

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 01/01/2022 – 31/12/2022

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 31/12/2022. 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 2022

The increased cost of energy cost (fuel and electricity) over the year, resulted to an increased cost of production before depreciation by about 18.9%.

3. 2022 OPERATING PERFORMANCE

- Turnover for the period was at the same level as in 2021 increased only by 0.8%.
- Gross profit was at 65.9% of the turnover compared to the gross margin 70.5% in 2021. Coupled with the higher energy prices, in absolute figures the gross profit decreased to €20,0 million, from €21,3 million in 2021.
- Total administrative and sales expenses decreased by 2.1% compared to 2021.
- The company registered operating profit before interest and taxes (“EBIT”) of €15,4 million versus €16,5 million in 2021.
- The earnings before interest, tax, depreciation and amortization (“EBITDA”) for 2022 decreased to €17,6 million vs €18,7 million in 2021.
- Earnings after tax (“EAT”) were €14,0 million and the corresponding figure of 2021 €14,8 million.
- No bank loans existed as on 31 December 2022, same as on 31 December 2021.
- Equity was at €41,0 million on 31 December 2022, compared to €43,0 million on 31 December 2021.

4. ALTERNATIVE PERFORMANCE MEASUREMENT INDICATORS (APM)

The Company uses Alternative Performance Measurement Indicators ("APM") in the context of decision-making regarding its financial, operational and strategic planning as well as for the evaluation and its performance. They serve to better understand the financial and operational results of the Company, its financial position as well as the cash flow statement. The alternative indicators should always be taken into account in conjunction with the financial results prepared in accordance with IFRS and in no case replace them.

Definitions and Agreement of Alternative Performance Measures ("APM")

a) Profitability indicators

The Company, in order to more fully analyze its operating results, uses the following profitability indicators:

Gross profit

Gross profit results directly from the statement of comprehensive income.

EBITDA (Earnings before taxes, financing and investing activities, depreciation and amortization)

The EBITDA ratio is calculated from the statement of comprehensive income as "Gross operating profit" plus "Other operating income" less "Administrative operating expenses" and "Disposal operating expenses" before depreciation.

	2022	2021
Gross profit (in million euro)	20,03	21,25
Administrative expenses	(1,53)	(1,70)
Selling expenses	(3,19)	(3,12)
Other operating income	0,13	0,05
Operating profit	15,44	16,48
Margins (Operating Profit/Sales)	50.8%	54.7%

EBIT (Earnings before taxes and interest)

The EBIT is equal to the operating profit resulting from the statement of comprehensive income.

EBT (Profit before tax)

EBT is the profit before the deduction of taxes and it results from the statement of comprehensive income.

Net profit

Net profit is the EBT after deduction of taxes and results from the statement of comprehensive income.

Margins

For all the above profitability indicators, the corresponding margin is calculated by dividing the corresponding indicator by the total sales.

	31/12/2022	31/12/2021
Gross margin (Gross profit / Sales)	65.9%	70.5%
EBITDA / Sales	57.9%	62.1%
EBT / Sales	50.5%	54.4%
Net profit / Sales	45.9%	49.1%
Net profit / Shareholder's equity	34.0%	34.4%

b) Financial position indicators

Total liabilities

Liabilities result directly from the statement of financial position.

Equity

Equity results directly from the statement of financial position.

Total assets

Total assets result directly from the statement of financial position.

Current assets

Current assets result directly from the statement of financial position.

Current liabilities

Current liabilities result directly from the statement of financial position.

	2022	2021
Total liabilities / Equity	3.0%	2.4%
Current assets / Total assets	63.2%	64.1%
Current assets / Current liabilities	21.7x	27.0x

c) Cash flow indicators

Free cashflow

This indicator shows the amount of cash available for distribution to shareholders and creditors of the company and at the same time it is one of the main indicators of financial robustness.

The indicator is calculated by adding the total inflows from operating activities and the total net inflows from investment activities (or subtract the total net outflows from investment activities) as they appear in the Statement of Cash Flows.

Amounts in million euro	2022	2021
Cash flows from operating activities, net	15,07	15,61
Cash flows from investing activities, net	(3,09)	(1,19)
Free cashflows	11,98	14,42

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 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.

- 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 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. No loans stood as of 31 December 2022.

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		2022	2021
Financial receivables	EUR	5,308,308	4,043,186
Cash and cash equivalents	EUR	6,209,620	10,380,880
Trade receivables – foreign debtors	EUR	8,802,743	8,095,832
Trade receivables – foreign debtors	USD	330	25
		20,321,001	22,519,923
Liabilities			
Trade payables – foreign suppliers	EUR	(165,001)	(168,760)
		(165,001)	(168,760)

Foreign currency sensitivity analysis

	Net amount	+1%	+5%	-1%	-5%
31 December 2022					
EUR	20,155,670	201,557	-	(201,557)	-
USD	330	-	17	-	(17)
Gain or (loss)	20,156,000	201,557	17	(201,557)	(17)
31 December 2021					
EUR	22,351,138	223,511	-	(223,511)	-
USD	25	-	1	-	(1)
Gain or (loss)	22,351,163	223,511	1	(223,511)	(1)

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

	2022 in Euro	2021 in Euro
Assets		
<i>Non – interest bearing:</i>		
Trade and other receivables	8,805,420	8,104,423
Cash and cash equivalents	189	110
	8,805,609	8,104,533
<i>With fixed interest rate</i>		
Financial receivables	5,308,308	4,043,186
Cash and cash equivalents	6,456,220	10,461,780
	11,764,528	14,504,966
Total assets exposed to interest rate risk	20,570,137	22,609,499
Liabilities		
<i>Non – interest bearing:</i>		
Trade and other payables	945,607	891,205
Interest sensitivity gap	945,607	891,205

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 2022, the company was employing a total of 270 persons (284 persons on 31 December 2021).

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 45001:2018 Occupational health and safety.

6. RESEARCH & DEVELOPMENT

The company conducts drilling research inside its quarry concession. The entire amount spent for drilling research is fully immobilized. In 2022 the amount spent in drilling research was €146k (2021: €33k)

7. DIVIDEND POLICY

At 20 April 2022 according to the Shareholders' Annual Assembly decision no. 02-1705/6, the retained earnings realized up to 31 December 2020 and part of the profit for year 2021 in the total amount of 16,029,054 Euro were allocated for dividends distribution.

During the period ended 31 December 2022 the Company paid dividends to its shareholders in the net amount of 15,853,804 Euro and in addition 172,053 Euro relating to taxes on dividends paid.

8. DETAILED INFORMATION AND EXPLANATORY REPORT ACCORDING TO THE ARTICLE 4 par. 7 L.3556/2007, as is in force today.

8.1. 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.

8.2. RESTRICTIONS ON TRANSFER OF SHARES OF THE COMPANY

There are no restrictions on transfer of shares.

8.3. IMPORTANT DIRECT/ INDIRECT HOLDINGS

On 31/12/2022, 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>	4,182,888	4,182,888	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.

8.4. SHARES PROVIDING SPECIAL CONTROL RIGHTS

There are no shares which confer special rights.

8.5. RESTRICTIONS ON VOTING RIGHTS

There are no restrictions on voting rights.

8.6. 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.

8.7. RULES OF APPOINTMENT AND REPLACEMENT OF BOARD MEMBERS AND STATUTE AMENDMENTS DEVIATING FROM THE PROVISIONS OF THE LAW 2190/1920

Not applicable.

8.8. 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.

8.9. IMPORTANT AGREEMENTS COMING IN EFFECT, ALTERED OR TERMINATED UPON CHANGE IN CONTROL OF THE COMPANY ON TAKEOVER

There is not any such agreement.

8.10. IMPORTANT AGREEMENTS WITH MEMBERS OF THE BOARD OR THE STAFF OF THE COMPANY

There is not any such agreement.

8.11. COMPOSITION OF THE BOARD OF DIRECTORS

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 Azhievskia – Petrusheva, executive member
4. Nikolaos Dimarelis, non - executive member
5. Triantafyllos Triantafyllou, non – executive member
6. Zoran Pandev, independent non – executive member

9. TRANSACTIONS WITH RELATED PARTIES

	Receivables	Payables	Revenues	Expenses	Cash
31/12/2022					
Stone Works Holding Coöperatief U.A. Netherlands	-	-	-	-	-
Pavlidis SA Marble – Granite Drama Greece	1,829,094	-	5,548,571	68,456	-
Key Management Remuneration	-	-	-	454,308	-
	1,829,094	-	5,548,571	522,764	-

	Receivables	Payables	Revenues	Purchases	Cash
31/12/2021					
Stone Works Holding Coöperatief U.A. Netherlands	-	-	-	-	-
Pavlidis SA Marble – Granite Drama Greece	1,925,795	-	4,033,683	317,995	-
Key Management Remuneration	-	-	-	402,861	-
	1,925,795	-	4,033,683	720,856	-

10. BRANCHES

The Company does not have any branches or representative offices.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

After 31 December 2022 to the reporting date until the approval of the Financial Statements, there are no adjusting events reflected in the following Financial Statements. The following events are materially significant for disclosure in the Financial Statements:

On 13 January 2023, the Company was informed that the shareholders of Pavlidis S.A Marble-Granite (“Pavlidis”) had signed a definitive agreement with funds managed by ECM Partners to sell 100% of Pavlidis shares, which owns 100% of the equity of Stone Works Holding Cooperatief UA, the holder of 89.25% of the Company’s issued share capital.

On 10 February 2023, the public was informed that the provisions of the Law on the Takeover of Joint Stock Companies will be applied to Mermeren Kombinat AD Prilep.

On 13 March 2023, the public was informed that the transaction has been closed on 10 March 2023. Dolit Investments SA (“Dolit”) acquired Pavlidis and the ultimate parent of the Company became ECM Partners Inc Ljubljana Slovenia as indirect 100% owner of Dolit. On the same date, the Chairman of the Board of directors Mr. Christoforos Pavlidis resigned.

On 10 April 2023 Mr. Nikolaos Dimarelis was elected as Chairman of the Board of Directors with decision number 02-1547/1.

On 27 April 2023 Dolit proceeded to a takeover bid for additionally 4.13% from the remaining ordinary shares with voting rights issued by Mermeren and not already controlled indirectly by Dolit.

12. PROSPECTS FOR THE NEW YEAR

2023 is expected to be a period of positive operational and financial performance.

13. 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 2022. It was held on April 20, 2022 on which the shareholders voted for and approved: (1) The annual accounts for the period 1st January to 31st December 2021; (2) the Financial Statements and independent auditor’s report for 2021; (3) The report of the Board of Directors on the operations of the Company for the year 2021; (4) The allocation

of the profit of 2021; (5) The dividend amount and the dates of dividend payout. (6) The approval of the work of the members of the Board of Directors during the year 2021; (7) The Annual Report of the Internal Audit for 2021; (8) The appointment of auditors for the audit of the financial statements and annual accounts of the Company for the year 2022.

One extraordinary meeting was also held, on March 18, 2022 which re-elected Jasna Azhievska – Petrusheva as a member of the Board of Directors.

During 2022 the Company did not conclude any major transaction 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 6 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 2022.

Prilep, April 27, 2023

The
CHAIRMAN OF THE BOARD

Nikolaos Dimarelis