

ANNUAL REPORT on the Operation of Makstil AD – Skopje¹ for the year 2022

1. Circumstances under which the Company pursued its business activity in the course of the year 2022

The main feature of the steel market in the course of 2022 was instability, mainly driven by several factors, such as the global economic uncertainty, the fears of a recession, the inflation and the growth of the price of fuels, which put a pressure on the prices and on the demand for steel. According to the forecasts, the global economic uncertainty, which started in 2022, will have an impact by decelerating the economic growth in 2023, primarily due to the Russian-Ukrainian conflict and the increased inflation which, as per the prognoses, will have an adverse impact on the demand for steel in the course of this year. Nonetheless, the infrastructural projects arising from the governmental investments are expected to ensure positive compensation and help increase the demand.

Under the influence of the global trends, in the course of the entire year Makstil managed to coordinate and manage its business activities in due time, whereby it ended the difficult and uncertain year of 2022 with success, owing to the excellent leveraging of its market position both in the region and on the markets in Turkey and the European Union.

During the period January - December 2022, Makstil achieved positive financial results as stated in the unaudited individual financial statements.

The realized production of hot rolled plates in 2022 in the production plant Plate Mill amounts to 303,288t, which compared to 273,983t in the same period of 2021 constitutes an increase of approximately 11%, while relative to the determined production plan for 2022 (276,279t) it constitutes an increase of approximately 10%. The realized production of own steel semi-finished products, steel slabs, amounts to 247,166t during the reporting period, which compared to 314,508t in 2021 constitutes a decrease of 21%, while relative to the planned annual production (295,400t) it also constitutes a decrease of 16%.

Table 1 Production of slabs and plates (quantity expresses in tonnes)

Production in tonnes	2022	2021
Production of slabs	247,166	314,508
Production of plates	303,288	273,983

¹ This Annual Report on the Operation pertains to Makstil AD – Skopje (hereinafter referred to as: “Makstil”).

The output of hot-rolled steel plates expressed in quantitative indicators amounts to 291,352t, which compared to 278,193t of the same period in the previous year constitutes an increase of 5%.

Table 2 Output of plates (quantity in tonnes)

Output of plates in tonnes	2022	2021
Agreement on processing	190,651	192,034
Direct sales	100,701	86,159
Total output	291,352	278,193

In the course of the entire year, operating revenues were generated in the amount of MKD 11.25 billion, of which the share of sales revenues as a carrying item in the total revenues structure is as high as 98.6%. Compared to the same period of 2021, the generated operating revenues (7.28 billion) are higher by 54.6%.

Table 3 Generated sales revenues

	(in MKD 000)	
Generated revenues from direct sales and revenues from processing	2022	2021
Revenues from direct sales	7,017,416	4,317,309
Revenues from processing	4,034,231	2,634,752
Total revenues	11,051,647	6,952,061

In the course of 2022, the incurred expenditures amounted to MKD 9.64 billion and as compared to the incurred operating expenditures in the same period in 2021 (MKD 5.92 billion) they are higher by 63%, which is mainly due to the increased scope of production of finished goods in the course of this period, as well as the increase of the cost of input materials and fuels, especially natural gas and electricity. Such increases of the prices of fuels have given rise to an increase of the prices of other input materials, such as other technical gases, technical water and ferroalloys. The inflationary pressure that was felt in the course of 2022 gave rise to an increase of almost all production costs and an increase of the capital costs which, within the arrangements with the commercial banks, required an elevated level of caution in terms of the use of credit lines.

The earnings before taxes during the reporting period amount to MKD 1.2 billion and they are higher than the earnings generated in the course of 2021, while the net income amounts to MKD 1.07 billion and it is higher than the net income generated in the same period in the previous year.

During this period, the company did not effectuate the payment of dividends per share on account of losses carried over from the previous period.

The accounting policies and methods for the evaluation of the line items in the financial statements of Makstil AD did not undergo any changes in the course of 2022.

2. Composition and manner of operation of the Company bodies

In 2022, Makstil pursued its activities via the following Company bodies: the Shareholders' Assembly, the Board of Directors and the Investment Committee.

2.1. Shareholders' Assembly of the Company

As at 31.12.2022, the Company has a total number of 5,214 shareholders. The Shareholders' Assembly, within the competencies thereof, performs all activities stipulated in the legal regulations and the Statute of the Company. During the reporting year, the Shareholders' Assembly held one meeting on 30.05.2022. At the meeting, the Shareholders' Assembly, adopted the financial statements of Makstil AD Skopje for the year 2021, audited by the audit company PwC (PricewaterhouseCoopers), it adopted the Annual Accounts and the Annual Report of the Company for the year 2021, it reviewed and adopted all the reports and proposed materials pertaining to the operation of the Company in 2021 and it adopted a Decision on the appointment of an audit company for the year 2022, a Decision on the approval of the operation and the management of the operation of the Company by the members of the Board of Directors for the year 2021, a Decision on the distribution of the profit and a Decision on the adoption of the Annual Report of the Internal Audit Department for the year 2021.

2.2. Board of Directors and Committees

Data on the committees of the Company, including their membership and activities, the number of held meetings and the presence of each committee member at the meetings:

Board of Directors Chart			
Name and surname	Gender	Independent	Presence
Dimitar Cvetkovski	Male	No	7 (seven) meetings of the Board of Directors
Marija Dukovska - Pavlovska	Female	No	7 (seven) meetings of the Board of Directors
Petar Janeski	Male	No	7 (seven) meetings of the Board of Directors
Aleksandra Miskovska	Female	Yes	7 (seven) meetings of the Board of Directors
Pietro Moschetti	Male	Yes	7 (seven) meetings of the Board of Directors
Alessandro Casale	Male	No	5 (five) meetings of the Board of Directors
Louis Christian Carstens	Male	No	7 (seven) meetings of the Board of Directors
Stefano Gramigna	Male	No	7 (seven) meetings of the Board of Directors
Investment Committee Chart			
Name and surname	Non-executive member of the BoD or external member	Independent	Presence
Louis Christian Carstens	Non-executive member of the BoD	No	8 (eight) meetings of the Investment Committee
Pietro Moschetti	Non-executive member of the BoD	No	8 (eight) meetings of the Investment Committee
Marija Dukovska - Pavlovska	Executive member of the BoD	No	8 (eight) meetings of the Investment Committee
Petar Janeski	Executive member of the BoD	No	8 (eight) meetings of the Investment Committee
Giuseppe Pratalongo	External member	Yes	2 (two) meetings of the Investment Committee

2.3. Fees of the Board of Directors

In the course of 2022, the operation of the Company was managed by 2 (two) Executive Members of the Board of Directors and 6 (six) Non-Executive Members of the Board of Directors.

The monthly fee – salary of the Executive Members of the Board of Directors is determined in their respective Managerial Contract. During the reporting year, 2 (two) Executive Members of the Board of Directors were paid a gross amount of a total of MKD 9,692,250 based upon salary, salary supplements, insurances and other entitlements.

In addition, 2 (two) Non-Executive Members of the Board of Directors were paid a gross amount of fees for the membership in the Board of Directors as a fixed monthly amount of MKD 30 thousand.

As regards the remuneration of 6 (six) Non-Executive Members of the Board of Directors who are not employed at Makstil AD – Skopje no data are available due to the applicable rules regarding their remuneration.

Additional information on the financial operation of Makstil, the operating and accounting policies, as well as other relevant data pertaining to the finance sources of the Company, the policy on the treatment of the long-term debt in terms of the principal capital and the policy on the management of the currency, liquidity and credit risk, are comprised in the Financial Statements of Makstil for the year ended on 31st December 2022.

3. Large transactions and transactions with an interested party

Pursuant to the Law on Trade Companies, Makstil AD – Skopje did not execute any large transactions or transactions with an interested party in the course of 2022. The data on the transactions with an interested party are set out in detail in the Financial Statements of Makstil for the year ended on 31.12.2022.

4. Investments, Research and Development

In the course of the year, new investments were made in the Steel Shop plant, where the casting machines were modernized and the systems for movement at a height were reconstructed whereby the safety was improved, as well as in the Plate Mill plant, where compressed air installations were installed, the plate transport system was reconstructed and regular general maintenance of the equipment was conducted. The investment amount reached MKD 161.5 million in 2022. Makstil also adopted a mid-term plan for investment

activities, according to which a part of the activities have already commenced and the value of the foreseen funds for this purpose has been planned to amount to EUR 14.6 million.

5. Corporate social responsibility

The concept of socially responsible operation is firmly integrated in the Company's business policy. At Makstil, corporate social responsibility has been adopted as an exceptionally important corporate value.

By implementing significant programme contents and project activities, Makstil aims to meet the demands of the employees, the vendors, the customers, as well as the wider social community, thereby preserving its goodwill and enhancing its reputation.

Experience, dedication and an open cooperation with the institutions and the individuals from society contributed to the development of a company that assumes social and corporate responsibility, providing support to individuals and institutions and ensuring the development of a normal and healthy environment in which every individual has equal rights and opportunities. The active support that the Company is providing to society is also evidenced by the various sponsorship and donation activities undertaken by the Company for the benefit of culture, sports, education and health.

The strategic objective in terms of the social responsibility of the Company is to foster and inspire a socially responsible behaviour by building proactive and mutually beneficial relations with the market, the employees, the community and the environment, which shall surpass their expectations and yield a perception of the Company as a highly conscientious company.

At Makstil, last year, for the first time ever, also the Occupational Safety and Health System – ISO 45001 was introduced, whereby once again the Company affirmed its commitment to prevent and reduce any injuries at the workplace, as well as improve the working conditions of its employees. Furthermore, in May 2022, a successful check-up was conducted pursuant to the MKC EN 13242 standard, wherein the electric arc furnace slag was acknowledged as a product for an artificial aggregate that may be used in construction. In the course of last year, in November and December, recertification was performed of ISO 9001 – the standard related to quality management and a successful supervisory verification was conducted regarding the ISO 14001 Certificate – the standard related to environmental management, as well as ISO 50001 – the standard related to energy management.

6. Statement of compliance with the corporate management code

Makstil, as a company listed on the official stock exchange market of Macedonian Stock Exchange Inc., in the sub-segment 'stock listings - regular shares', is continuously committed to applying the best corporate management practices and it strives to meet high requirements and standards on ethical and business conduct on the part of the managers and the employees at the Company, including also the members of the BoD.

Its corporate management relies on principles that guarantee the rights and interests of the shareholders, ensure high transparency of the ownership structure, a fair delegation of

authority, regular and efficient controls and audits, compliance with the laws and the ethical standards and practices, as well as independence and objectivity.

The primary goal of the Company is a completely harmonized application of the practices prescribed in the Corporate Management Code of joint stock companies listed on the Macedonian Stock Exchange, wherein the Board of Directors of the Company has given a Statement of Compliance with the Corporate Management Code, enclosed as Annex 1 with the Annual Report on the Operation of the Company.

Over the forthcoming period, our greatest challenge remains to be the tackling of the energy crisis, the increased inflation, as well as the difficulties related to the transport and the logistics.

Despite dealing with all these challenges, the Company is still managing to undertake all activities required for achieving the targets set. During last year, the main company focus was once again placed on the employees, the improvement of the working conditions, as well as increasing their safety, thereby reducing the number of injuries at the workplace. In 2022, there was an upward adjustment of the salaries of all employees and a holiday allowance was paid in the maximum amount. Furthermore, there was no lack of creation of positive changes in the local and the wider social community – multiple projects of social interest were supported in the sphere of education and sports and the project for renovating the Oncology Department of the Children's Clinic Skopje was successfully completed. With this project, Makstil made the largest donation ever in this sphere and helped create a regional centre for providing medical treatment to children afflicted with malignant diseases.

Skopje, April 2023
Makstil AD Skopje

Board of Directors