management Remuneration	-	-	-	419,808	-
	1,195,979	-	8,986,045	442,697	-

	Receivables	Payables	Revenues	Purchases	Cash
31/12/2018					
Stone Works Holding Coöperatief U.A. Netherlands	-	-	-	-	-
Pavlidis SA Marble – Granite Drama Greece	15,387	-	4,576,425	80,054	-
Key Management Remuneration	-	-	-	340,819	-
	15,387	-	4,576,425	420,873	-

9. BRANCHES

The Company does not have any branches or representative offices.

10. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to 31 December 2019 until the approval of these financial statements, there are no adjusting events reflected in the financial statements, or materially significant for disclosure.

11. PROSPECTS FOR THE NEW YEAR

2020 is expected to be a period of positive operational and financial performance. However, this assessment is heavily dependent on the development of COVID-19 epidemic and its implications on the market.

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 2019. It was held on April 16, 2019 on which the shareholders voted for and approved: (1) The annual accounts for the period 1st January to 31th December 2018; (2) the Financial Statements and independent auditor's report for 2018; (3) The report of the Board of Directors on the operations of the Company for the year 2018; (4) The deeds of the members of the Board of Directors during the year 2018; (5) The allocation of the profit of 2018; (6) The Annual Report of the Internal Audit for 2018; (7) The appointment of auditors for the audit of the financial statements and annual accounts of the Company for the year 2019.

One extraordinary meeting was also held, on 19/03/2019 which elected Mr. Vasileios Anagnostou as member of the Board of Directors.

It should be noted that in 2019 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 a total of 13 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 2019.

Prilep, March 13, 2020

The
CHAIRMAN OF THE BOARD

Christoforos Pavlidis