Half-year Report of the Board of Directors

HALF YEAR REPORT OF THE BOARD OF DIRECTORS ON THE FINANCIAL STATEMENTS OF THE PERIOD 01/01/2020 – 30/06/2020

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 North 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 North Macedonia.

2. IMPORTANT EVENTS OF THE YEAR 2020

The Covid-19 pandemic affected the performance of the Company in an important way. The effect and the measures taken to mitigate the consequences are discussed in a specific paragraph below.

The procurement of quarry equipment from Teknoxgroup Makedonija DOOEL a representative of Caterpillar, has been concluded.

3. 2020 OPERATING PERFORMANCE

The operating performance during the first semester was lower than in the respective period of the previous year. Sales were lower due to the Covid-19 pandemic and in turn the Company opted to concentrate to more development work (stripping), since adjusted production was adequate to satisfy demand.

- Turnover for the period was at €7.6 million vs. €12.6 million in the corresponding period of 2019.
- Gross profit margin was at 69.8% of the turnover compared with 72.5% in last year's corresponding period. In absolute figures, the gross profit decreased to €5.3 million vs. €9.1 million in the corresponding period of 2019.
- Total administrative and sales expenses increased by 16.5% compared with the corresponding period of 2019, mainly due to higher transport costs.
- The company registered operating profit before interest and taxes ("EBIT") of €3.8 million vs. €7.8 million in the corresponding period of 2019.
- Earnings before interest, tax, depreciation and amortization ("EBITDA") for the period decreased to €4.9 million vs. €8.8 million in the corresponding period of 2019.

- Earnings after tax ("EAT") was €3.8 million vs. €7.0 million in the corresponding period of 2019. Net earnings per share ("EPS") decreased to €0.81 from €1.50 in the corresponding period of 2019.
- Total bank loans as at 30 June 2020 were at €1.06 million, down from 31 December 2019 €1.14 million. Net debt as at 30 June 2020 stood at €-12.0 million, compared to €-11.6 million on 31 December 2019 (negative figure meaning a net cash position).
- Equity was at €42.1 million on 30 June 2020 (31 December 2019: €38.5 million).

4. FINANCIAL RATIOS ANALYSIS

	30/06/2020 (6 months)	**30/06/2019 (6 months)**	**31/12/2019 (12 months)**
Gross margin (Gross profit / Sales)	69.8%	72.5%	74.0%
EBITDA / Sales	64.7%	69.7%	66.6%
EAT / Sales	49.6%	55.7%	55.7%
EAT / Shareholder's equity	9.0%	27.7%	52.3%
Total liabilities / Equity	6.3%	12.8%	7.7%
Bank loans / Equity	2.5%	4.8%	3.0%
Net Debt/ Equity	(28.4%)	(19.8%)	(30.1%)
Net Debt/ EBITDA	(2.4x)	(0.6x)	(0.5x)
Current assets / Total assets	61.8%	62.4%	64.4%
Current assets / Current liabilities	15.7x	8.2x	13.6x

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 2020 is 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 30 June 2020 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:

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 2020, the company was employing a total of 360 persons (30 June 2019: 361 persons; 31 December 2019: 366 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 29, 2020 decided not to distribute dividends out of the profit for the year 2019. 16,125,143 Euros were allocated to retained earnings and 3,999,655 Euros to reinvested profit.

7. TRANSACTIONS WITH RELATED PARTIES

	Receivables	Payables	Revenues	Purchases	Cash
30/06/2020					
Stone Works Holding Coöperatief U.A., Netherlands	-	-	-	-	-
Pavlidis S.A. Marble-Granite Drama Greece	409,523	-	1,317,132	110,012	-
Key Management Remuneration	-	-	-	168,473	-
	409,523	**-**	**1,317,132**	**278,485**	**-**

8. BRANCHES

At 30 June 2020 there are no branches of representative offices.

9. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to 30 June 2020 until the approval of these interim financial statements, there are no adjusting events reflected in these interim financial statements or materially significant for disclosure in these interim financial statements.

10. COVID-19 PANDEMIC IMPLICATIONS ON THE COMPANY

- Decreased sales and especially exports, attributed to imposed travelling prohibitions of product buyers. It is noted that before the pandemic measures enforcement, physical presence of buyer was required for the inspection and selection of products.
- Decreased production is partly attributed to the reduced labor force due to temporary release from work tasks certain categories of employees in accordance with the recommendations and measures of the Government to prevent the introduction and spread of coronavirus Covid-19.
- Delays in implementation of investment plan, deliveries of equipment, consumables, spare parts etc.
- For mitigating sales decrease, alternative ways of presenting products to buyers/inspectors were introduced. Technology and internet tools such as high - quality photo/video imaging and teleconferences are introduced in place of physical presence of buyers.

11. PROSPECTS FOR THE REST OF THE YEAR

Demand of marble products is directly connected to economy growth. Global partial or full shutdown of factories and construction sites led to global economy slowdown. Therefore, the prospects for the rest of the year cannot be assessed, as they are dependent on the extent of the global recession. Nevertheless, turnover is expected to increase during the second semester of 2020 compared to the first semester, unless the pandemic intensifies.

Prilep, August 31, 2020

The
CHAIRMAN OF THE BOARD
Christoforos Pavlidis