



Telefon: +48 22 543 16 00  
Telefax: +48 22 543 16 01  
E-mail: office@bdo.pl  
Internet: www.bdo.pl

BDO Sp. z o.o.  
ul. Postępu 12  
02-676 Warszawa  
Polska

**Ceramika Nowa Gala S.A.**  
**ul. Ceramiczna 1, 24-200 Końskie**

**Audit Report**  
**on the separate financial statements**  
**for the period from 1 January 2017 to 31 December 2017**

BDO Sp. z o.o. Sąd Rejonowy dla M. St. Warszawy, XIII Wydział Gospodarczy, KRS: 0000293339, Kapitał zakładowy: 1.000.000 PLN, NIP: 108-000-42-12. Biura regionalne BDO: Katowice 40-007, ul. Uniwersytecka 13, tel.: +48 32 661 06 00, katowice@bdo.pl; Kraków 31-548, al. Pokoju 1, tel.: +48 12 378 69 00, krakow@bdo.pl; Poznań 60-650, ul. Piątkowska 165, tel.: +48 61 622 57 00, poznan@bdo.pl; Wrocław 53-332, ul. Powstańców Śląskich 7a, tel.: +48 71 734 28 00, wroclaw@bdo.pl

BDO Sp. z o. o. jest członkiem BDO International Limited, brytyjskiej spółki i częścią międzynarodowej sieci BDO, złożonej z niezależnych spółek członkowskich.



**INDEPENDENT AUDITOR'S REPORT  
ON THE YEAR-END FINANCIAL STATEMENTS  
for the Shareholders Meeting and Supervisory Board of  
Ceramika Nowa Gala S.A.**

We have audited the accompanying year-end separate financial statements of Ceramika Nowa Gala S.A. ("the Company") with its registered office in Końskie, ul. Ceramiczna 1, consisting of introduction to the financial statements, the statement of financial position prepared as at 31 December 2017, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period from 1 January to 31 December 2017, as well as additional information on significant accounting policies and notes to the financial statements ("the financial statements").

*Responsibilities of the Company's Management Board and Supervisory Board for the Financial Statements*

The Company's Management Board is responsible for the preparation of the financial statements on the basis of properly kept books of account and for their fair presentation in accordance with International Accounting Standards, International Financial Reporting Standards and the related interpretations announced in the form of European Commission regulations, as well as other binding legal regulations and the Company's Statute. The Company's Management Board is also responsible for such internal controls as it considers necessary to ensure that the financial statements are free from material misstatements resulting from fraud or error.

In accordance with the Accounting Act, the Company's Management Board and members of its Supervisory Board are required to ensure that the separate financial statements meet the requirements of the Accounting Act.

*Responsibilities of the Auditor*

Our responsibility was to express an opinion whether the financial statements present truly and fairly the Company's financial position and financial result in accordance with the applicable International Accounting Standards, International Financial Reporting Standards and the related interpretations announced in the form of European Commission regulations, as well as with the adopted accounting methods (policies).

*We performed the audit of the financial statements in accordance with the provisions of:*

- 1) the Act of 11 May 2017 on certified auditors, audit firms and on public supervision (2017 Journal of Laws, item 1089) ("the Certified Auditors Act"),
- 2) Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (Official Journal of the EU L 158 of 27 May 2014, page 77 and Official Journal of the EU L 170 of 11 June 2014, page 66) ("Regulation 537/2014").

This document is a translation.  
The Polish original should be referred to in matters of interpretation.



These regulations require us to comply with ethical requirements and to plan and perform the audit in a manner that allows us to obtain sufficient assurance that the financial statements are free from material misstatements.

The objective of an audit is to obtain sufficient assurance about whether the financial statements as a whole are free from material misstatements due to fraud or error, and to issue an independent auditor's report that includes our opinion. Sufficient assurance is a high level of assurance, but it is not a guarantee that an audit performed in accordance with the above standards will always detect an existing material misstatement. Misstatements can arise from fraud or error and are considered material if it could be reasonably expected that they, individually or in aggregate, could influence the economic decisions of users made on the basis of these financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than the risk of not detecting a material misstatement resulting from error, because fraud may involve collusion, forgery, deliberate omission, misrepresentation or circumvention of internal controls, and may pertain to every area of law and regulations, not just those that have a direct impact on the financial statements.

The audit consisted of performing procedures aimed at obtaining audit evidence on the amounts and information disclosed in the financial statements. We choose the procedures based on our judgement, including an assessment of the risk of material misstatements in the financial statements due to fraud or error. In assessing this risk we consider the internal controls related to the preparation and fair presentation of the financial statements in order to plan our audit procedures, and not to express an opinion on the effectiveness of the entity's internal controls. An audit also includes assessing the appropriateness of the accounting policies used and the reasonableness of the estimates made by the Company's Management, as well as evaluating the overall presentation of the financial statements.

The scope of the audit does not include an assurance regarding the Company's future profitability, or regarding the Management's effectiveness in the handling of the Company's affairs now or in the future.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our opinion is consistent with the additional report for the Audit Committee issued on the date of the present audit report.

#### *Independence*

During the audit the auditor in charge and the audit firm remained independent of the audited entity in accordance with the provisions of the Certified Auditors Act, Regulation 537/2014 and the ethical standards adopted by the National Council of Certified Auditors.

To the best of our knowledge and belief we declare that we have provided no non-audit services forbidden by the provisions of Article 136 of the Certified Auditors Act and Article 5 point 1 of Regulation 537/2014.

#### *Selection of Auditor*

We were selected as the auditor of the Company's financial statements in a resolution passed by the Company's Supervisory Board on 6 June 2017. We have audited the Company's financial



statements continually since the financial year ended 31 December 2016; i.e. for 2 consecutive years.

### *Most Significant Types of Risk*

In the course of the audit we identified the below described most significant types of risk of material misstatement, including from fraud, and have designed audit procedures appropriate for those types of risk.

RISK OF MATERIAL MISSTATEMENT	PROCEDURES PERFORMED IN RESPONSE TO THE RISK
<p data-bbox="209 589 555 622"><b>1 Valuation of inventory</b></p> <p data-bbox="185 647 751 799">Inventory constitutes a significant portion of the Company's assets. As at 31 December 2017 the Company's inventory had a total value of 56.733 thousand PLN, or 27,7% of its total assets and liabilities.</p> <p data-bbox="185 833 751 1140">The Company's balance sheet date valuation of inventory with regard to its prudence, and with regard to the inventory's potential impairment was classified as a risk of material misstatement due to the high impact of management's judgment on the value of inventory disclosed in the financial statements and the complexity of the analyses underlying the calculation of impairment write downs.</p> <p data-bbox="185 1173 751 1326">The Company's accounting policies on the valuation of inventory are disclosed in the introduction to the financial statements. Additional information is presented in Note 12 to the financial statements.</p>	<p data-bbox="802 647 1390 680">As part of our audit procedures we in particular:</p> <ul data-bbox="802 683 1398 1491" style="list-style-type: none"><li data-bbox="802 683 1398 741">– analyzed the Company's accounting policies relating to the valuation of inventory;</li><li data-bbox="802 743 1398 869">– obtained an understanding and performed a critical assessment of the methods and process of performing inventory impairment write downs,</li><li data-bbox="802 871 1398 963">– checked for changes in the Company's approach to estimating inventory impairment compared to the prior year,</li><li data-bbox="802 965 1398 1057">– analyzed the pace of inventory turnover with regard to the need to perform impairment write downs of non-moving items,</li><li data-bbox="802 1059 1398 1184">– agreed the received data with the amounts in the trial balance and assessed the value of the written down items with the balance of impairment write downs,</li><li data-bbox="802 1187 1398 1335">– agreed the changes in the balance of write downs broken down into formed, released and used with the corresponding profit and loss account items and the relevant disclosure note,</li><li data-bbox="802 1337 1398 1491">– evaluated the accuracy of the valuation and the validity of the write down by comparing the standard values of the inventory items with their net realizable prices after the balance sheet date.</li></ul>

RISK OF MATERIAL MISSTATEMENT	PROCEDURES PERFORMED IN RESPONSE TO THE RISK
<p data-bbox="204 241 853 280"><b>2 Risk of impairment of interests in subsidiaries</b></p> <p data-bbox="181 302 770 362">Ceramika Nowa Gala S.A. holds shares of subsidiaries.</p> <p data-bbox="181 394 770 488">The value of those shares disclosed in the financial statements is 78.333 thousand PLN, or 38,3% of total assets and liabilities.</p> <p data-bbox="181 517 770 703">The matter was classified as a risk of material misstatement due to the significant value of the shares and the potential significant effect on the Company's financial result in the event of occurrence of the indications of impairment referred to in IAS36.</p> <p data-bbox="181 732 770 918">The Company's accounting policies on the valuation of interests in subsidiaries are disclosed in the introduction to the financial statements. Additional information is presented in Note 21 to the financial statements.</p>	<p data-bbox="820 302 1396 362">As part of our audit procedures we in particular:</p> <ul data-bbox="820 367 1396 649" style="list-style-type: none"> <li>– analyzed the Company's accounting policies relating to the valuation of shares,</li> <li>– analyzed the financial statements of the subsidiaries, including in particular their financial results, goodwill, capital structure, debt and liquidity for indications of impairment,</li> <li>– assessed the effect of subsequent events on possible impairment.</li> </ul> <p data-bbox="820 678 965 707">In addition:</p> <ul data-bbox="820 712 1396 1057" style="list-style-type: none"> <li>– we analyzed the key assumptions of the share impairment test,</li> <li>– checked the test for mathematical accuracy,</li> <li>– verified the applied discount rate,</li> <li>– assessed the Company's analysis of the test's sensitivity to key model input factors,</li> <li>– assessed the correctness and completeness of the required disclosures made in the financial statements.</li> </ul>

RISK OF MATERIAL MISSTATEMENT	PROCEDURES PERFORMED IN RESPONSE TO THE RISK
<p data-bbox="204 1164 782 1202"><b>3 Risk of impairment of deferred tax asset</b></p> <p data-bbox="181 1223 786 1375">In its financial statements the Company presents a deferred tax asset. The value of the asset listed in the financial statements is 5.228 thousand PLN and constitutes 2,6% of the Company's total assets and liabilities.</p> <p data-bbox="181 1406 786 1778">The matter was classified as a key audit matter because under our audit strategy the amount of the deferred income tax assets was recognized as significant. The assets are exposed to the risk of impairment due to the Company's incurrence of tax losses in recent reporting periods. In addition, management's judgment is based on assumptions relating to the value of future taxable income and the periods in which such income will be earned, allowing for the deduction of negative temporary differences and tax losses.</p> <p data-bbox="181 1809 786 1962">The Company's accounting policies on the valuation of interests in subsidiaries are disclosed in the introduction to the financial statements. Additional information is presented in Note 11 to the financial statements.</p>	<p data-bbox="820 1223 1412 1283">As part of our audit procedures we in particular:</p> <ul data-bbox="820 1288 1412 1659" style="list-style-type: none"> <li>– analyzed the Company's accounting policies relating to the calculation of deferred tax assets and provision for deferred tax,</li> <li>– performed a critical assessment of the information obtained from the Management Board on the actions and plans aimed at using the deferred tax asset,</li> <li>– obtained from the Company and verified the calculation of deferred tax,</li> <li>– analyzed the assumptions underlying the recognition and calculation of deferred tax.</li> </ul>



## *Opinion*

In our opinion, the accompanying year-end financial statements:

- a) give a true and fair view of the Company's financial position as at 31 December 2017, as well as of its financial result for the period from 1 January to 31 December 2017, in accordance with International Accounting Standards, International Financial Reporting Standards and the related interpretations announced in the form of European Commission regulations, as well as the adopted accounting methods (policies),
- b) have been prepared on the basis of books of account properly kept in accordance with the provisions of Chapter 2 of the Accounting Act,
- c) are consistent, in content and in form, with the requirements of the Minister's of Finance Decree of 19 February 2009 on the current and periodic information provided by the issuers of securities and on the conditions for recognizing as equally valid the information required by the regulations of a state that is not a member state (2014 Journal of Laws, item 133 with subsequent amendments), as well as with other applicable laws and regulations and with the Company's Statute.

## **Report on Other Legal and Regulatory Requirements**

### *Opinion on the Directors' Report on the Company's Activities*

Our opinion on the financial statements does not cover the Directors' Report on the Company's activities.

The Company's Management Board and members of its Supervisory Board are responsible for the preparation of the Directors' Report on the Company's activities in accordance with binding regulations.

Our responsibility under the Certified Auditors Act was to issue an opinion whether the Directors' Report on the Company's activities has been prepared in accordance with binding regulations, and whether it is consistent with the information presented in the year-end financial statements.

It was also our responsibility to report whether, based on our knowledge obtained during the audit about the entity and its environment, we have identified any material misstatements in the Directors' Report on the Company's activities, as well as to indicate the nature of each such misstatement.

In our opinion, the Directors' Report on the Company's activities has been prepared in accordance with binding regulations and is consistent with the information presented in the year-end financial statements. Furthermore, based on our knowledge obtained during the audit about the Company and its environment we have identified no material misstatements in the Directors' Report on the Company's activities.

### *Opinion on the Declaration on the Application of Corporate Governance*

The Company's Management Board and members of its Supervisory Board are responsible for the preparation of a declaration on the application of corporate governance in accordance with binding regulations.



In our opinion, the entity's declaration on the application of corporate governance contains the information specified in paragraph 91 section 5 point 4 letters a, b, g, j, k and l of the Minister's of finance Decree of 19 February 2009 on the current and periodic information provided by the issuers of securities and on the conditions for recognizing as equally valid the information required by the regulations of a state that is not a member state (2014 Journal of Laws, item 133 with subsequent amendments) (*"the Decree"*). The information indicated in paragraph 91 section 5 point 4 letters c-f, h and i of the Decree contained in the declaration on the application of corporate governance is consistent with the applicable regulations and with the information contained in the financial statements.

*Information about the Preparation of a Declaration on Non-financial Information*

In accordance with the requirements of the Certified Auditors Act we hereby inform you that the entity has prepared the declaration on non-financial information referred to in Article 49b par. 1 of the Accounting Act as a separate section of the Directors' Report on the group's activities.

We have performed no assurance work on the declaration on non-financial information and, accordingly, do not express any assurance on the declaration.

Kraków, 26 March 2018

**BDO Sp. z o.o.**  
**ul. Postępu 12**  
**02-676 Warszawa**

**entity entered on the list of audit firms**  
**kept by the National Council of Certified Auditors in number 3355**

**Auditor in charge:**

**On behalf of BDO Sp. z o.o.:**

**Marcin Krupa**  
Certified Auditor No. 11142

**Dr. André Helin**  
Managing Partner  
Certified Auditor No. 90004