

ANNUAL REPORT 2 0 1 7

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GRANIT
BUILDING & CONSTRUCTION



GD GRANIT AD SKOPJE

ANNUAL REPORT

2017

“All of this is certainly aimed at the realization of the goals for continuous growth and development of the Company, achievement of positive results both to the clients’ satisfaction as well as to the satisfaction of our employees and certainly to the shareholders in order to keep their trust and support in the process of company’s management and development. ”

Dear Shareholders

In 2017 GD “Granit” AD Skopje celebrated the 65 anniversary of operation, development and progress. Maintaining its image throughout the years has been necessarily related to the uncompromised dedication to consistency in the quality and standards in the construction industry, by continuously investing in new innovative solutions and novelties. The formula for success at the time of turbulences on the political scene and the strong will for preserving what has already been created and constantly maintaining the long-term growth through the system of sustainable values, transparency, team work and dedication to the work.

In such a way GD “Granit” AD Skopje in 2017 maintained the stability based on the system, adaptable to the needs and changes in the economy. In 2017 27 projects were completed and 9 new construction contracts were signed.

The future plans and construction projects of the Company in the year to follow will be directed towards timely completion of the already undertaken construction works as well as directing its capacities towards all the new opportunities and projects for the exploitation of our performances and capacities. The innovations in the construction industry will be continuously followed and the investments will be implemented as per the plans on the basis of the needs of the construction projects.

We will focus on additional qualifications of the workforce as a driving power for our activities, as well as promotion of the opportunities offered by the Company for providing qualified workforce in the areas where it is deficient. In terms of that, the Company has continuous cooperation with the secondary technical schools and the higher education institutions in the implementation of such plans and programs.

All of this is certainly aimed at the realization of the goals for continuous growth and development of the Company, achievement of positive results both to the clients’ satisfaction as well as to the satisfaction of our employees and certainly to the shareholders in order to keep their trust and support in the process of company’s management and development.

Managing Board
GD “Granit” AD Skopje



I. About Us

GD “Granit” AD Skopje has been building its reputation as a construction company representing a synonym for quality and responsibility in the Republic of Macedonia for more than -- years and in such way, through the implementation and performance of the contracts signed with its clients, provides long-term improvement and economic development.

The quality offered by GD “Granit” AD Skopje is a tradition and direct result of a successful leadership and uncompromising respect for our values- reliability, quality, ethics, integrity and long-term sustainability and development. Hence, GD “Granit” AD Skopje constantly strives towards establishing sustainable system of values, innovation and improvement of the quality of life, since the reputation of our company depends on the value it has in the eyes of those we are building for.

The continuous implementation of the quality policies, operational efficiency, innovation and socially responsibility policies are the key to the success and a reason why GD “Granit” AD Skopje is constantly affirming and establishing its position as a leading construction company in the private economic sector in the Republic of Macedonia, responsible for execution of big and complex projects in the country and abroad.

Following the social changes and conditions on the markets resulted in developing the Companies’ Capacities according to the contemporary needs, for the purpose of which we are applying first-class world technology, we are seeking and applying best ideas and we are constantly investing in the provision of high level of competence and continuous improvement of the employees, due to which GD “Granit” AD Skopje exists today as highly professional and technologically equipped construction company with the possibility for implementation of most complex construction projects.

The corporate management system is based on the legal regulations and the Statute of GD “Granit” AD Skopje and as such it provides efficient and transparent management of the Company through a two-tier management system- Supervisory Board and Managing Board. The Shareholders Assembly, as the highest body decides on issues regulated under the law and entrusted with the Statute of GD “Granit” AD Skopje. The internal organizational layout of the Company is made on the basis of the division of works by organizational units, operational units and sectors acting within the Company, while part of the remaining activities which are not part of its main business activity, are carried out through companies fully owned by GD “Granit” AD Skopje.

We act on the foreign markets through the companies fully owned by GD “Granit” AD Skopje, incorporated as limited liability companies/branches/business units abroad.

As the biggest contractor of construction works in the country, GD “Granit” AD Skopje is a leader in all major segments of the market, and our long-term strategic mission is to provide construction services with recognizable quality through appropriate technical and professional expertise.



II. GD GRANIT AD SKOPJE IN THE ECONOMY AND ENVIRONMENT IN 2017

The economic ambient, i.e. the macroeconomic conditions of operation is characterized by the following indicators: *Average inflation rate measured according to the index of living costs 2017/2016 amounts to 1,4%. According to the data of the State Statistics Office, the GDP growth rate for the fourth quarter of 2017 amounts to 1,2% while the index of industrial production in the period January-December 2017 compared to the period January-December 2016 amounts to 100,2 (*data from the State Statistics Office).

In 2017 the long-lasting political crisis in the Republic of Macedonia reached its culmination which resulted in change of government. The negative implication was especially felt in the construction industry which has in the past years been the driving force of the economy and the main contributor to the high growth of the GDP.

The Macedonian builders hope that the situation will improve at the beginning of 2018, considering the current political condition, the scope of agreed works and announced investments.

In terms of that, the management of GD “Granit” AD Skopje in 2017 led business policy directed towards achieving a reasonable balance among the Company’s business activity, its own strategic goals and the macroeconomic conditions for working on the Macedonian market.

Having into consideration the foregoing, the activities of GD “Granit” AD Skopje were intensively directed towards full resources exploitation, completing the commenced projects and active fulfillment of the current obligations within the set timeframes, by minimizing the costs and some smaller investment activities.



III. DEVELOPMENTAL CONCEPT FOR PLANS IMPLEMENTATION

The concept of plans implementation is based on the constant planning, research, development and application of the projected activities. In this way GD “Granit” AD Skopje takes on the implementation of its plans with calculated risk, following the stated procedures which provide a clear picture and projections on the course, the development and the results of the operations. This is how the risk is assumed and timely measures are taken for its mitigation or complete elimination. With the establishment of the real opportunities, following the procedures, even the highly ambitious plans pose no problem for GD “Granit” AD Skopje, on the contrary they are an impetus for establishing and progressive Company’s growth.

In such a system, GD “Granit” AD Skopje in 2017, implemented and completed in a timely manner 27 of the projected facilities. 22 more facilities are under construction, the finalization of which is expected according to the contractual obligations in 2018 and 2019, respectively.



IV. WORKS THAT MARKED 2017

In 2017 we actively worked on many projects in the Republic of Macedonia, the most significant and biggest of which are:

- „Construction of the motorway Kichevo-Ohrid, section Kichevo- Podvis“;
- „ Construction of the motorway Miladinovci- Shtip, section Sveti Nikole-Shtip“;
- „Execution of construction and construction-craftsman’s works for the construction of the antenna system for control and monitoring of radiofrequencies on the territory of R. Macedonia“;
- “Reconstruction and extension of the highway section Smokvica-Gevgelija as part of Corridor 10“;
- „Construction of the express way A-3 Shtip-Kochani, section Shtip-Krupishte KM 0+000- KM14+300“;
- Construction of the business center Mak Autostar Skopje”;

all of which with harmonization of the work on the remaining works executed by GD “Granit” AD Skopje.

- **Construction of the motorway Kichevo-Ohrid, section Kichevo-Podvis;**

In 2017 the execution of the most complex section of the Motorway Kichevo-Ohrid, Kichevo-Podvis has continues, which is performed by GD “Granit” AD Skopje as part of which especially and specifically complex construction project are the two bridges with console methodology of construction.

*Pictures (FCP 2230 and King 2692)



- **Construction of the motorway Miladinovci-Shtip, section Sveti Nikole- Shtip;**

In the course of 2017, the construction of the Motorway Miladinovci- Shtip, Section 2 Sveti Nikole- Shtip was also in progress. On section 2 which is 20,60 km long Granit is expected to complete its activities in 2018. The motorway represents a significant infrastructural project which shall provide uninterrupted, modernized and safe connection of Shtip and Sveti Nikole with Skopje.



- **Reconstruction and extension of the motorway section Smokvica-Gevgelija as part of Corridor 10**

In 2017 the construction works related to the reconstruction and extension of the motorway section Smokvica-Gevgelija, as part of the Corridor 10 were actively executed, by which the infrastructural part of Corridor 10 was completely connected with the motorway solution from Smokvica to the border crossing Gevgelija.



- **Regional road for “Soncev Grad” P-2138**

The execution of this project is characterized by the need of high degree of professionalism and qualification of the Contractor, due to the complex hilly- mountainous terrain on which the works are executed. The connection of Skopje and the planned “Soncev Grad” with this regional road, represents a prerequisite for the development and the viability of the project “Soncev Grad”, as a project that will help in the infrastructural gap of these two places by finding a quick and efficient solution for their connection.



- **Rehabilitation of the national road A3, section Bitola-Makazi**

As the main participant in the construction and rehabilitation of the important infrastructural Projects on the entire territory of the Republic of Macedonia, in the western part Granit executed the rehabilitation of the National road A3, section Bitola-Makazi, which is the main road for connecting Bitola and Resen. The project has been completed with high quality materials, where asphalt material AB16 was embedded, which is characterized by eruptive origin of the fractions and polymer bitumen was used which should provide better quality for this section.



- **Construction of gyms on the territory of the Republic of Macedonia;**

The execution of the Project 145 sports gyms in 2017 followed the need and the plan of the Contracting authority – the Ministry of Education for the execution of this project. In 2017 works were executed to 9 sports gyms, for 2 of which technical acceptance by the contracting authority has been completed. The construction of 7 sports gyms will be transferred from 2017 to 2018, and the construction of another 7 sports gyms is also projected.





- **Construction of the facility- Antenna system for control and monitoring of radiofrequencies on the territory of R. Macedonia- Vodno Tower;**

In 2017 the execution of the facility Antenna system for control and monitoring of radiofrequencies on the territory of R. Macedonia. As one of the most complex construction works being currently executed in the Republic of Macedonia the facility is imposing with its height of 155 meters (37 levels) and in terms of construction it consists of several functional-aesthetic wholes. The complexity of the facility and the extreme conditions in which it is built imposed application of contemporary technology of construction which is of a great importance in terms of experience for the improvement of the engineering staff of GD “Granit” AD Skopje.

In 2017 there were executed and completed the concrete works of the reinforced concrete “pillar” up to level 115,58 m and the “steel braced girder for antennas” up to level 140.00m.

- **Motorway Banja Luka – Doboj, section Banja Luka-Prnjavor;**

The project “Design and execution of the Motorway Banja Luka-Doboj” in Bosnia and Herzegovina, which serves to connect the main road of Republic of Srpska with the European Corridor V-s, executed by GD Granit AD Skopje as a partner in the joint venture GD Granit AD Skopje and Integral DOO Banja Luka, is the example for the successful acting of the Company on foreign markets. The entire motorway is divided into 2 (two) separate sections representing separate contracts, the first section being “Design and execution of the motorway Banja Luka- Doboj, section Prnjavor-Doboj” financed through the credit granted by the “European Bank for Reconstruction and Development” has been commissioned in September 2016. The second project “Design and execution of the motorway Banja Luka- Doboj, section Banja Luka- Prnjavor”, financed through the credit granted by the “European Investment Bank” is in its final stage and its main route is expected to be commissioned in the autumn 2018, and its final completion is expected to be together with the completions of the access roads in the spring 2019.



- **Project- Execution of the gas pipeline Negotino (Kavadarci)- Bitola**

GD Granit AD Skopje, in 2017, was introduced to the execution of the Gas Pipeline Negotino (Kavadarci)-Bitola in length of 92 km under the Contract with the Employer – the Joint Stock Company for performing energy activities Makedonski Resursi Skopje. The execution of the project is conducted in a joint venture with Rapid Bild DOO Skopje. Becoming part of such an socially valuable project has once again confirmed the trust shown towards GD Granit AD Skopje to be the key contractor of the activities and investments aimed at the improvement of the infrastructure as the main driving force of the modern society.



- **Project- Construction of the new business facility MAK AUTOSTAR DOOEL Skopje**

The confirmation for the trust in what Granit offers as a product and services are the contracts signed with private employers, of which we mention as more significant the execution of the new business facility Mak Autostar DOOEL Skopje. The facility covers an area of 18.920 m² and it is 46.40 m².



- **Other structures**

The application of the rules for efficient operation in all service organizational units and sectors ensured successful following of the needs of the operational organizational units for timely execution of the contractual obligations.

In these circumstances, where in addition to these works, GD “Granit” AD was in charge of the construction of a number of sections on the territory of the Republic of Macedonia, there appeared a need of regulation of the business policy in a way to provide the highest level of efficacy and rationality in the exploitation of the available resources and capacities. The timely completion of the undertaken construction activities with such policies, was a basis for maintaining a high level of liquidity in conditions of economy recovery and meant continuous performance of the legal obligations, obligations towards suppliers and employees.

For the purpose of its obligations in the execution of the projects in Macedonia and abroad GD “Granit” AD Skopje successfully manages the following:

- 9 concrete plants with capacity of 30m³/h to 180m³/h and annual concrete production in average of 210.000 m³;
- 7 asphalt plants with capacity of 40 t/h to 160 t/h and annual asphalt production in average of 270.000 tons;
- 9 concessions for exploitation (quarry) and one separation for river material throughout the territory of the Republic of Macedonia generating an annual production of construction material of 706.660,00 tons;
- 3 reinforcement plants (Skopje, Kichevo and Negotino).

RESULTS OF THE OPERATION

V. RESULTS OF THE OPERATION

In the business year 2017 GD “Granit” AD Skopje achieved positive financial result.

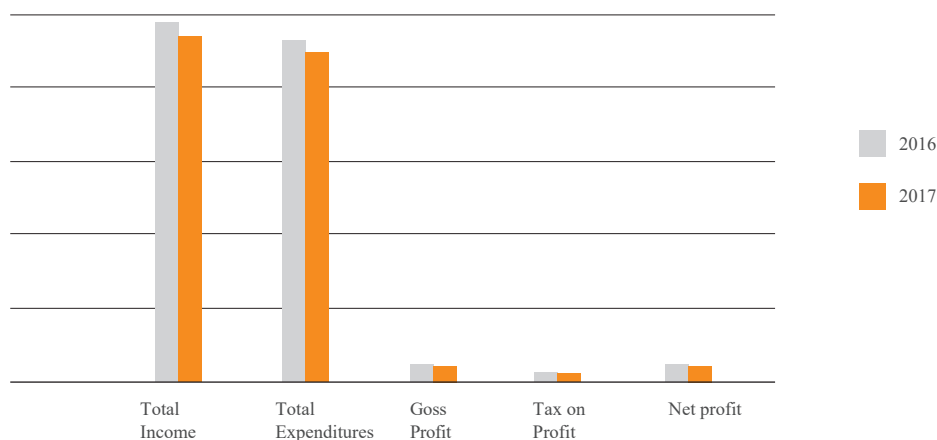
The total income amounted to MKD 4.694.454.968 and the total expenditures amounted to MKD 4.475.550.317.

The gross profit for the period amounts to MKD 218.904.651.

The realization structure compared to 2016 is as follows:

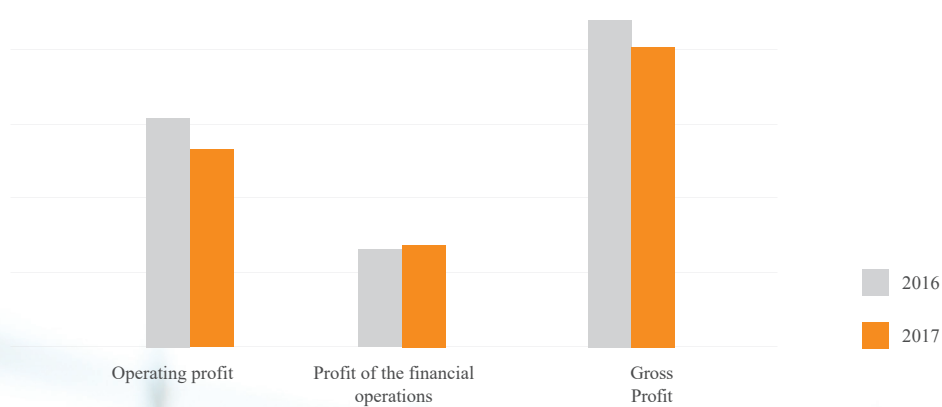
	2016		2017		Index
	Amount	%	Amount	%	
Total income	4.879.399.662	100,00	4.694.454.968	100,00	96,21
Total expenditures	4.640.860.973	95,11	4.475.550.317	95,34	96,44
Gross profit	238.538.689	4,89	218.904.651	4,66	91,77
Tax on profit	4.510.351	0,09	0	0,00	0,00
Net profit	234.028.338	4,80	218.904.651	4,66	93,54

Table1. The realization structure compared to 2016



The structure of the profit for 2017 is as follows:

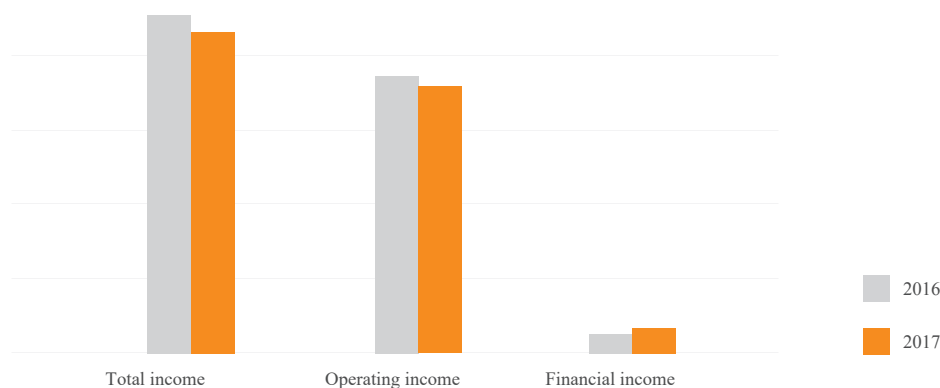
	Profit	2016	2017	Index
1	Operating profit	167.103.680	144.324.651	86,37
2	Profit of the financial operations	71.435.009	74.580.000	104,40
3	Gross profit	238.538.689	218.904.651	91,77
4	Profit Tax	4.510.351	0	0,00
5	Net profit = 3-4	234.028.338	218.904.651	93,54



I Total Income

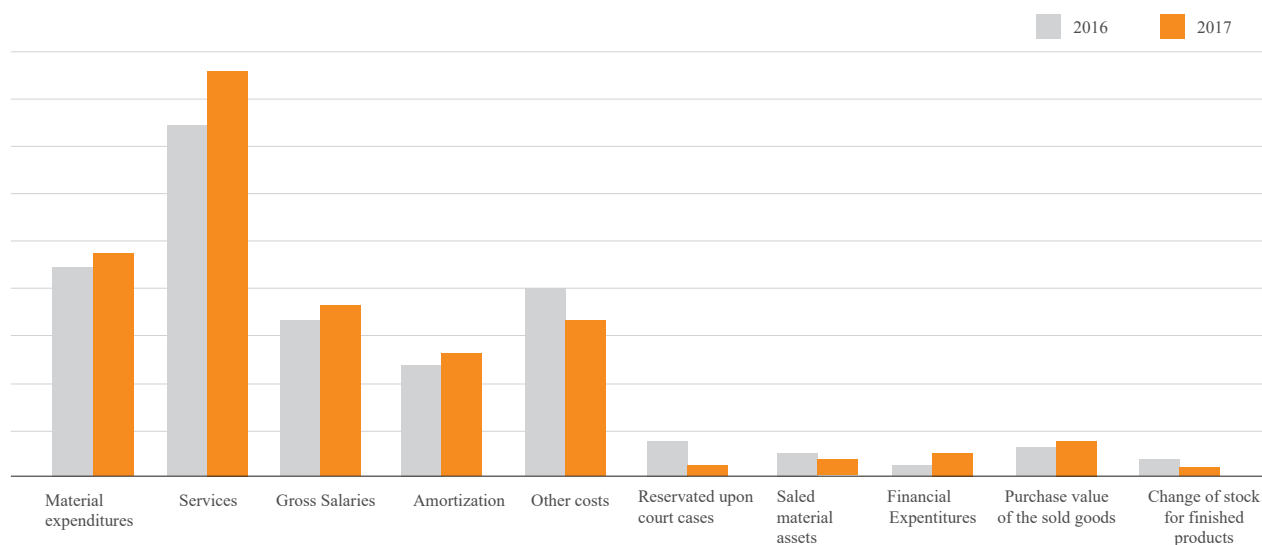
The generated total income amount to 4.694.454.968, of which the operational income amounts to MKD 4.579.705.957 and the financial income amounts to MKD 114.749.011. The structure of generated income is:

	Income	2016	%	2017	%	Index
1	Income from sales	3.600.077.915	73,78	3.995.486.000	85,11	110,98
.1,1	Income from sales on the domestic market	3.343.699.496	68,53	3.814.397.000	81,25	114,08
.1,2	Income from sales on the foreign market	256.378.419	5,25	181.089.000	3,86	70,63
2	Own production	232.698.747	4,77	171.486.957	3,65	73,70
3	Other operating income	952.366.359	19,52	412.733.000	8,79	43,33
4	Operating income = 1+2+3	4.785.143.021	98,07	4.579.705.957	97,56	95,71
5	Financial income	94.256.641	1,93	114.749.011	2,44	121,74
6	Total income = 4+5	4.879.399.662	100	4.694.454.968	100	96,21



II Total expenditures

The total expenditures incurred in 2017 amount to MKD 4.475.550.317 which compared to the expenditures incurred in 2016 mark a decrease of 3,56%. They participate with 95,34% in the total income. They contain the material costs, gross salaries, depreciation, other income, financial expenditures and the purchase value of goods sold, reduced by the costs of the market facilities.





CONSOLIDATED FINANCIAL RESULTS

GD “Granit” AD Skopje prepares consolidated financial calculation which includes the following dependent companies as well:

- | | | |
|----|--|-------|
| 1. | Hotel “Granit” DOOEL Ohrid | -100% |
| 2. | „Car Wash“ DOOEL- Skopje; | -100% |
| 3. | Branch Office “Granit”- Zagreb; | -100% |
| 4. | Branch Office “Tirana”- Albania; | -100% |
| 5. | Branch Office „Granit“ – Krakow, Poland; | -100% |
| 6. | „Granmak Germany | -100% |
| 7. | CC “Granit” DOO Banja Luka; | -100% |
| 8. | Branch Office CC “Granit” Banja Luka; | -100% |
| 9. | Granmark, Austria | -100% |

The indicators of the consolidated annual account of GD Granit AD Skopje for the operation in 2017 are as follow:

Item	31.12.2016	31.12.2017	Index
Total income	6.510.855.000	5.766.076.000	88,56
Total expenditures	6.197.156.000	5.612.374.000	90,56
Gross profit	313.699.000	153.702.000	49,00

Table 2. Consolidated annual account



VI. POLICIES IN THE BUSINESS OPERATION

Policy of investment, maintenance and support of the success of the Company's operation

The Company continuously invests material and financial assets that support the maintenance and success of the Company's operation. Namely, in 2017, the Company invested new MKD 229 million or EUR 3,72 million in new fixed assets.

Sources of assets

The Company continuously monitors its indebtedness through an appropriate analysis, therefore for 2017 there is no percentage of indebtedness at all.

The Company finances most of its operation from its own sources of funds.

Policy of relationship between the long-term debt and the Company's capital stock

It is the Company's policy not to be overindebted with loans with banks for the current operations, except for long-term investments.

The banks which the Company works with are mainly used for providing bank guarantees necessary for the current operation.

Dividends Policy

At its annual shareholders assembly in May/June 2018 the company shall distribute the generated profit for 2017. The company shall continue the regular payment of dividends.

Company's risk management policy

The Company enters into different transactions resulting from its daily operations, which refer to the buyers, suppliers and creditors. The main risks the Company is exposed to and the policies of their management are as follows:

-MARKET RISK

• Risk of changes in the currency exchange rates

The Company enters into foreign currency transactions resulting from the sales and purchase on foreign markets, being exposed to daily changes in the foreign currency exchange rates.

The Company has no special policy for such risk management.

• Price change risk

The Company is exposed to the risk of changes in the prices of the investments available for sale and it is beyond the Company's control.

• Credit risk

The company is exposed to credit risk in cases when its buyers will not be able to meet their payment liabilities. The company has no significant concentration of credit risk considering that the buyers are a great number of companies in the company and abroad, as well as the public institutions

• Liquidity risk

The liquidity risk occurs when the Company will not be able to cover with its cash funds its liabilities against its creditors. Such risk shall be overcome by constantly providing the necessary cash funds for servicing its liabilities and the Company has no such problems in its operation.

IX. STRUCTURE OF GD GRANIT AD SKOPJE

GD “Granit” AD Skopje was incorporated as a joint stock company, which pursuant to the Companies’ Act and the Company’s Articles of Association it has established two-tier management system, through the Managing Board and the Supervisory Board.

The Managing Board of GD “Granit” AD Skopje comprises 5 (five) members who, in 2017 received MKD 1.186.600, as net benefits for carrying out the work as members of the Managing Board.

The Supervisory Board of GD “Granit” AD Skopje comprises 3 (three) members who, in 2017 received MKD 741.000,00, as net benefits for carrying out the work as members of the Supervisory Board.

The member of the Managing Board Venko Zafirov is employed in the company “Koner Kompjuteri” DOO Skopje where he earns MKD 478.995,00 on the basis of employment relationship.

The member of the Supervisory Board- Goran Markovski is employed in KB Publikum invest AD Skopje, where he earns MKD 2.833.427,00 on the basis of employment relationship.

MANAGEMENT AND DECISION MAKING

The successful operation of GD “Granit” AD Skopje is certainly due to the appropriate business-oriented management and monitoring the Company’s needs, all of that through establishing management business policy which is primarily based on planning, adopting and implementing the decisions adopted in compliance with the legal regulations, the Company’s Articles of Association, the other general acts and the decisions passed at the Shareholders’ Assembly.

In terms of that the Managing Board held 16 meeting of the assembly at which in compliance with the Companies Act, decisions were adopted which were significance for the Company’s management, as well as decisions for reviewing and approving the annual accounts of the Company, both separate and consolidated, as well as the annual accounts of the Companies incorporated by GD Granit AD Skopje, the company’s current operations, planning the procedures and the manner of executing the undertaken construction works, aimed at ensuring timely and positive completion of the works. Within the obligations established under the Companies Act and the Company’s Article of Association a decision was made for approving an arrangement with an interested party with the company Koner Kompjuteri DOO Skopje, one of the co-owners and employee of which is the member of the Managing Board Venko Zafirov, amounting to MKD 18.000.000,00.

In the course of 2017, the Managing Board continuously controlled and monitored the Company’s work and its financial status, management and results, in which it held 5 meetings. At such meetings, the company’s annual accounts (separate and consolidated) which were mandatory for conducting the control over the Company’s operations, were reviewed and verified. In compliance with the Companies Act and the Company’s Articles of Association, the request for approving an arrangement with an interested party with a the member of the Managing Board Venko Zafirov with the company Koner Kompjuteri DOO Skopje to the amount of MKD 18.000.000,00 has been approved.

The organizational units, sectors, operating units and business units have continuously implemented the decisions made by the Management, through which a total number of --- projects have been finalized. At such meetings the executive personnel directed towards the realization of such set goals, towards the challenge for realizing better results from the projected ones.

With respect to its operation, GD “Granit” AD Skopje, it has recognized the key for success in the successful management and continuous improvement and qualification of its employees for the purpose of which it especially focuses in that direction and supports their creative and critical thinking and acting. Such approach provides results in terms of accepting the contracting duties and assignments by the employees with particular interest and a desire for achieving better results. On the other hand, such approach is also the main prerequisite for motivation of the employees and increasing the attractiveness of the work itself, among the new workforce that joined Granit in the course of this year. Compared to the previous year they mark a growing trend, especially in the part of highly qualified workforce.

A precondition for such success is the continuous cooperation with the Universities, faculties and secondary schools, as well as with the Employment Agency which have been focused on constantly finding and employing professional qualified workforce. In 2017 employment contracts were signed with students who received scholarships by the Company especially in the technical schools where the deficit of qualified workforce represents a problem on the labor market.

WE ARE RESEARCHING, DEVELOPING, APPLYING, IMPROVING

The investments in 2017 were kept at a satisfactory level. Having regard to the reduced scope of investments in the construction industry especially in the infrastructure, in a period of turbulences on the political scene and ensuring economic stability, the investments were optimized through a series of procurements of the necessary fixed assets for continuous maintenance, especially of the construction machinery.

The total investments in fixed assets in 2017 amount to MKD 228.834 thousand, as follows:

- Investments in intangible assets MKD 220.323 thousand
- Investments in tangible assets MKD 8.511 thousand

For the purpose of successful realization of its strategic goals for 2018, GD “Granit” AD Skopje established the following measures and activities:

- ✓ Higher profitability in the performance of the works within the Company’s business activity;
- ✓ Constant monitoring of the quality in the performance of the construction works;
- ✓ Increasing the degree of equipment with fixed assets;
- ✓ Increasing the degree of investments in intangible assets;
- ✓ Human resources management which provides higher quality in the operation;
- ✓ Ensuring cost-efficient and efficient works execution;
- ✓ Improvement of software solutions for rational completion of the assignments and ensuring control to the operations.

The projects implemented by the Company are significant and greatly financed by the investment policies of the public entities as the biggest investors in the infrastructure. Therefore, the measures and activities in 2018, will to a great extent successively follow the growth trend of the investments in the infrastructure for the purpose of ensuring Company’s stable liquidity. The operation will be based on continuous planning, organization of the workforce and the construction machinery, means of transport and plants aimed at achieving high balance of utilization of the fixed assets and mitigating the costs, in order to achieve effectiveness and positive results in the operation. In such a way the Company’s capacities will be fully used and Company’s competitiveness will be endured on the domestic and foreign markets, as the Company’s ultimate goals.

Managing Board

GD “Granit” AD Skopje

2018





GD Granit AD Skopje

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