

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 01/01/2013 – 31/12/2013

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 31/12/2013. 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 2013 AND SUBSEQUENT

Nothing to announce

3. 2013 OPERATING PERFORMANCE

- The turnover increased by 26.7% compared with 2012 on the back of increased excavation volumes and successful trading policies. The gross profit was at 50.4% of the turnover, up from 46.1% in 2012. As a result, in absolute numbers, the gross profit rose to €8.5 million, or 38.5% higher than in 2012 (€6.1 million). The increased gross margin is attributed to increased turnover and the sales mix.
- The total administrative and sales expenses for the period displayed an increase by 70.7%. These expenses include 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 €1.6 million.(as explained in the Notes 5,8 and 18 of the Financial Statements); and (b) customer discounts for a total value of 2.8 million¹ (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 €1.4 million versus €2.3 million in 2012. If adjusted for the Non-recurring Items, the EBIT (“Adjusted EBIT”) for the period would have been €5.9 million vs. €4.6 million in 2012 identically adjusted.

¹ It is noted that some certain customer commissions of this type will also incur in the first quarter of 2014 only (see below at 5.2 under “Clients”).

- The earnings before tax, interest, tax and depreciation (“EBITDA”) for 2013 rose to €3.8 million vs €3.4 million in 2012. If adjusted for the Non-recurring Items, the EBITDA (“Adjusted EBITDA”) for the period would have been €8.3 million vs. € 5.7 million in 2012.
- Earnings after tax (“EAT”) was €958k almost half of the corresponding figures of 2012 (€1,806k). It is noted that, the net earnings per share (“EPS”) dropped to €0.20 from €0.39 in 2012. If adjusted for the Non-recurring Items, EAT (“Adjusted EAT”) and EPS (“Adjusted EPS”) would have been €5.5 million and €1.17 per share respectively vs. €4.1 million and €0.87 in 2012
- Total bank loans as at 31 December 2013 were at €6.12 million, down from €8.22 million on 31 December 2012, i.e. a drop of €2.1 million from December 2012 was registered.
- Equity rose to €16.7 million on 31 December 2013, increased by €0.9 million in comparison to 31 December 2012 (€15.8 million)

4. FINANCIAL STATUS OF THE COMPANY (FINANCIAL RATIOS)

	31/12/2013	31/12/2012
EAT / Sales	5.7%	13.6%
EAT / Shareholder's equity	5.7%	11.4%
Total liabilities / Equity	55.1%	75.1%
Bank loans / Equity	36.6%	52.0%
Net Debt/ Equity	28.8%	44.1%
Net Debt/ EBITDA	1.3x	2.1x
Current assets / Total assets	41.0%	44.6%
Current assets / Current liabilities	2.2x	1.9x
EBITDA / Finance cost (net)	9.2x	6.3x

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 28 May 2012, the Company entered into a non-exclusive agency agreement with FHL H. Kyriakidis Marbles - Granites S.A. (“FHL”) for the promotion of the Company’s Sivec brand and its products. This agreement is expiring on 31 March 2014.

In 2013, 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:

	2013 in Euro	2012 in Euro
Assets		
Cash and cash equivalents	1,160,969	1,115,417
Trade receivables – foreign debtors	2,970,571	3,090,805
	4,131,540	4,206,222
Liabilities		
Trade payables – foreign suppliers	(846,089)	(2,051,375)
Borrowings	(6,082,279)	(8,193,466)
	(6,928,368)	(10,244,841)
Foreign currency sensitivity gap	(2,796,828)	(6,038,619)
Foreign currency sensitivity analysis	Net amount in Euro	+10% -10%
31 December 2013	(2,796,828)	(279,683) 279,683
Gain or (loss)		
31 December 2012	(6,038,619)	(603,862) 603,862
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

	2013 in Euro	2012 in Euro
Assets		
Non – interest bearing:		
Trade and other receivables	2,738,906	3,237,304
Cash and cash equivalents	1,508	1,221
	2,740,414	3,238,525
With fixed interest rate		
Investments in government bonds	-	85
Cash and cash equivalents	1,288,919	1,251,000
	1,288,919	1,251,085
Total Assets	4,029,333	4,489,610
Liabilities		
Non – interest bearing:		
Trade and other payables	2,701,051	3,373,056
	2,701,051	3,373,056
With fixed interest rate:		
Borrowings	39,105	22.876
	39,105	22,876
With floating interest rate:		
Borrowings	6,082,279	8,193,466
	6,082,279	8,193,466
	8,822,435	11,589,398

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 2013			
Borrowings with floating interest rate	(6,082,279)	(121,646)	121,645
31 December 2012			
Borrowings with floating interest rate	(8,193,466)	(163,869)	163,869

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 2013, the company was employing a total of 356 persons (383 persons on 31 December 2012).

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).

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 31/12/2013, 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 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
31/12/2013					
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

	Receivables	Payables	Revenues	Purchases	Cash
31/12/2012					
Stone Works Holding Cooperatief U.A. Netherlands	-	200,000	-	199,992	-
Castleblock Limited Nicosia Cyprus	1,644,066	-	3,700,448	36,938	-
NBGI Private Equity London	109,188	75,990	109,184	80,202	-
Ethemba Capital No.8 NV Curacao Netherlands Antilles	-	33,000	-	32,999	-
Stopanska Banka AD Skopje	-	-	-	-	3,957
Management Fees	-	-	-	203,095	-
	1,753,254	308,990	3,809,632	553,226	3,957

9. BRANCHES

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

10. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

- The extraordinary General Assembly of 17/02/2014 has made the following decisions:

- To distribute as dividends retained earnings accumulated before 31/12/2012, amounting to €0.47 per share.

- To elect Mrs. Jasna Azhievska – Petrusheva and Mr. Ventseslav Avramov as members of the Board of Directors.

- The Public Revenue Office has refunded 656,961 Euros corresponding to prepaid tax.

- On 27/01/2014 and in the framework of the mining rights concession agreement that is valid until 2030, the Company has been granted a new five-year exploitation license, based on a mining project that covers the period from 2014 to 2019.

11. PROSPECTS FOR THE NEW YEAR

2014 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 2013. It was held on May 24, 2013 on which the shareholders voted for and approved (1) the annual accounts and annual operating report for the 2012 financial year; (2) the allocation of the net result; (3) the adoption of the internal auditor's report for 2012; (4) the appointment of the authorized auditor for the Financial Statements of 2013; (5) certain amendments of the Company's statute.

It should be noted that in 2013 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 2013.

Prilep, February 27, 2014

The
CHAIRMAN OF THE BOARD

Theodoros Malfas