

# 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 01/01/2020 – 31/12/2020

### 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 31/12/2020. 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 2020

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

### 3. 2020 OPERATING PERFORMANCE

- Turnover for the period compared to 2019 decreased by 38.8%. The major reason for this was the Covid-19 pandemic.
- Gross profit was at 60.2% of the turnover compared to the gross margin 74.0% in 2019. Coupled with lower turnover, in absolute figures the gross profit decreased to €13.3 million, from €26.8 million in 2019.
- Total administrative and sales expenses increased by 2.5% compared to 2019.
- The company registered operating profit before interest and taxes (“EBIT”) of €8.8 million versus €22.4 million in 2019.
- The earnings before interest, tax, depreciation and amortization (“EBITDA”) for 2020 decreased to €11.1 million vs €24.1 million in 2019.
- Earnings after tax (“EAT”) were €8.3 million and the corresponding figure of 2019 €20.1 million.
- Total bank loans as on 31 December 2020 were at €1.0 million, from €1.1 on 31 December 2019.
- Equity was at €38.6 million on 31 December 2020, practically unchanged in comparison to 31 December 2019 (€38.5 million).

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

|                                      | 31/12/2020 | 31/12/2019 |
|--------------------------------------|------------|------------|
| Gross margin (Gross profit / Sales)  | 60.2%      | 74.0%      |
| EBITDA / Sales                       | 50.1%      | 66.6%      |
| EAT / Sales                          | 37.5%      | 55.7%      |
| EAT / Shareholder's equity           | 21.5%      | 52.3%      |
| Total liabilities / Equity           | 5.6%       | 7.7%       |
| Bank loans / Equity                  | 2.5%       | 3.0%       |
| Net Debt/ Equity                     | (27.2%)    | (30.1%)    |
| Net Debt/ EBITDA                     | (0.95x)    | (0.48x)    |
| Current assets / Total assets        | 58.7%      | 64.4%      |
| Current assets / Current liabilities | 17.7x      | 13.6x      |
| EBITDA / Finance cost (net)          | 255.8x     | 398.0x     |

#### 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 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 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:

| <b>Assets</b>                       |     | <b>2020</b>        | <b>2019</b>        |
|-------------------------------------|-----|--------------------|--------------------|
| Financial receivables               | EUR | 4,008,719          | 1,448              |
| Cash and cash equivalents           | EUR | 6,972,311          | 8,918,921          |
| Trade receivables – foreign debtors | EUR | 5,379,802          | 5,133,660          |
| Trade receivables – foreign debtors | USD | 25                 | 56                 |
|                                     |     | <b>16,360,857</b>  | <b>14,054,085</b>  |
| <b>Liabilities</b>                  |     |                    |                    |
| Trade payables – foreign suppliers  | EUR | (369,076)          | (284,170)          |
| Trade payables – foreign suppliers  | GBP | -                  | (80)               |
| Borrowings                          | EUR | (983,824)          | (1,141,235)        |
|                                     |     | <b>(1,352,900)</b> | <b>(1,425,485)</b> |

#### Foreign currency sensitivity analysis

|                         | Net amount        | +1%            | +5%        | -1%              | -5%        |
|-------------------------|-------------------|----------------|------------|------------------|------------|
| <b>31 December 2020</b> |                   |                |            |                  |            |
| EUR                     | 15,007,932        | 150,079        | -          | (150,079)        | -          |
| USD                     | 25                | -              | 1          | -                | (1)        |
| GBP                     | -                 | -              | -          | -                | -          |
| Gain or (loss)          | <b>15,007,957</b> | <b>150,079</b> | <b>1</b>   | <b>(150,079)</b> | <b>(1)</b> |
| <b>31 December 2019</b> |                   |                |            |                  |            |
| EUR                     | 12,628,624        | 126,286        | -          | (126,286)        | -          |
| USD                     | 56                | -              | 3          | -                | (3)        |
| GBP                     | (80)              | -              | (4)        | -                | 4          |
| Gain or (loss)          | <b>12,628,600</b> | <b>126,286</b> | <b>(1)</b> | <b>(126,286)</b> | <b>1</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

|   | 2020<br>in Euro   | 2019<br>in Euro   |
|---|-------------------|-------------------|
| <b>Assets</b>                                     |                   |                   |
| <i>Non – interest bearing:</i>                    |                   |                   |
| Trade and other receivables                       | 5,353,969         | 5,129,827         |
| Cash and cash equivalents                         | 510               | 1,482             |
|   | <b>5,354,479</b>  | <b>5,131,309</b>  |
| <i>With fixed interest rate</i>                   |                   |                   |
| Financial receivables                             | 4,008,719         | 3,536,422         |
| Cash and cash equivalents                         | 7,475,100         | 9,167,773         |
|   | <b>11,483,819</b> | <b>12,704,195</b> |
| <b>Total assets exposed to interest rate risk</b> | <b>16,838,298</b> | <b>17,835,504</b> |
| <b>Liabilities</b>                                |                   |                   |
| <i>Non – interest bearing:</i>                    |                   |                   |
| Trade and other payables                          | 1,029,216         | 1,316,393         |
|   | <b>1,029,216</b>  | <b>1,316,393</b>  |
| <i>With fixed interest rate:</i>                  |                   |                   |
| Borrowings  | -                 | -                 |
|   | -                 | -                 |
| <i>With floating interest rate:</i>               |                   |                   |
| Borrowings  | 983,824           | 1,141,235         |
|   | <b>983,824</b>    | <b>1,141,235</b>  |
| Interest sensitivity gap                          | <b>2,013,040</b>  | <b>2,457,628</b>  |

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

| Interest rate sensitivity analysis     | Net amount in<br>Euro | +2%      | -2%    |
|--|-----------------------|----------|--------|
| <b>31 December 2020</b>                |                       |          |        |
| Borrowings with floating interest rate | (983,824)             | (19,676) | 19,676 |
| <b>31 December 2019</b>                |                       |          |        |
| Borrowings with floating interest rate | (1,141,235)           | (22,825) | 22,825 |

## 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 2020, the company was employing a total of 330 persons (366 persons on 31 December 2019).

## 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. DIVIDEND POLICY

On 16 October 2020 and according to the Shareholders' Annual Assembly decision no. 02-5420/3, retained earnings accumulated until 31 December 2019 in the amount of 8,014,527 Euro (€1.71 per share) were allocated for dividends distribution. During the period ended 31 December 2020 the Company paid dividends to its shareholders in the total amount of 7,926,902 Euro and in addition 86,027 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        |
| <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 31/12/2020, the following shareholders held more than 5% of the total voting rights of the Company:

|   | Number    | Nominal value | %     |
|---|-----------|---------------|-------|
| Stone Works Holdings Coöperatief U.A. Netherlands | 4,182,888 | 4,182,888     | 89.25 |
| 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 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 30/03/2020, Mr. Theodoros Apostolopoulos, non-executive member of the Board of Directors, resigned for personal reasons. 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. Zoran Pandev, independent non – executive member

#### 8. TRANSACTIONS WITH RELATED PARTIES

|  | Receivables   | Payables | Revenues         | Expenses       | Cash     |
|--|---------------|----------|------------------|----------------|----------|
| <b>31/12/2020</b>                                |               |          |                  |                |          |
| Stone Works Holding Coöperatief U.A. Netherlands | -             | -        | -                | -              | -        |
| Pavlidis SA Marble – Granite Drama Greece        | 49,412        | -        | 2,648,057        | 407,756        | -        |
| Key Management Remuneration                      | -             | -        | -                | 589,776        | -        |
|  | <b>49,412</b> | <b>-</b> | <b>2,648,057</b> | <b>997,532</b> | <b>-</b> |

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

## 9. BRANCHES

The Company does not have any branches or representative offices.

## 10. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

After 31 December 2020 to the reporting date until the approval of these Financial Statements, there are no adjusting events reflected in the financial statements. The following event is materially significant for disclosure in these financial statements:

At 12 February 2021 in Public Gazette of RNM was published decision that the Company is awarded to extend concession territory for additional 0,305625 km<sup>2</sup>. At 02 March 2021 the Government of RNM represented by Ministry of Economy and the Company has signed annex agreement for concession and determinate the territory for concession - 2,188135 km<sup>2</sup>.

## 11. COVID-19 PANDEMIC IMPLICATIONS ON THE COMPANY

During 2020, the Company carried on its operations in conditions of a world pandemic and the existence of a crisis situation in the country, due to the spread of the Covid-19 virus, and in a part of the year also in conditions when a state of emergency was declared in the country (18/03/2020 -22/06/2020). During this period, adapting to the new conditions, the Company undertook various actions and fully adapted its operation to the recommendations and decrees adopted by the Government, for the protection of public health. In order to protect the health of its employees and associates, the Company undertook organizational and technical actions, which enabled continuity of the business of the Company:

- In order to mitigate 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.
- In order to protect it personnel, the Company adopted measures to enhance social distancing during work, doubled the number of means of transport of the personnel, promoted and organized remote work wherever possible.

Nevertheless, the Company suffered important consequences due to the Covid-19 pandemic.

- Decreased sales, attributed mainly to the global recession. It is also due to imposed travelling restrictions of product buyers. It is noted that before the pandemic measure 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.

## **12. PROSPECTS FOR THE NEW YEAR**

Demand of marble product 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 2021 cannot be currently assessed, as they are dependent on the extent of the global recession and the possibility of recovery. Nevertheless, there are some optimistic signs of recovery particularly for the Chinese economy which is a major destination of the Company's exports.

## **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 2020. It was held on June 29, 2020 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 2019; (2) the Financial Statements and independent auditor's report for 2019; (3) The report of the Board of Directors on the operations of the Company for the year 2019; (4) The actions of the members of the Board of Directors during the year 2019; (5) The allocation of the profit of 2019; (6) The Annual Report of the Internal Audit for 2019; (7) The appointment of auditors for the audit of the financial statements and annual accounts of the Company for the year 2020; (8) Amendment of the Statute of the Company, regarding the legal address and the codification of its activities.

One extraordinary meeting was also held, on October 16, 2020 which decided the distribution of part of the retained earnings accumulated until 31 December 2019 as dividend.

During 2020 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 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 2020.

Prilep, April 07, 2021

The  
CHAIRMAN OF THE BOARD

Christoforos Pavlidis