

**CERAMIKA NOWA GALA S.A. CAPITAL GROUP
UL. CERAMICZNA 1
26-200 KOŃSKIE**

**INDEPENDENT AUDITOR'S OPINION
AND
REPORT ON THE AUDIT OF THE CONSOLIDATED
FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR
ENDED
DECEMBER 31, 2014**

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INDEPENDENT AUDITOR'S OPINION

To the Shareholders the and Supervisory Board of Ceramika Nowa Gala S.A.

We have audited the attached consolidated financial statements of Ceramika Nowa Gala S.A. Capital Group („Capital Group”) with Parent Company Ceramika Nowa Gala S.A. (“Parent Company”) with registered office in Końskie, Ceramiczna 1 Street, consisting of:

- the consolidated statement of financial position prepared as of December 31, 2014 with total assets and liabilities plus equity amounting to PLN 289,048 thousand;
- the consolidated statement of comprehensive income for the financial year from January 1, 2014 to December 31, 2014 showing a net profit in the amount of PLN 2,242 thousand and total comprehensive income in the amount of PLN 2,244 thousand;
- the consolidated statement of changes in equity for the financial year from January 1, 2014 to December 31, 2014 with a decrease in equity amounting to PLN 1,507 thousand;
- the consolidated cash flow statement for the financial year from January 1, 2014 to December 31, 2014 showing a net cash increase of PLN 8,086 thousand;
- additional information and explanations, including accepted accounting policy and other notes to the financial statements.

Preparation of these financial statements and the Management Board's Annual Report, in accordance with applicable law, is the responsibility of the Management Board. The Management Board and members of the Supervisory Board are responsible for ensuring, that the financial statements and the Management Board's Annual Report are in accordance with the Accounting Act of 29 September 1994 (Journal of Laws from 2013, item 330, with subsequent amendments), hereinafter: “Accounting Act”.

Our responsibility was to audit and express an opinion on the compliance of the consolidated financial statements with the applied, by the Capital Group, accounting principles (policy) and whether the consolidated financial statements present in all material respects true and fair view of economic and financial situation as well as financial result of the Capital Group.

Our audit was performed in accordance with:

- section 7 of the Accounting Act,
- the National Standards on Auditing issued by the Polish National Council of Statutory Auditors.

Our audit was planned and performed to obtain reasonable assurance allowing to express an independent auditor's opinion on the consolidated financial statements. In particular the audit included assessing the correctness of the applied, by Parent Entity and subsidiaries, accounting principles (policy) and material estimates, examining - largely on a test basis - the accounting evidence and records supporting the amounts and disclosures in the consolidated financial statements, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that our audit provided a reasonable basis for our opinion.

In our opinion, the audited consolidated financial statements in all material respects:

- present a fair and clear view of all material information for the assessment of the Capital Group's economic and financial situation as of December 31, 2014, as well as financial result for the period from January 1, 2014 to December 31, 2014,
- were prepared in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced by the European Commission ("IAS"), and in the scope not regulated by the IAS - according to the requirements of the Accounting Act and regulations issued on the basis of Accounting Act,
- comply in form and content with the applicable laws regarding the Capital Group.

The Management Board's Annual Report for the financial year ended December 31, 2014 is complete in the meaning of Article 49 clause 2 of the Accounting Act and Regulation of the Minister of Finance dated 19 February 2009 regarding current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state ((Journal of Laws from 2009, No. 33, item. 259), and is consistent with the underlying information disclosed in the audited consolidated financial statements.

On behalf of

TPA Horwath Horodko Audit Sp. z o. o.
ul. Murawa 12-18, 61-655 Poznań
No. 3082

Krzysztof Dziekoński

Key Certified Auditor
conducting the audit
No. 10089

Warsaw, March 19, 2015

The above audit opinion together with auditor's report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

REPORT SUPPLEMENTING THE INDEPENDENT AUDITOR'S OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS OF CERAMIKA NOWA GALA S.A. CAPITAL GROUP FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2014

I. GENERAL INFORMATION

1. Details of the audited Capital Group

The Parent Company in Capital Group (further „Group”, „Capital Group”) is Ceramika Nowa Gala S.A. („Company”, „Parent Company”).

The Company operates in the form of a joint stock company. The first statute was drawn up in the form of notarial deed on February 7, 1995. The Company's registered office is located in Końskie, ul. Ceramiczna 1.

On 11 May 2001, the Parent Company was registered in the National Court Register in the District Court in Kielce – 10th Business and Registry Department under No. 0000011723.

The Parent Company's Tax Identification Number (NIP) is 658-10-02-540. The Parent Company's National Business Registry Number (REGON) is 290556362.

The Parent Company operates under the regulations of the Code of Commercial Companies and the Company's articles of association established on the basis of the notarial deed dated February 7, 1995 with subsequent amendments. Consolidated text of the company's articles of association was adopted by the Supervisory Board on October, 17, 2014.

The main business of the Capital Group is production and sale of ceramic and porcelain tiles.

The activity of subsidiaries, partially owned subsidiaries and associated companies is related to the activity of Parent Company.

As of December 31, 2014 the Company's registered share capital amounted to PLN 46,893,621 and was divided into 46.893.621 shares with the nominal value of PLN 1 each.

According to the information received from the Parent Company, as of December 31, 2014 the ownership structure was as follows:

Name of Stockholder	Number of shares	Number of votes	Face Value of shares	% of issued share capital
Waldemar Piotrowski	10,806,249	10,806,249	10,806,249	23.04%
MetLife Otwarty Fundusz Emerytalny	9,356,722	9,356,722	9,356,722	19.95%
PTE Allianz Polska SA	6,049,157	6,049,157	6,049,157	12.90%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	5,834,364	5,834,364	5,834,364	12.44%
ING Otwarty Fundusz Emerytalny oraz ING Dobrowolny Fundusz Emerytalny	3,293,725	3,293,725	3,293,725	7.02%
Other shareholders	11,553,404	11,553,404	11,553,404	24.64%
Total	46,893,621	46,893,621	46,893,621	100%

In the audited period, in connection with a legal buyback of own shares in order to redeem them, there was decrease in share capital in the amount of PLN 9,220,757.

The buyback of own shares was done on the basis of Extraordinary General Meeting of Shareholders resolution No. 3 of October 10, 2008, amended by resolution No. 5 of December 21, 2011, adopted in purpose to approve the buyback by the Parent Company its own shares to redeem them and ended in 2014.

As a part of buyback, in purpose to redeem, 237.149 shares were purchased, and after disposing this shares shareholders received remuneration in the amount of PLN 537,000. Moreover, on June 30, 2014 the Parent Company acquired from subsidiary CNG Luxembourg S.à.r.l 8.983.608 own shares. General Meeting of Shareholders of Ceramika Nowa Gala S.A. adopted resolution No. 13 related to redemption of purchased own shares. Reduction of share capital of the Company was registered in the National Court Register on October 16, 2014.

The Capital Group's financial year consists of 12 months and ends on December 31.

As of December 31, 2014 the Ceramika Nowa Gala S.A. Capital Group consisted of following subsidiaries:

Name of subsidiary	% in share capital of subsidiary	Consolidation method
Ceramika Nowa Gala II Sp. z o.o.	100%	fully consolidated
Ceramika Gres S.A.	100%	fully consolidated
CNG Luxembourg S.à.r.l.	100%	fully consolidated
Energia Park Trzemoszna Sp. z o.o.	100%	fully consolidated
Energio-Gaz Sp. z o.o.	50%	excluded from consolidation
Ceramika Nova Sp. z o.o.	50%	excluded from consolidation

Due to immateriality of its financial data, the latter two subsidiaries were excluded from consolidation.

In the audited period there was no change in the Ceramika Nowa Gala Capital Group.

The Management Board is authorized to represent the Parent Company. As of December 31, 2014 as well as of the opinion date, the composition of the Company's Management Board was as follows:

- | | |
|-----------------------|--------------------------------|
| – Waldemar Piotrowski | – President of the Board, |
| – Paweł Górnicki | – Vice-President of the Board. |

In the audited period there was no change in the composition of the Management Board.

The Supervisory Board is the unit authorized to supervise the Company. As of December 31, 2014 and the date of issue of the opinion, the following persons were members of the Supervisory Board:

- | | |
|------------------------|--|
| – Paweł Marcinkiewicz | – President of Supervisory Board, |
| – Grzegorz Ogonowski | – Vice-President of Supervisory Board, |
| – Łukasz Żuk | – Member of Supervisory Board, |
| – Wojciech Włodarczyk | – Member of Supervisory Board, |
| – Jacek Jakub Tomasiak | – Member of Supervisory Board. |

2. Information about the consolidated financial statements for the previous accounting year

The Capital Group's operations in the financial year ended on December 31, 2013 were closed with a net loss in the amount of PLN 1,639 thousand. The consolidated financial statements for the financial year ended on December 31, 2013 were audited by TPA Horwath Horodko Audit Sp. z o.o. with headquarter in Poznań, Murawa 12-18 Street, entered on the list of entities authorized to audit financial statements kept by the Polish Chamber of Certified Auditors under No. 3082. On March 18, 2014 the key certified auditor Krzysztof Dziekoński (reg. No. 10089) issued an unqualified opinion.

The consolidated financial statements for the financial year ended on December 31, 2013 was approved by resolution No. 10 of the Extraordinary General Shareholder's Meeting of 30 June 2014.

The financial statements for the financial year ended on December 31, 2013 was submitted to the National Court Register on July 16, 2014.

3. Information about the entity authorized to conduct audits and the key certified auditor performing the audit

The audit of the consolidated financial statements was performed based on the agreement of July 10, 2014 concluded between Ceramika Nowa Gala S.A. and TPA Horwath Horodko Audit Sp. z o.o. with the registered office in Poznań, 12-18 at Murawa Street, entered on the list of entities authorized to audit financial statements kept by the Polish Chamber of Certified Auditors under No. 3082. The audit was carried out on behalf of the authorized entity under the supervision of the Key Certified Auditor Krzysztof Dziekoński (Reg. No. 10089) from February 3, 2015 to March 19, 2015, including in the registered office of the Company from March 2 to March 6, 2015.

The auditing entity was appointed by the Supervisory Board with the resolution dated June 2, 2014.

TPA Horwath Horodko Audit Sp. z o.o. and the key certified auditor Krzysztof Dziekoński confirm that they are authorized to carry out audits and meet the requirements of Article 56 clauses 3 and 4 of the Act on Auditors and their Self-governing Body, Auditing Companies and on the Public Supervision (Act Journal of Law 2009, No. 77, item 649) to express an unbiased and independent opinion on the financial statements of Ceramika Nowa Gala S.A. Capital Group.

4. Availability of data and declarations of the Parent Company Management Board

There were no limitations to the scope of the audit. During the audit, necessary documents and data as well as detailed information and explanations were provided to the authorized entity and the certified auditor, as confirmed in a written representation of the Management Board of the Parent Company as of March 19, 2015.

5. Conducted audits of financial statements of subsidiaries included in consolidation

The basis for the preparation of the consolidated financial statements in accordance with IAS for the period from January 1, 2014 to December 31, 2014 were financial statements of subsidiaries included in Ceramika Nowa Gala S.A. Capital Group, subjected to consolidation, prepared as of December 31, 2014. The financial statements of Ceramika Nowa Gala II Sp. z o.o. and Ceramika Gres S.A., located in Poland, are prepared in accordance with IAS. Whereas the financial statements of CNG Luxembourg S.à.r.l. located in Luxembourg, is prepared according to Luxembourg accounting standards. The financial statements of Energia Park Trzemoszna Sp. z o.o., located in Poland, was prepared according to Accounting Act. These financial statements were adjusted in order to adapt them to IAS.

The financial statements of Parent Company for the year ended December 31, 2014, was audited by TPA Horwath Horodko Audit Sp. z o.o., the entity authorized to audit financial statements No. 3082 and obtained unqualified opinion.

The financial statements of Ceramika Nowa Gala S.A., Ceramika Nowa Gala II Sp. z o.o. and Ceramika Gres S.A. were audited for the consolidation purposes by TPA Horwath Horodko Audit Sp. z o.o. All companies obtained unqualified opinion.

Other entities included in Capital Group are not obliged to perform the audit.

6. Economic and financial situation of the Group

Below we present the main items from the profit and loss account as well as financial ratios describing the financial result of the Capital Group and its economic and financial situation in comparison with analogical financial data from the previous period.

Main items from the consolidated statement of total income (in thousand PLN)	2014	2013	2012
Revenues	178,865	198,451	213,656
Cost of sales	(135,605)	(153,212)	(162,365)
Selling, General and Administrative expenses	(39,901)	(41,557)	(38,404)
Other operating income	1,309	1,766	1,129
Other operating expenses	(2,603)	(4,302)	(2,597)
Financial income	1,086	23	38
Financial costs	(2,589)	(5,151)	(5,368)
Income tax	1,680	2,343	1,103
Net profit (loss)	2,242	(1,639)	7,192
Total income	2,244	(1,641)	7,194

Profitability ratios	2014	2013	2012
Return on assets (ROA)	0.76%	(0.53%)	2.26%
Return on equity (ROE)	1.11%	(0.81%)	3.53%
Gross sales margin	24.19%	22.80%	24.01%
Net margin	1.25%	(0.83%)	3.37%

Efficiency and liquidity ratios	2014	2013	2012
Current liquidity ratio	4.25	1.70	1.65
Quick ratio	1.57	0.55	0.62
Receivables turnover rate in days	72	78	87
Payables turnover in days	44	47	51
Inventory turnover in days	246	232	215

Structure ratios	2014	2013	2012
Share of fixed assets in total assets	52.5%	52.2%	50.2%
Share of current assets in total assets	47.5%	47.8%	49.8%
Share of equity in total liabilities	69.4%	67.6%	64.9%
Share of foreign capital in total liabilities	30.6%	32.4%	35.1%

Analysis of the above amounts and ratios indicates that in 2014 occurred the following trends:

- profitability ratios improved in comparison to the previous year, the rate of return on assets increased to 0.76% in the year ended December 31, 2014 comparing to minus 0.53% in 2013. The rate of return on equity also increased to the level of 1,11% in the year ended December 31, 2014 comparing to minus 0.81% in the year 2013,
- gross sales margin improved to 24.19% in the year ended December 31, 2014 comparing to 22.8% in the year 2013,
- the financial liquidity in 2014 improved significantly comparing to previous year, current liquidity ratio increased to 4.25 from the level of 1.7 in the year 2013 year, quick ratio increased to 1.57 from 0.55 in the year 2013,
- receivables turnover rate in days shortened in average to 72 days in the year ended December 31, 2014 comparing to 78 days in the year 2013,
- payable turnover in days shortened in average to 44 days in the year ended December 31, 2014 comparing to 47 days in the year 2013,
- inventory turnover ratio in days increased average from 232 days in the year ended December 31, 2013 to 246 days in the year 2014,
- structure ratios of assets indicates slight decrease of fixed assets share in total assets compared to the previous year. Capital Group in the audited year has reduced financing of foreign capital.

II DETAILED INFORMATION

1. Applied consolidation of financial statements principles

The consolidated financial statement of the Capital Group for the financial year 2014 was prepared in accordance with the international Financial Reporting Standards adopted by the European Union.

The consolidated financial statement of the Capital Group as of December 31, 2014 was prepared in accordance with the financial statements of the subsidiaries of the Capital Group to present financial and economic situation of the Group, as if the group constituted a single economic entity.

The financial statements of all subsidiaries of the Capital Group were prepared as of December 31, 2014 and include their financial data for the period from January 1, 2014 to December 31, 2014.

The Parent entity and the subsidiaries of the Group were fully consolidated.

The criteria specified in the International Financial Reporting Standards were applied when determining relationships as well as the consolidation scope and methods.

During consolidation relevant exclusions, regarding mutual receivables and liabilities, income and expenses related to transactions between consolidated companies, as well as gains and losses included in the assets subject to consolidation, were made. Moreover shares held by the Parent Company in the equity of subsidiaries (in the amount of purchase price) were eliminated with that part at fair value of the net assets of subsidiaries, which corresponds to the share of the Parent Company in the equity of subsidiaries.

The data from the financial statements, which are the base for the consolidation, were determined and adjusted using the accounting policies set out by the head of the Parent Company, in order to unify a significant accounting policies applied by the entities included in the consolidated financial statements.

2. Consolidation documentation

Consolidation documentation was prepared on the basis of the Ministry of Finance Regulation dated September 25, 2009 (Journal of Laws from 2009 No. 169 item 1327) regarding rules of preparing financial statements by Capital Group, excluding banks and insurance entities.

Consolidation documentation includes all material documents necessary for the proper preparation of consolidated financial statements and to properly document consolidation exclusions.

3. Valuation principles of assets and liabilities, equity valuation

The Group's accounting principles (policy) and disclosure of data has been presented in the notes to the consolidated financial statements of the Group for the year ended December 31, 2014.

4. Information about selected items of the consolidated financial statements

The structure of assets, liabilities and equity of the Capital Group were presented in the consolidated financial statements for the year ended December 31, 2014. The data presented in the consolidated financial statements complies with consolidation documentation.

The information related to Goodwill arising during consolidation and issues related to the impairment assessment was presented in the note 38 of additional information of the financial statements.

Presented equity is consistent with the consolidation documentation and appropriate legal documentation. There are no non-controlling interests. Data related to the equity was presented in the note 15 of additional information to the consolidated financial statements.

5. Completeness and correctness of drawing up the additional information and explanations to the consolidated financial statements and the Management Board's Annual Report

Additional information and explanations, including accepted accounting policy and other notes to the consolidated financial statements present a fair and clear view of all material information. Those information are an integral part of the consolidated financial statements.

The Parent Company prepared the additional information and explanations (notes) consisting of tabular notes to individual balance sheet and profit and loss account items as well as narrative descriptions, according to the IAS.

The Parent Company presented properly positions of assets and liabilities plus equity as well as income and expenses in the consolidated financial statements. The consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement with additional information and explanations being integral part of the consolidated financial statements include all material positions required under IAS.

The Management Board's Annual Report on the Group's activity for the financial year ended December 31, 2014 is complete and includes information required by Article 49 clause 2 of the Accounting Act and Regulation of the Minister of Finance dated 19 February 2009 regarding current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws from 2009, No. 33, item. 259), and information disclosed in that Report, derived directly from the audited financial statements, are consisted with the consolidated financial statements.

Justification of the issued opinion

In our opinion the audited consolidated financial statements of Ceramika Nowa Gala S.A. Capital Group for the financial year ended December 31, 2014 were prepared in all material aspects in accordance with accounting principle (policy) required by the International Accounting Standards (IAS), International Financial Reporting Standards and related interpretations announced by the European Commission and in the scope not regulated by the IAS, according to the requirements of the Accounting Act and implementing rules issued on its basis, related to the listed companies and reflect all information relevant for the assessment of the Group's economic and financial situation as of December 31, 2014.

6. Final information

Management Board's Representations

TPA Horwath Horodko Audit Sp. z o.o. and the key certified auditor received a representation letter from the Management Board of the Parent Company in which the Board stated that the Group complied with the laws in force.

Key Certified Auditor's Representations

We have conducted the audit of the consolidated financial statements according to the binding law and auditing standards.

On behalf of

TPA Horwath Horodko Audit Sp. z o. o.
ul. Murawa 12-18, 61-655 Poznań
No. 3082

Krzysztof Dziekoński

Key Certified Auditor
conducting the audit
No. 10089

Warsaw, March 19, 2015

The above audit opinion together with auditor's report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.