

# 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 01/01/2018 – 31/12/2018

## 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 31/12/2018. 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 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 2018

- On 26 February 2018, Pavlidis Marble – Granite 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 and on 12 July 2018 additional 5,082 shares. Therefore, on 31 December 2018 Stoneworks is the holder of 89.25% of the issued share capital.

### 3. 2018 OPERATING PERFORMANCE

- The turnover for the period compared to 2017 increased by 52.8% compared to 2017. The sales prices were higher than in the previous year, which contributed substantially to the increased turnover. The gross profit was at 71.1% of the turnover compared to the gross margin 58.2% in 2017. As a result, in absolute figures, the gross profit increased to €28.4 million, from €15.2million in 2017.
- The total administrative and sales expenses for the period increased by 7.6% vs. 2017.
- As a result, the company registered operating profit before interest and taxes (“EBIT”) of €25.1 million versus €12.2 million in 2017.
- The earnings before interest, tax, depreciation and amortization (“EBITDA”) for 2018 rose to €27.4 million vs €14.5 million in 2017.
- Earnings after tax (“EAT”) were €22.8 million and the corresponding figure of 2017 €10.6 million.

- Total bank loans as on 31 December 2018 were at €1.3 million, almost unchanged since 31 December 2017.
- Equity rose to €41.2 million on 31 December 2018, increased by €19.4 million in comparison to 31 December 2017 (€21.8 million).

#### 4. FINANCIAL STATUS OF THE COMPANY (FINANCIAL RATIOS)

	31/12/2018	31/12/2017
Gross margin (Gross profit / Sales)	71.1%	58.2%
EBITDA / Sales	68.7%	55.6%
EAT / Sales	57.1%	40.6%
EAT / Shareholder's equity	55.4%	48.7%
Total liabilities / Equity	9.2%	19.7%
Bank loans / Equity	3.2%	6.2%
Net Debt/ Equity	(62.3%)	(21.4%)
Net Debt/ EBITDA	(0.9x)	(0.3x)
Current assets / Total assets	75.5%	60.2%
Current assets / Current liabilities	12.8x	5.2x
EBITDA / Finance cost (net)	307.2x	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 retained a satisfied 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 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:

<b>Assets</b>		<b>2018</b>	<b>2017</b>
Financial receivables	EUR	2,507,605	-
Cash and cash equivalents	EUR	19,030,995	5,865,166
Trade receivables – foreign debtors	EUR	1,644,977	472,406
Trade receivables – foreign debtors	USD	31	28,591
		<b>23,183,608</b>	<b>6,366,163</b>
<b>Liabilities</b>			
Trade payables – foreign suppliers	EUR	(158,346)	(1,003,153)
Trade payables – foreign suppliers	USD	-	(291)
Trade payables – foreign suppliers	GBP	(80)	(80)
Borrowings	EUR	(1,298,647)	(1,338,000)
		<b>(1,457,073)</b>	<b>(2,341,524)</b>

#### Foreign currency sensitivity analysis

	Net amount	+1%	+5%	-1%	-5%
<b>31 December 2018</b>					
EUR	21,726,544	217,265	-	(217,265)	-
USD	31	-	2	-	(2)
GBP	(80)	-	(4)	-	4
Gain or (loss)	<b>21,726,495</b>	<b>217,265</b>	<b>(2)</b>	<b>(217,265)</b>	<b>2</b>
<b>31 December 2017</b>					
EUR	3,996,419	39,964	-	(39,964)	-
USD	28,299	-	1,415	-	(1,415)
GBP	(80)	-	(4)	-	4
Gain or (loss)	<b>4,024,638</b>	<b>39,964</b>	<b>1,411</b>	<b>(39,964)</b>	<b>(1,411)</b>

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

	<b>2018</b> in Euro	<b>2017</b> in Euro
<b>Assets</b>		
<i>Non – interest bearing:</i>		
Trade and other receivables	1,811,704	521,537
Cash and cash equivalents	1,537	1,488
	<b>1,813,241</b>	<b>523,025</b>
<i>With fixed interest rate</i>		
Financial receivables	5,009,889	-
Cash and cash equivalents	21,924,404	5,998,196
	<b>26,934,293</b>	<b>5,998,196</b>
<b>Total assets exposed to interest rate risk</b>	<b>28,747,534</b>	<b>6,521,221</b>
<b>Liabilities</b>		
<i>Non – interest bearing:</i>		
Trade and other payables	1,193,084	1,453,308
	<b>1,193,084</b>	<b>1,453,308</b>
<i>With fixed interest rate:</i>		
Borrowings	-	2,234
	-	<b>2,234</b>
<i>With floating interest rate:</i>		
Borrowings	1,298,647	1,338,000
	<b>1,298,647</b>	<b>1,338,000</b>

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

Interest rate sensitivity analysis	Net amount in Euro	+2%	-2%
<b>31 December 2018</b>			
Borrowings with floating interest rate	(1,298,647)	(25,973)	25,973
<b>31 December 2017</b>			
Borrowings with floating interest rate	(1,338,000)	(26,760)	26,760

## 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 2018, the company was employing a total of 370 persons (382 persons on 31 December 2017).

## 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 05 June 2018 and according to the Shareholders' Annual Assembly decision no. 02-3016/13, part of the profit of the Company for the year 2017 in the amount of €0.73 per share. The total of 3,421,406 Euros were allocated for dividends distribution. The amount for dividend on ordinary shares has already been distributed as pre-dividend according to the decision of the Board of Directors of 11 August 2017. The rest of the profit of 2017 was allocated to re-invested profit.

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

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 31/12/2018, 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**

The Board was as follows:

1. Christoforos Pavlidis, non-executive member, Chairman of the Board
2. Perikles Nicolaou, 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
<b>31/12/2018</b>					
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	-
	<b>15,387</b>	<b>-</b>	<b>4,576,425</b>	<b>420,873</b>	<b>-</b>

	Receivables	Payables	Revenues	Purchases	Cash
<b>31/12/2017</b>					
Stone Works Holding Coöperatief U.A. Netherlands	-	-	-	-	-
Stage Capital Management Ltd United Kingdom	-	-	-	42,118	-
Pavidis SA Marble – Granite Drama Greece	-	339,576	1,202,991	-	-
Key Management Remuneration	-	-	-	619,377	-
	-	<b>339,576</b>	<b>1,202,991</b>	<b>661,495</b>	-

## 9. BRANCHES

The Company does not have any branches or representative offices.

## 10. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Mr. Perikles Nicolaou, the member of the Board of Directors and CEO of the Company, resigned for personal reasons effective 30/01/2019 as the date of termination of his mandate as well as his work relation with the Company.

On 15/02/2019 the Company announced a call for Assembly of the shareholders on 19/03/2019 with one item on the agenda - the election of new member of the Board of Directors.

## 11. PROSPECTS FOR THE NEW YEAR

2019 is expected to be a period of 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 2018. It was held on June 5, 2018 on which the shareholders voted for and approved (1) The annual accounts for the period 1<sup>st</sup> January to 31<sup>th</sup> December 2017; (2) the Financial Statements and independent auditor's report for 2017; (3) The report of the Board of Directors on the operations of the Company for the year 2017 (4) The allocation of the profit of 2017; (5) The work of the members of the Board of Directors for 2017. Two extraordinary meetings were also held, on 20/03/2018 and on 25/04/2018.

It should be noted that in 2018 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 2018.

Prilep, March 13, 2019

The  
CHAIRMAN OF THE BOARD

Christoforos Pavlidis