

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 OF THE PERIOD 01/01/2014 – 31/12/2014

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 31/12/2014. The financial statements were prepared according to the International Financial Reporting Standards.

1. GENERAL

MERMEREN KOMBINAT AD-Prilep (the “**Company**”) 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 and decorative stones. The quarry, the factory and the administration headquarters of the Company are located in Prilep.

2. IMPORTANT EVENTS OF THE YEAR 2014 AND SUBSEQUENT

Nothing to announce

3. 2014 OPERATING PERFORMANCE

- The turnover increased by 13.2% compared with 2013 on the back of increased excavation volumes and successful trading policies. The gross profit was at 56.6% of the turnover, up from 52.1% in 2013. As a result, in absolute numbers, the gross profit rose to €10.8 million, or 22.9% higher than in 2013 (€8.8 million). The increased gross margin is attributed to increased turnover and the sales mix.
- The total administrative and sales expenses for the period displayed a decrease by 50.2%. These expenses included in 2013 substantial non-recurring (one-off) items with a considerable effect on profitability. These one-off items comprise (a) write – offs and value adjustments of inventory and fixed assets for a total value €1.71 million vs. €0.45 million in 2014 (as explained in the Notes 5,8 and 18 of the Financial Statements); and (b) customer discounts for a total value of €2.8 million vs. €0.5 million in 2014 (as explained in Note 18 of the Financial Statements) (collectively, the “Non-recurring Items”).
- As a result, the company registered operating profit before interest and taxes (“EBIT”) of €7.2 million versus €1.4 million in 2013. If adjusted for the Non-recurring Items, the EBIT (“Adjusted EBIT”) for the period would have been €8.2 million vs. €5.9 million in 2013 identically adjusted.

- The earnings before tax, interest, tax and depreciation (“EBITDA”) for 2014 rose to €9.9 million vs €3.8 million in 2013. If adjusted for the Non-recurring Items, the EBITDA (“Adjusted EBITDA”) for the period would have been €10.8 million vs. €8.3 million in 2013.
- Earnings after tax (“EAT”) was €6.9 million, considerably higher than the corresponding figure of 2013 (€1.0 million). It is noted that the net earnings per share (“EPS”) rose to €1.46 from €0.20 in 2013. If adjusted for the Non-recurring Items, EAT (“Adjusted EAT”) and EPS (“Adjusted EPS”) would have been €7.8 million and €1.66 per share respectively vs. €5.5 million and €1.17 in 2013.
- Total bank loans as at 31 December 2014 were at €5.1 million, down from €6.1 million on 31 December 2013, i.e. a drop of €1.0 million from December 2013 was registered.
- Equity rose to €17.8 million on 31 December 2014, increased by €1.0 million in comparison to 31 December 2013 (€16.7 million).

4. FINANCIAL STATUS OF THE COMPANY (FINANCIAL RATIOS)

	31/12/2014	31/12/2013
EAT / Sales	36.0%	5.7%
EAT / Shareholder’s equity	38.4%	5.7%
Total liabilities / Equity	35.5%	55.1%
Bank loans / Equity	28.5%	36.6%
Net Debt/ Equity	18.2%	28.8%
Net Debt/ EBITDA	0.3x	1.3x
Current assets / Total assets	41.9%	41.0%
Current assets / Current liabilities	3.0x	2.2x
EBITDA / Finance cost (net)	25.1x	9.2x

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

On 31 March 2014, the non-exclusive agency agreement for the promotion of the Company’s Sivec brand and its products, between the Company and FHL H. Kyriakidis Marbles - Granites S.A. (“FHL”) expired.

In 2014, the company further diversified its client base, a policy expected to be continued in the future.

5.3 BORROWINGS

The company cooperates for its financing with Komercijalna Banka A.D., a local bank, and its loan contracts are mostly 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:

	2014 in Euro	2013 in Euro
Assets		
Cash and cash equivalents	1,719,498	1,160,969
Trade receivables – foreign debtors	1,758,506	2,970,571
	3,478,004	4,131,540
Liabilities		
Trade payables – foreign suppliers	(134,295)	(846,089)
Borrowings	(3,975,165)	(4,628,262)
	(4,109,460)	(5,474,351)
Foreign currency sensitivity gap	(631,456)	(1,342,811)

Foreign currency sensitivity analysis	Net amount in Euro	+1%	-1%
31 December 2014	(631,456)	(6,315)	6,315
Gain or (loss)			
31 December 2013	(1,342,811)	(13,428)	13,428
Gain or (loss)			

The sensitivity analysis includes only monetary items denominated in foreign currencies at year end, and a correction of their value is made for a 10% change in foreign currency rates. The positive, i.e. negative amount indicates increase/decrease in profit or other equity, which occurs when the Denar weakens/strengthens its value against foreign currencies by +/- 10%.

Interest Rate Risk. Interest rate risk is the risk that the fair value or 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

	2014 in Euro	2013 in Euro
Assets		
Non – interest bearing:		
Trade and other receivables	1,718,910	2,738,906
Cash and cash equivalents	1,249	1,508
	1,720,159	2,740,414
With fixed interest rate		
Investments in government bonds	-	-
Cash and cash equivalents	1,826,074	1,288,919
	1,826,074	1,288,919
Total Assets	3,546,233	4,029,333
Liabilities		
Non – interest bearing:		
Trade and other payables	1,077,299	2,701,051
	1,077,299	2,701,051
With fixed interest rate:		
Borrowings	43,451	39,105
	43,451	39,105
With floating interest rate:		
Borrowings	5,036,721	6,082,279
	5,036,721	6,082,279

The nominal interest rate is based either on euribor or euro libor plus 4.0%

Interest rate sensitivity analysis	Net amount in Euro	+2%	-2%
31 December 2014			
Borrowings with floating interest rate	(5,036,721)	(100,734)	100,734
31 December 2013			
Borrowings with floating interest rate	(6,082,279)	(121,646)	121,646

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 2014, the company was employing a total of 329 persons (356 persons on 31 December 2013).

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 General Assembly of the shareholders decided on 27/01/2014 to distribute as dividend retained earnings accumulated before 31/12/2012 for the amount of €0.47 per share (gross).

Furthermore, the Board of Directors has decided on 16/11/2014 to distribute as an advance on the dividends out of the earnings of 2014 the amount of €0.15 per share (gross). In addition, the General Assembly of the shareholders decided on 21/11/2014 to distribute as dividend retained earnings accumulated before 31/12/2013 for the amount of €0.65 per share (gross).

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 31/12/2014, the following shareholders held more than 5% of the total voting rights of the Company:

	Number	Nominal value	%
Stone Works Holdings Cooperatief U.A. Netherlands	4,143,357	4,143,357	88.40
Piraeus Bank S.A.(see Note)	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 agreement.

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

There is not any agreement.

7.11. COMPOSITION OF THE BOARD OF DIRECTORS

The Extraordinary General Assembly of the shareholders of 17/02/2014 decided the election of Mrs. Jasna Azhievska – Petrusheva and Mr. Ventseslav Avramov as members of the Board which has the following composition:

Executive members: Ilias Rigopoulos and Jasna Azhievska - Petrusheva

Non-executive members: Theodoros Malfas and Ventseslav Avramov

Independent non-executive member: Mark Richard Jacobson.

The Board has been established as body as follows:

1. Theodoros Malfas, non-executive member, Chairman of the Board
2. Mark Richard Jacobson, independent non - executive member
3. Ventseslav Avramov, non - executive member
4. Jasna Azhievska – Petrusheva, executive member
5. Ilias Rigopoulos, executive member, CEO

8. TRANSACTIONS WITH RELATED PARTIES

	Receivables	Payables	Revenues	Purchases	Cash
31/12/2014					
Stone Works Holding Cooperatief U.A. Netherlands	-	-	-	400,475	-
Castleblock Limited Nicosia Cyprus	-	-	928,952	9,073	-
NBGI Private Equity London	156,026	68,432	155,668	71,588	-
Stopanska Banka AD Skopje	-	-	-	-	6,768
Management Fees	-	-	-	448,241	-
	156,026	68,432	1,084,620	929,377	6,768

	Receivables	Payables	Revenues	Purchases	Cash
31/12/2013					
Stone Works Holding Cooperatief U.A. Netherlands	-	-	-	400,346	-
Castleblock Limited Nicosia Cyprus	488,194	-	3,711,268	37,111	-
NBGI Private Equity London	148,701	79,960	147,714	80,153	-
Stopanska Banka AD Skopje	-	-	-	-	25,855
Management Fees	-	-	-	336,263	-
	636,895	79,960	3,859,982	853,873	25,855

9. BRANCHES

The Company, in addition to its headquarters, has a representative office in Athens.

10. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Nothing to report.

11. PROSPECTS FOR THE NEW YEAR

2015 is expected to be a period of even more positive operational and financial performance.

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 2014. It was held on May 23, 2014 on which the shareholders voted for and approved (1) the annual accounts and annual operating report for the 2013 financial year; (2) the allocation of the net result; (3) the adoption of the internal auditor's report for 2013; (4) the appointment of the authorized auditor for the Financial Statements of 2014; (5) the re-election of non-executive members of the Board of Directors.

It should be noted that in 2014 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 regularly 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 directors are 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 2014.

Prilep, March 12, 2015
The
CHAIRMAN OF THE BOARD

Theodoros Malfas