



**Condensed consolidated interim financial
statements of**

Ceramika Nowa Gala SA

for the period from 1 January 2017 to 30 June 2017

Końskie, 31 August 2017

Consolidated statement of profit and loss and other comprehensive income

for the period from 1 January 2017 to 30 June 2017

Amounts in PLN thousand (PLN '000).

	H1 2017	H1 2016
Revenues	80,182	86,097
Cost of sales	57,595	65,759
Gross profit	22,587	20,338
Other income	160	-49
Selling and administrative expenses	19,964	20,869
Other expenses	841	456
Profit before interest and tax	1,942	-1,036
Finance income	3	204
Finance expenses	1,170	915
Share in profits of associates and joint ventures	-	-
Profit from continued operations before tax	775	-1,747
Income tax expense	605	67
Profit from continued operations after tax	170	-1,814
Profit from discontinued operations after tax	-	-
Profit for the year	170	-1,814
Other comprehensive income that may not be transferred to the profit in the future		
Cost of buyback of treasury shares	-	-
Other comprehensive income that may be transferred to the profit in the future		
Exchange rate differences from translation	9	-2
Total comprehensive income	179	-1,816
Net profit attributable to		
shareholders of the parent company	170	-1,814
non-controlling interests	-	-
	170	-1,814
Total comprehensive income attributable to		
shareholders of the parent company	179	-1,816
non-controlling interests	-	-
	179	-1,816

	Unit	H1 2017	H1 2016
Annualized profit/(loss)	PLN thousand	-6,966	-3,092
Weighted average number of shares	thousand shares	46,894	46,894
Basic earnings/(loss) per share from continued operations	PLN	-0.15	-0.07
Weighted average diluted number of shares	thousand shares	46,894	46,894
Diluted earnings/(loss) per share from continued operations	PLN	-0.15	-0.07

Consolidated statement of financial position as at 30 June 2017

Amounts in PLN thousand (PLN '000).

Assets	30.06.2017	31.12.2016
Non-current assets		
Goodwill	18,851	18,851
Intangible assets	2,912	3,243
Property, plant and equipment	94,709	88,408
Investment property	7,550	7,550
Other financial assets	145	145
Deferred tax assets	9,759	10,561
Total non-current assets	133,926	128,758
Current assets		
Inventory	72,073	68,919
Trade and other receivables	28,827	25,673
Receivables from current income tax	-	2
Cash and cash equivalents	13,970	22,596
Other current assets	955	421
Total current assets	115,825	117,611
Fixed assets classified as held for sale in accordance with IFRS 5	-	-
Total assets	249,751	246,369

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Consolidated statement of financial position as at 30 June 2017 (contd.)

Amounts in PLN thousand (PLN '000).

Equity and liabilities	30.06.2017	31.12.2016
Equity		
Share capital	46,894	46,894
Capital reserves	122,146	136,034
Revaluation reserve	-	-
Exchange rate differences from translation	11	2
Reserve capital	8,719	8,719
Treasury shares	-	-
Retained earnings	406	-8,963
Equity attributable to shareholders of the parent company	178,176	182,686
Non-controlling interests	-	-
Total equity	178,176	182,686
Non-current liabilities		
Borrowings	27,227	848
Provision for deferred income tax	4,360	4,909
Provision for employee benefits	24	24
Total non-current liabilities	31,611	5,781
Current liabilities		
Trade and other payables	30,204	22,651
Current tax liability	308	331
Borrowings	1,151	24,052
Other financial liabilities*	613	1,401
Provision for employee benefits	1,937	1,492
Other provisions	5,751	7,975
Total current liabilities	39,964	57,902
Liabilities associated with assets classified as held for sale in accordance with IFRS 5	-	-
Total liabilities	71,575	63,683
Total equity and liabilities	249,751	246,369
Book value (in PLN thousand)	178,176	182,686
Number of shares (in thousand shares)	46,894	46,894
Book value per share (in PLN)	3.80	3.90
Diluted number of shares (in thousand shares)	46,894	46,894
Diluted book value per share (in PLN)	3.80	3.90

*Factoring agreement concluded by a subsidiary

Consolidated cash flow statement

for the period from 1 January 2017 to 30 June 2017

Amounts in PLN thousand (PLN '000).

	H1 2017	H1 2016
<u>Operating activities</u>		
Net profit/(loss)	170	-1,814
Amortization and depreciation	6,586	6,818
Interest revenue and expenses	542	688
Exchange rate gains/(losses)	71	-35
Gain/(loss) on disposal of intangible and tangible non-current assets	25	-14
Movement in provisions, write-downs, prepayments and accruals	-2,467	-2,722
Income tax expense	605	67
Other adjustments	-89	2
Cash flow from operations before movements in working capital	5,443	2,990
Movement in inventory	-3,154	11,616
Movement in receivables	-3,011	-10,671
Movement in liabilities	5,647	-3,160
Cash flow from operations before tax	4,925	775
Interest received from operating activities	3	1
Interest paid on operating activities	-1	-
Income tax paid	-373	-97
Net cash flows from operating activities	4,554	679
<u>Investing activities</u>		
Proceeds from disposal of tangible and intangible non-current assets	149	49
Purchase of tangible and intangible non-current assets	-10,715	-1,495
Net cash from investing activities	-10,566	-1,446

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Consolidated cash flow statement for the period from 1 January 2017 to 30 June 2017 (contd.)

Amounts in PLN thousand (PLN `000).

	H1 2017	H1 2016
Financing activities		
Proceeds from borrowings	4,123	7,355
Inflows from other sources of funding*	-	601
Dividends paid to shareholders of the parent company	-4,689	-
Repayment of borrowings	-573	-663
Repayment of other sources of funding*	-789	-
Interest paid pertaining to financing activities	-554	-688
Net cash from financing activities	-2,482	6,605
Net cash from financing activities		
	-8,494	5,838
Cash and cash equivalents at the beginning of the period	22,596	9,894
Exchange rate differences	-132	118
Cash and cash equivalents at the end of the period	13,970	15,850
Structure of cash and cash equivalents		
Unrestricted cash	12,923	15,741
Restricted cash	1,047	109
	13,970	15,850

*Pertains to a factoring agreement concluded by a subsidiary

Consolidated statement of changes in equity

for the period from 1 January 2017 to 30 June 2017

Amounts in PLN thousand (PLN '000).

	Attributable to the shareholders of the parent company							Total	Non-controlling interests	Total equity
	Share capital	Capital reserves	Foreign exchange differences from translation	Reserve capital	Revaluation reserve	Treasury shares	Retained earnings			
As at 1 January 2016	46,894	125,274	5	8,719	-	-	15,437	196,329	-	196,329
Total comprehensive income*	-	-	-2	-	-	-	-1,814	-1,816	-	-1,816
Coverage of loss from previous years	-	-	-	-	-	-	-	-	-	-
Distribution of profit from previous years	-	10,760	-	-	-	-	-10,760	-	-	-
Dividend to be paid	-	-	-	-	-	-	-4,690	-4,690	-	-4,690
As at 30 June 2016	46,894	136,034	3	8,719	-	-	-1,827	189,823	-	189,823
As at 1 January 2017	46,894	136,034	2	8,719	-	-	-8,963	182,686	-	182,686
Total comprehensive income*	-	-	9	-	-	-	170	179	-	179
Coverage of loss from previous years	-	-9,362	-	-	-	-	9,362	-	-	-
Distribution of profit from previous years	-	163	-	-	-	-	-163	-	-	-
Dividend paid	-	-4,689	-	-	-	-	-	-4,689	-	-4,689
As at 30 June 2017	46,894	122,146	11	8,719	-	-	406	178,176	-	178,176

*After H1 2017, the amounts of comprehensive income were allocated to the following equity items: net profit in the amount of PLN 170 thousand increased the amount of retained earnings, exchange rate differences from translation in the amount of PLN 9 thousand increased the relevant capital item. After H1 2016, the amounts of comprehensive income were allocated to the following equity items: net loss in the amount of PLN 1,814 thousand decreased the amount of retained earnings, exchange rate differences from translation in the amount of PLN 2 thousand decreased the relevant capital item.

Financial highlights

Euro exchange rates used to translate the items in the following table:

- as regards balance sheet data, the following average exchange rates of NBP were used: 4.424 PLN/EUR as at 31 December 2016 and 4.2265 PLN/EUR as at 30 June 2017;
- as regards data derived from the statement of comprehensive income and the cash flow statement, the following exchange rates, which constituted the arithmetic average of the NBP rates, were used: 4.3805 PLN/EUR in H1 2016; 4.2474 PLN/EUR in H1 2017.

The average exchange rates of the NBP for USD, used for translating the monetary items, were as follows: 4.1493 PLN/USD as at 31 December 2016 and 3.7062 PLN/USD as at 30 June 2017.

Consolidated data	in PLN thousand		in EUR thousand	
	H1 2017	2016 (comparative data)**	H1 2017	2016 (comparative data)**
I. Net revenue from the sale of products, goods and materials	80,182	86,097	18,878	19,655
II. Profit/(loss) from operating activities	1,942	-1,036	457	-237
III. Profit/(loss) before tax	775	-1,747	182	-399
IV. Net profit/(loss)	170	-1,814	40	-414
V. Net cash flows from operating activities	4,554	679	1,072	155
VI. Net cash flows from investing activities	-10,566	-1,446	-2,488	-330
VII. Net cash flows from financing activities	-2,482	6,605	-584	1,508
VIII. Net cash flows (in total)*	-8,626	5,956	-2,031	1,360
IX. Total assets	249,751	246,369	59,092	55,689
X. Liabilities and provisions for liabilities	71,575	63,683	16,935	14,395
XI. Non-current liabilities	31,611	5,781	7,479	1,307
XII. Current liabilities	39,964	57,902	9,456	13,088
XIII. Equity	178,176	182,686	42,157	41,294
XIV. Share capital	46,894	46,894	11,095	10,600
XV. Number of shares	46,893,621	46,893,621	-	-
XVI. Profit/(loss) per share (in PLN/EUR)	-0.15	-0.07	-0.03	-0.02
XVII. Diluted profit/(loss) per share (in PLN/EUR)	-0.15	-0.07	-0.03	-0.02
XVIII. Book value per share (in PLN/EUR)	3.80	3.90	0.90	0.88
XIX. Diluted book value per share (in PLN/EUR)	3.80	3.90	0.90	0.88
XX. Declared or paid dividend per share (in PLN/EUR)	0.1	0.1	0.02	0.02

* Balance sheet movement in cash accounting for the movement of revaluation from foreign exchange differences.

**In the case of balance sheet items, comparative data relate to the balance as at 31 December 2016, while in the case of the other items, comparative data relate to H1 2016.

Additional Information

to the condensed consolidated interim financial statements for the period from 1 January 2017 to 30 June 2017

1. Principles adopted in the preparation of the condensed consolidated interim semi-annual report

When preparing the consolidated financial statements, the Company applies the International Financial Reporting Standards. All data have been derived from the accounting records of the subsidiaries, off-balance sheet records and consolidation documents.

The Group is composed of the following business entities whose financial statements are consolidated on a line-by-line basis:

- Ceramika Nowa Gala SA – the parent company;
- Ceramika Nowa Gala II Sp. z o.o. – a subsidiary;
- Ceramika Gres SA – a subsidiary;
- CNG Luxembourg S.à.r.l. – a subsidiary;
- Energia Park Trzemoszna Sp. z o.o. – an entity controlled by the subsidiaries.

Except for the CNG Luxembourg S.à.r.l. subsidiary and Energia Park Trzemoszna Sp. z o.o., the books of the subsidiary companies are kept based on the same accounting principles as those applicable to the parent company. The accounts of CNG Luxembourg S.à.r.l. are kept in accordance with accounting standards applicable in Luxembourg, and its financial statements are subject to relevant transformations in the consolidation process. The books of Energia Park Trzemoszna Trzemoszna are kept in accordance with Polish accounting standards provided for in the Accounting Act, and – if required – the financial statements of this company are subject to relevant transformations in the consolidation process. The financial statements of the subsidiaries are consolidated on a line-by-line basis, with due account of any applicable exclusions and conversions to the presentation currency, i.e. PLN.

No changes occurred in the structure of the Issuer's group in the reporting period.

These condensed consolidated interim financial statements were compiled in line with IAS 34. The applied accounting principles are the same as those which governed the preparation of the financial statements for 2016.

These condensed consolidated interim financial statements were prepared with the assumption that the companies which belong to the Group would continue their activities in the foreseeable future. On the day of approval of these financial statements for publication, there were no circumstances which would indicate any threat to the continuation of activities conducted by the companies of the Group.

These condensed consolidated interim financial statements do not contain all information and disclosures which are required to be included in the consolidated annual financial statements, hence all information contained herein should be read together with the consolidated financial statements of the Group for the financial year which ended on 31 December 2016, prepared in accordance with IFRSs.

2. Seasonal nature of the Issuer's business

Alike other sectors, the ceramic tile industry is characterized by seasonal demand for the goods offered by the Issuer. The lowest demand is observed in winter (1st quarter and the last two months of the year), whereas the highest demand usually falls in summer months.

3. Impact of unusual events on the financial statements

- The Group is reorganizing its structure, which involves closing down the production plant of one of the subsidiary companies (for more details see section 9.1) and moving part of the machines and equipment from this plant to the remaining companies of the Group, mostly to the production plant of Ceramika Nowa Gala SA. At the same time, an investment plan is being implemented in the latter plant. The plan is aimed at expanding the production capacity with respect to larger-format tiles, including those manufactured using the double charge technology.
As a result of the works carried out, the ongoing production in this plant has been temporarily reduced. The situation will start improving in H2 2017, once the assembly and commissioning of new equipment are completed. Due to production downtime, the profit was lower by PLN 4,369 thousand. In the comparable period of 2016, this figure was PLN 7,034 thousand. Production discontinuities resulting from the works carried out were reflected also in sales in Q1 2017.
- Capital expenditure for modernization of the plant of Ceramika Nowa Gala SA amounted to PLN 11,000 thousand.
- Dividends paid to shareholders of the parent company (see section **Błąd! Nie można odnaleźć źródła odwołania.**): PLN 4,689 thousand.

4. Information on essential adjustments to provisions, including the deferred income tax provision and assets and write-downs on assets

- Creating a provision for liabilities: PLN 5,972 thousand;
- utilizing the provision for liabilities: PLN 7,745 thousand;
- increasing the provision for deferred income tax: PLN 40 thousand;
- utilizing the provision for deferred income tax: PLN 590 thousand;
- increasing deferred income tax assets: PLN 691 thousand;
- utilizing deferred income tax assets: PLN 1,493 thousand;
- increasing the amount of write-downs on inventory: PLN 212 thousand.

5. Business segments

The organizational structure of the Group is a functional one. Four key areas can be identified: sales, production, finance, administration and logistics. The key decisions regarding the ongoing operations and the Group's growth strategy are taken by the management. The Group specializes in the production of ceramic stoneware tiles which are sold under two brands: Ceramika Nowa Gala and Ceramika Gres. The sales policy is determined jointly for the whole Group. In accordance with the requirements of IFRS 8, only one operating segment has been identified.

5.1. Information on geographic segments

Amounts in PLN thousand (PLN '000).

	DOMESTIC		EXPORTS		TOTAL	
	H1 2017	H1 2016	H1 2017	H1 2016	H1 2017	H1 2016
Revenues	65,369	70,839	14,813	15,258	80,182	86,097
Cost of sales	43,127	46,615	10,496	11,073	53,623	57,688
Sales result	22,242	24,224	4,317	4,185	26,559	28,409
Unallocated costs					3,972	8,071
Gross profit					22,587	20,338
Assets	30.06.2017	31.12.2016	30.06.2017	31.12.2016	30.06.2017	31.12.2016
Trade receivables	19,178	16,814	6,367	5,560	25,545	22,374
Other receivables (unallocated)					3,282	3,299
					28,827	25,673

None of the export countries exceeds 10% of the share in consolidated revenue.

All fixed assets of the companies of the Group are located in Poland. CNG Luxembourg subsidiary does not own fixed assets and does not manufacture goods or conduct trade operations.

5.2. Information on product segments

The Group specializes in the production of ceramic stoneware tiles and supplementary elements, sold within one joint offer. The remaining sales are marginal and concern raw materials or services.

Amounts in PLN thousand (PLN '000).

	CERAMIC PRODUCTS		OTHER SALES		TOTAL	
	H1 2017	H1 2016	H1 2017	H1 2016	H1 2017	H1 2016
Revenue from sales to external customers	79,943	85,979	239	118	80,182	86,097
Purchase of fixed assets	12,844	4,651	-	-	12,844	4,651

5.3. Information on significant customers

In H1 2017, sales to none of the customers of the Group exceeded 10% of consolidated revenue from sales.

6. Changes in off-balance sheet items relative to the annual report for 2016

There were changes in off-balance sheet items relative to the information disclosed in the last consolidated annual report.

6.1. Contract for the purchase of plant and equipment

Future liabilities related to the purchase of plant and machinery under signed contracts amount as at the balance sheet date to PLN 1,606 thousand.

6.2. Non-recourse factoring liabilities

As at the balance sheet date, contingent (off-balance sheet) liabilities under a non-recourse factoring agreement signed by the parent company amounted to PLN 11,077 thousand.

7. Loan agreements concluded in H1 2017

7.1. Loans contracted by Ceramika Nowa Gala SA

Loan agreement with Bank Pekao SA concluded on 9 February 2017

In order to fund the purchase of manufacturing equipment, the Company contracted, in February 2017, a 5-year investment loan at Bank Pekao SA in the amount of EUR 912 thousand. The deadline for payment of the last instalment falls on 31 December 2021. The debt as at the balance sheet date amounted to EUR 432 thousand.

Annex to the revolving credit facility agreement concluded with mBank SA on 28 October 2002

The deadline for repayment of the revolving credit facility in the amount of PLN 3,640 thousand granted to the Company by mBank SA fell on 29 June 2017. On 26 June 2017, Ceramika Nowa Gala SA signed an annex to the revolving credit facility agreement which extended the deadline for its repayment until 28 June 2019, while maintaining the existing collateral. At the same time, the Company decreased its existing overdraft limit from PLN 3,640 thousand to PLN 3,540 thousand, in line with its strategy which assumes debt reduction.

7.2. Loan contracted by Ceramika Gres SA subsidiary

Annex to the loan agreement concluded with ING Bank Śląski SA on 28 June 28 2014

On 23 February 2017, Ceramika Gres SA subsidiary signed an annex to the loan agreement concluded with ING Bank Śląski SA, to extend the deadline for the repayment of the loan from 31 August 2017 to 31 October 2018, while maintaining the existing collateral and the maximum amount of financing of PLN 40,000 thousand.

8. Payment of a dividend under a resolution of the General Meeting of the Parent Company

On 10 May 2017, the General Meeting of Shareholders resolved to pay a dividend from available accumulated profit from previous years. The amount of dividend per share was PLN 0.10, thus the total amount paid out was PLN 4,689,362.10. The dividend was paid on 46,893,621 shares. The dividend was paid on 14 June 2017.

9. Position of the Management Board concerning the accomplishment of financial forecasts for 2017

The Company did not publish any forecasts for 2017.

10. Infringing the terms and conditions applicable to selected financial indicators arising from loan agreements

Each bank loan can be repaid at an earlier date. Banks have the right to demand earlier repayment of loans, increase the margins and demand additional collateral in the event of a

breach by a company of the Group of the material conditions of loan agreements or deterioration in the company's standing putting loan repayment at risk.

As regards the loans granted to Ceramika Nowa Gala SA by mBank SA, the conditions to achieve the level of the profit margin on sales and the net profit margin specified by the bank were not met as at the balance sheet date. On 27 July 2017, the Company and the bank signed annexes to each loan agreement, in which the levels of the monitored financial ratios were modified. As at the balance sheet date, these ratios were at levels within the agreed limits (see section 11.1).

The Company believes that all loans that need to be renewed in the next 12 months will be renewed, as was the case in earlier periods, not ruling out, however, change of the financing bank.

11. Important events that took place after the balance sheet date and before the date of the publication of this Report

11.1. Signing annexes to credit agreements by Ceramika Nowa Gala SA and mBank SA

On 27 July, the Company and mBank SA signed annexes to the following agreements: overdraft facility agreement, investment credit agreement and an cooperation agreement as regards letters of credit, modifying the levels of ratios which give a view of the Company's financial position.

11.2. Annex to the overdraft facility agreement concluded with Bank Polska Kasa Opieki SA on 24 September 2013

Bank Polska Kasa Opieki SA carried out an annual review of the Company's credit exposure and an assessment of its economic and financial condition to determine price conditions applicable from 1 October 2017 to 30 September 2018. Following the Company's assessment, the Company and the bank signed, on 24 July 2017, Annex 3 in which the price parameters were left at an unchanged level.

11.3. Annex to the non-recourse factoring agreement No. 40/2016 of 5 August 2016

On 1 August 2017, Ceramika Nowa Gala SA signed Annex 2 to non-recourse factoring agreement No. 40/2016 of 5 August 2016, reducing the maximum limit of financing from PLN 25,000 thousand to PLN 15,000 thousand.

Signatures

These financial statements were drawn up and signed on **31 August 2017** and will be published on 31 August 2017.

Management Board

Chief Accountant

Separate statement of profit and loss and other comprehensive income

for the period from 1 January 2017 to 30 June 2017

Amounts in PLN thousand (PLN '000).

	H1 2017	H1 2016
Revenues	59,930	67,306
Cost of sales	49,884	57,600
Gross profit	10,046	9,706
Other income	50	13
Selling and administrative expenses	12,005	12,404
Other expenses	123	299
Profit before interest and tax	-2,032	-2,984
Finance income	1,878*	1,057
Finance expenses	449	352
Profit from continued operations before tax	-603	-2,279
Income tax expense	-371	-369
Profit from continued operations after tax	-232	-1,910
Profit from discontinued operations after tax	-	-
Profit for the year	-232	-1 910
Other comprehensive income - none		
Total comprehensive income	-232	-1 910

*the amount of a dividend from a subsidiary: PLN 1,878 thousand from Ceramika Gres SA

	Unit	H1 2017	H1 2016
Annualized profit/(loss)	PLN thousand	-4,093	-5,860
Weighted average number of shares	thousand shares	46,894	46,894
Basic earnings/(loss) per share from continued operations	PLN	-0.09	-0.12
Weighted average diluted number of shares	thousand shares	46,894	46,894
Diluted earnings/(loss) per share from continued operations	PLN	-0.09	-0.12

Separate statement of financial position as at 30 June 2017

Amounts in PLN thousand (PLN '000).

Assets	30.06.2017	31.12.2016
Non-current assets		
Intangible assets	300	340
Property, plant and equipment	44,306	37,182
Investments in related parties	78,233	78,241
Other financial assets	121	121
Deferred tax assets	6,474	6,628
Total non-current assets	129,434	122,512
Current assets		
Inventory	54,745	54,050
Trade and other receivables	17,353	16,756
Receivables from current income tax	-	-
Cash and cash equivalents	8,551	16,309
Other current assets	527	171
Total current assets	81,176	87,286
Fixed assets classified as held for sale in accordance with IFRS 5	-	-
Total assets	210 610	209 798

(continued on the next page)

Separate statement of financial position as at 30 June 2017 (contd.)

Amounts in PLN thousand (PLN '000).

Equity and liabilities	30.06.2017	31.12.2016
Equity		
Share capital	46,894	46,894
Capital reserves	127,015	137,475
Revaluation reserve	-	-
Reserve capital	-	-
Treasury shares	-	-
Retained earnings	-232	-5,771
Total equity	173,677	178,598
Non-current liabilities		
Borrowings	5,400	848
Provision for deferred income tax	2,351	2,876
Other provisions	-	-
Total non-current liabilities	7,751	3,724
Current liabilities		
Trade and other payables	22,261	16,627
Current tax liability	-	-
Borrowings	1,151	4,506
Provision for employee benefits	1,548	1,007
Other provisions	4,222	5,336
Total current liabilities	29,182	27,476
Liabilities associated with assets classified as held for sale in accordance with IFRS 5	-	-
Total liabilities	36,933	31,200
Total equity and liabilities	210,610	209,798

	Unit	30.06.2017	31.12.2016
Book value	PLN thousand	173,677	178,598
Number of shares	thousand shares	46,894	46,894
Book value per share	PLN thousand	3.70	3.81
Diluted number of shares	thousand shares	46,894	46,894
Diluted book value per share	PLN	3.70	3.81

Separate cash flow statement

for the period from 1 January 2017 to 30 June 2017

Amounts in PLN thousand (PLN '000).

	H1 2017	H1 2016
<u>Operating activities</u>		
Net profit/(loss)	-232	-1,910
Amortization and depreciation	4,050	3,789
Dividend income	-1,878	-952
Interest revenue and expenses	76	59
Exchange rate gains/(losses)	-53	70
Gain/(loss) on disposal of intangible and tangible non-current assets	-9	49
Movement in provisions, write-downs, prepayments and accruals	-929	-2,309
Income tax expense	-371	-369
Other adjustments	-127	-
Cash flow from operations before movements in working capital	527	-1,573
Movement in inventory	-695	1,371
Movement in receivables	-634	-7,302
Movement in liabilities	3,269	7,533
Cash flow from operations before tax	2,467	29
Interest received from operating activities	-	-
Interest paid on operating activities	-1	-
Income tax paid	-	-
Net cash flows from operating activities	2,466	29
<u>Investing activities</u>		
Proceeds from disposal of tangible and intangible non-current assets	41	14
Dividends received	1,878	1,217
Purchase of tangible and intangible non-current assets	-8,640	-809
Loans granted	-	-88
Net cash from investing activities	-6,721	334

(continued on the next page)

Separate cash flow statement (contd.)

Amounts in PLN thousand (PLN '000).

	H1 2017	H1 2016
<u>Financing activities</u>		
Proceeds from borrowings	1,842	3,999
Dividends to shareholders of the parent company	-4,689	-
Repayment of borrowings	-573	-662
Interest paid pertaining to financing activities	-75	-165
Net cash from financing activities	-3,495	3,172
Net cash from financing activities	-7,750	3,535
Cash and cash equivalents at the beginning of the period	16,309	2,603
Exchange rate differences	-8	13
Cash and cash equivalents at the end of the period	8,551	6,151
<u>Structure of cash and cash equivalents</u>		
Unrestricted cash	7,757	6,092
Restricted cash	794	59
	8,551	6,151

Separate statement of changes in equity for the period from 1 January 2017 to 30 June 2017

Amounts in PLN thousand (PLN '000).

	Share capital	Capital reserves	Reserve capital	Revaluation reserve	Treasury shares	Retained earnings	Total equity
As at 1 January 2016	46,894	139,786	-	-	-	-1,859	184,821
Total comprehensive income*	-	-	-	-	-	-1,910	-1,910
Coverage of loss from previous years	-	-	-	-	-	-	-
Distribution of profit from previous years	-	4,238	-	-	-	-4,238	4,238
Dividend to be paid	-	-	-	-	-	-4,689	-4,689
As at 30 June 2016	46,894	137,475	-	-	-	-1,910	182,459
As at 1 January 2017	46,894	137,475	-	-	-	-5,771	178,598
Total comprehensive income*	-	-	-	-	-	-232	-232
Coverage of loss from previous years	-	-5,771	-	-	-	5,771	-
Distribution of profit from previous years	-	-	-	-	-	-	-
Payment of dividend	-	-4,689	-	-	-	-	-4,689
As at 30 June 2017	46,894	127,015	-	-	-	-232	173,677

*The amount of total comprehensive income for H1 2017 includes only a net loss in the amount of PLN 232 thousand. The amount of total comprehensive income for H1 2016 includes only a net loss in the amount of PLN 1,910 thousand.

Financial highlights

Euro exchange rates used to translate the items in the following table:

- as regards balance sheet data, the following average exchange rates of NBP were used: 4.424 PLN/EUR as at 31 December 2016 and 4.2265 PLN/EUR as at 30 June 2017;
- as regards data derived from the statement of comprehensive income and the cash flow statement, the following exchange rates, which constituted the arithmetic average of the NBP rates, were used: 4.3805 PLN/EUR in H1 2016; 4.2474 PLN/EUR in H1 2017.

The average exchange rates of the NBP for USD, used for translating the monetary items, were as follows:

4.1493 PLN/USD as at 31 December 2016 and 3.7062 PLN/USD as at 30 June 2017.

Separate data	in PLN thousand		in EUR thousand	
	H1 2017	2016 (comparative data)*	H1 2017	2016 (comparative data)*
I. Net revenue from the sale of products, goods and materials	59,930	67,306	14,110	15,365
II. Profit/(loss) from operating activities	-2,032	-2,984	-478	-681
III. Profit/(loss) before tax	-603	-2,279	-142	-520
IV. Net profit/(loss)	-232	-1,910	-55	-436
V. Net cash flows from operating activities	2,466	29	581	7
VI. Net cash flows from investing activities	-6,721	334	-1,582	76
VII. Net cash flows from financing activities	-3,495	3,172	-823	724
VIII. Net cash flows (total)	-7,758	3,548	-1,827	810
IX. Total assets	210,610	209,798	49,831	47,423
X. Liabilities and provisions for liabilities	36,933	31,200	8,738	7,052
XI. Non-current liabilities	7,751	3,724	1,834	842
XII. Current liabilities	29,182	27,476	6,905	6,211
XIII. Equity	173,677	178,598	41,092	40,370
XIV. Share capital	46,894	46,894	11,095	10,600
XV. Number of shares	46,893,621	46,893,621	-	-
XVI. Profit/(loss) per share (in PLN/EUR)	-0.09	-0.12	-0.02	-0.03
XVII. Diluted profit/(loss) per share (in PLN/EUR)	-0.09	-0.12	-0.02	-0.03
XVIII. Book value per share (in PLN/EUR)	3.70	3.81	0.88	0.86
XIX. Diluted book value per share (in PLN/EUR)	3.70	3.81	0.88	0.86
XX. Declared or paid dividend per share (in PLN/EUR)	0.1	0.1	0.02	0.02

* Balance sheet movement in cash accounting for the movement in revaluation from foreign exchange differences.

**In the case of balance sheet items, comparative data relate to the balance as at 31 December 2016, while in the case of the other items, comparative data relate to H1 2016.

Additional Information

to the condensed separate interim financial statements of Ceramika Nowa Gala SA for the period from 1 January 2017 to 30 June 2017

1. Principles adopted in the preparation of the condensed separate interim semi-annual report

These condensed separate interim financial statements were drawn up in accordance with IAS 34. The applied accounting principles are the same as those which governed the preparation of the financial statements for 2016.

These financial statements were prepared with the assumption that the Company would continue its operations in the foreseeable future. On the day of approval of these financial statements for publication, no circumstances were found which would indicate any threat to the continuation of the operations conducted by the Company.

These condensed separate interim financial statements do not contain all information and disclosures which are required to be included in the annual consolidated financial statements. Hence, all information contained herein should be read together with the separate financial statements for the financial year which ended on 31 December 2016, prepared in accordance with IFRSs.

2. Seasonal nature of the Issuer's business

Alike other sectors, the ceramic tile industry is characterized by seasonal demand for the goods offered by the Issuer. The lowest demand is observed in winter (1st quarter and the last two months of the year), whereas the highest demand usually falls in summer months.

3. Impact of unusual events on the financial statements

- The Group is reorganizing its structure, which involves closing down the production plant of one of the subsidiary companies (for more details see section 9.1) and moving part of the machines and equipment from this plant to the remaining companies of the Group, mostly to the production plant of Ceramika Nowa Gala SA. At the same time, an investment plan is being implemented in the latter plant. The plan is aimed at expanding the production capacity with respect to larger-format tiles, including those manufactured using the double charge technology. As a result of the works carried out, the ongoing production in this plant has been temporarily reduced. The situation will start improving in H2 2017, once the assembly and commissioning of new equipment are completed. Due to production downtime at Ceramika Nowa Gala SA the profit was lower by PLN 3,044 thousand. In the comparable period of 2016, this figure was PLN 2,336 thousand. Production discontinuities resulting from the works carried out were reflected also in sales in Q1 2017;
- Capital expenditure for modernization of the plant of Ceramika Nowa Gala SA amounted to PLN 11,000 thousand;
- Dividends paid to shareholders of the parent company (see section 8): PLN 4,689 thousand;
- Payment of dividend in the amount of PLN 1,878 thousand from Ceramika Gres SA subsidiary to Ceramika Nowa Gala SA. The transaction affects only the separate financial statements and was eliminated from the consolidated financial statements.

4. Information on essential adjustments to provisions, including the deferred income tax provision and assets and write-downs of assets

- Creating a provision for liabilities: PLN 3,475 thousand;
- utilizing the provision for liabilities: PLN 4,028 thousand;
- increasing the provision for deferred income tax: PLN 2 thousand;
- utilizing the provision for deferred income tax: PLN 526 thousand;
- increasing deferred income tax assets: PLN 718 thousand;
- utilizing deferred income tax assets: PLN 872 thousand.

5. Business segments

For the first half-year, Ceramika Nowa Gala SA publishes consolidated financial statements. Therefore, information on business segments is provided only with respect to consolidated data.

6. Changes in off-balance sheet items relative to the annual report for 2016

There were changes in off-balance sheet items relative to the information disclosed in the latest consolidated annual report.

6.1. Contract for the purchase of plant and equipment

Future liabilities related to the purchase of plant and machinery under signed contracts amount, as at the balance sheet date, to PLN 1,606 thousand.

6.2. Non-recourse factoring liabilities

As at the balance sheet date, contingent (off-balance sheet) liabilities under a non-recourse factoring agreement signed by the parent company amounted to PLN 11,077 thousand.

7. Loan agreements concluded in H1 2017

7.3. Loan agreement with Bank Pekao SA concluded on 9 February 2017

In order to fund the purchase of manufacturing equipment, the Company contracted, in February 2017, a 5-year investment loan at Bank Pekao SA, in the amount of EUR 912 thousand. The deadline for payment of the last instalment falls on 31 December 2021. The debt as at the balance sheet date amounted to EUR 432 thousand.

7.4. Annex to the revolving credit facility agreement concluded with mBank SA on 28 October 2002

The deadline for repayment of the revolving credit facility in the amount of PLN 3,640 thousand granted to the Company by mBank SA fell on 29 June 2017. On 26 June 2017, Ceramika Nowa Gala SA signed an annex to the revolving credit facility agreement which extended the deadline for its repayment until 28 June 2019, while maintaining the existing collateral. At the same time, the Company decreased its existing overdraft limit from PLN 3,640 thousand to PLN 3,540 thousand, in line with its strategy which assumes debt reduction.

8. Payment of dividend under a resolution of the General Meeting of Shareholders

On 10 May 2017, the General Meeting of Shareholders resolved to pay a dividend from available accumulated profit from previous years. The amount of dividend per share was PLN 0.10, thus the total amount paid out was PLN 4,689,362.10. The dividend was paid on 46,893,621 shares. The dividend was paid on 14 June 2017.

9. Position of the Management Board concerning the accomplishment of financial forecasts for 2017

The Company did not publish any forecasts for 2017.

10. Infringing the terms and conditions applicable to selected financial indicators arising from loan agreements

Each bank loan can be repaid at an earlier date. Banks have the right to demand earlier repayment of loans, increase the margins and demand additional collateral in the event of a breach by the Company of the material conditions of loan agreements or deterioration in the Company's standing putting loan repayment at risk.

As regards the loans granted to Ceramika Nowa Gala SA by mBank SA, the conditions to achieve the level of the profit margin on sales and the net profit margin specified by the bank were not met as at the balance sheet date. On 27 July 2017, the Company and the bank signed annexes to each loan agreement, in which the levels of the financial ratios were changed for those accomplished by the Company as at the balance sheet date.

The Company believes that all loans that need to be renewed in the next 12 months will be renewed, as was the case in earlier periods, not ruling out, however, change of the financing bank.

11. Important events that took place after the balance sheet date and before the date of the publication of this report

Apart from the additional information to the consolidated financial statements for H1 2017, mentioned in section 11, no other important events occurred after the balance sheet date.

Signatures

These financial statements were drawn up and signed on **31 August 2017** and will be published on 31 August 2017.

Management Board

Chief Accountant



**Semi-annual report on the operations of
the Group for which**

**Ceramika Nowa Gala SA is its
parent company**

for the period from 1 January 2017 to 30 June 2017

Końskie, 31 August 2017

1. Principles adopted in the preparation of the condensed consolidated interim financial statements and the description of the organizational structure of the Company's Group

The adopted in the preparation of the condensed consolidated interim financial statements and the description of the Group have been included in the additional information to the condensed consolidated interim financial statements.

2. Change in the composition of the Issuer's Supervisory Board and appointment of an audit committee (an event after the balance sheet date)

On 14 July 2017, the Extraordinary General Meeting of the Issuer's Shareholders, appointed Mr. Marek Gabryjelski member of the Supervisory Board in connection with resignation by Mr. Jacek Tomasik from the function of member of the Supervisory Board, announced on 2 June 2017.

Furthermore, on 14 July 2017, the Company's Supervisory Board appointed an Audit Committee. All members of the Issuer's Supervisory Board were appointed members of the Audit Committee, i.e.:

- Marek Gabryjelski – Chairperson of the Audit Committee;
- Paweł Marcinkiewicz – member of the Audit Committee;
- Grzegorz Ogonowski – member of the Audit Committee;
- Łukasz Żuk - member of the Audit Committee;
- Wojciech Włodarczyk - member of the Audit Committee.

3. Position of the Management Board concerning the accomplishment of financial forecasts for 2017

The Company did not publish any forecasts for 2017.

4. Shareholders holding at least 5% of the total number of votes at the General Meeting on the day of publishing the consolidated quarterly report

According to the information available to the Company, the following shareholders hold shares authorizing them to at least 5% of votes at the General Meeting of Shareholders. The following information is based on communications provided to the Company by the shareholders.

Shareholder	Number of shares taken up	Percentage share in the share capital	Number of votes at the General Meeting	Percentage share in votes at the General Meeting
Waldemar Piotrowski	10,806,249	23.04%	10,806,249	23.04%
METLIFE OTWARTY FUNDUSZ EMERYTALNY (former AMPLICO OFE)	9,356,722	19.95%	9,356,722	19.95%
PTE Allianz Polska SA	6,049,157	12.90%	6,049,157	12.90%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	5,834,364	12.44%	5,834,364	12.44%
Nationale-Nederlanden Otwarty Fundusz Emerytalny and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny	4,687,607	9.99%	4,687,607	9.99%
VALUE Fundusz Inwestycyjny Zamknięty	2,509,980	5.35%	2,509,980	5.35%

with Sub-fund 1

ING Otwarty Fundusz Emerytalny oraz ING Dobrowolny Fundusz Emerytalny

Shareholders holding at least 5% of votes at the General Meeting of Shareholders in accordance with the consolidated quarterly report for Q1 2017 published on 15 May 2017.

Shareholder	Number of shares taken up	Percentage share in the share capital	Number of votes at the General Meeting	Percentage share in votes at the General Meeting
Waldemar Piotrowski	10,806,249	23.04%	10,806,249	23.04%
METLIFE OTWARTY FUNDUSZ EMERYTALNY (former AMPLICCO OFE)	9,356,722	19.95%	9,356,722	19.95%
PTE Allianz Polska SA	6,049,157	12.90%	6,049,157	12.90%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	5,834,364	12.44%	5,834,364	12.44%
Nationale-Nederlanden Otwarty Fundusz Emerytalny and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny	4,687,607	9.99%	4,687,607	9.99%
VALUE Fundusz Inwestycyjny Zamknięty with Sub-fund 1	2,509,980	5.35%	2,509,980	5.35%

ING Otwarty Fundusz Emerytalny and ING Dobrowolny Fundusz Emerytalny

5. Statement of changes in the Company's shareholding structure with respect to the Company's shares or rights to shares held by its managing and supervisory persons

According to the information obtained by the Company, from the date of the publication of the last quarterly report to the date of the publication of this Report, there were no changes in the company's shareholding structure with respect to its managing and supervisory persons.

As at the date of this Report, it follows from the information available to the Company that:

- Mr. Waldemar Piotrowski, President of the Management Board, holds: 10,806,249 shares of the Company, representing 23.04% of the share capital and authorizing their holder to the same number of votes at the General Meeting of Shareholders;
- Mr. Paweł Górnicki, Vice-President of the Management Board, holds: 352,077 shares of the Company, representing 0.75% of the share capital and authorizing their holder to the same number of votes at the General Meeting of Shareholders;
- Mr. Zbigniew Polakowski, Proxy, holds: 12,070 shares of the Company, representing 0.02% of the share capital and authorizing their holder to the same number of votes at the General Meeting of Shareholders.

6. Information on proceedings to which the Company or its subsidiary is a party, whose value constitutes at least 10% of the Company's equity

There are no such proceedings.

7. Information on entering by the Company or a subsidiary thereof into one or more transactions with related parties, where such transactions are significant, either individually or collectively, and were concluded otherwise than on an arm's length basis

In the period covered by this Report, no transactions were concluded with related entities by the Company or its subsidiaries, neither individually nor jointly, that would be significant and

concluded otherwise than on the arm's length basis.

8. Information on granting credit or loan sureties or guarantees by Ceramika Nowa Gala SA or its subsidiaries, in the amount equivalent to at least 10% of the equity of Ceramika Nowa Gala SA

Due to the refinancing of the working capital loan by Ceramika Gres SA subsidiary (see also section **Błąd! Nie można odnaleźć źródła odwołania.**), Ceramika Nowa Gala SA and Ceramika Nowa Gala II Sp. z o.o. maintained surety bonds granted to ING Bank Śląski SA on behalf of Ceramika Gres SA, up to the amounts of: PLN 21,000 thousand and PLN 10,000 thousand. The surety bonds are subject to remuneration charged at market rates.

No other sureties were granted except for those granted on behalf of the companies of the Group.

9. Information which the Issuer finds relevant to the assessment of its staffing situation and financial standing as well as its financial performance and changes therein, and information which is relevant to the assessment of the feasibility of the Issuer's obligations

9.1. Modernization and restructuring of production processes in the Group

In 2017, after a few years of limited investment, the Company began reorganization of the production structure in the Group. One of important elements of this plan was moving production from CNG II to the other two plants belonging to the Group. Following the reorganization, production carried out before in three plants is carried out in two ones, which has significantly simplified production processes and reduce costs. Consolidation of production is coupled with modernization of the remaining plants (see also section 9.2).

For many years, the share of large format tiles in CNG Group's revenue has been steadily growing – from 24% in 2011 to 43% in 2016 in terms of quantities (number of square meters of surface of sold tiles) and from 40% to 60%, respectively, in terms of value. During this period, the sales of small format tiles decreased by 2.2 million sq. m. Modernization started with works carried out in the plant of CNG SA to increase the share of large formats in sales and extend the product offering. Works in this respect have cost approx. PLN 11.5 million, spent in 2017, and have been paid for with own funds and loans.

Part of the machines and equipment from the plant of CNG II, with a book value of PLN 4.5 million, have been moved to the other plants of the Group. The book value of equipment which is no longer useful due to the planned operations is PLN 5.2 million. This amount will be written off in 2016.

There were no group lay-offs due to the reorganization.

The changes have resulted in a decrease in the production capacity by 1.6 million sq. m. per annum (the decrease from the level recorded in March 2017), to 6.6 million sq. m., which should not affect sales volumes, as the production capacity was fully utilized and its maintenance was burdensome.

Following the reorganization, CNG II still has a production hall with an area of 6,300 sq. m. The decision on the further use of this real property will be made at a later date. As regards Ceramika Nowa Gala II, the Management Board considers its merger with another company of the Group, but the final decision has not been made yet.

9.2. Termination of the permit to operate by Ceramika Nowa Gala II subsidiary in the Starachowice Special Economic Zone

On 18 January 2017, the Management Board of Ceramika Nowa Gala II Sp. z o.o. subsidiary signed a motion addressed to the Minister of Development and Finance, requesting him to terminate the permit to operate by CNG II in the Starachowice Special Economic Zone, the Końskie subzone, due to reorganization of the production processes and a relocation of production from CNG II to the other two factories of the Group (for more information see section **Błąd! Nie można odnaleźć źródła odwołania.**). By his decision of 13 February 2017, the Minister of Development and Finance declared the expiry of the permit to carry out business operations by CNG II within the Starachowice Special Economic Zone.

9.3. Capacity to finance the ongoing investment plan

The companies of the Group have an adequate amount of own funds and available bank facilities (see section 7) which guarantee full coverage of necessary capital expenditure related to the implementation of the plan referred to in section 9.1.

9.4. Decision to initiate by the Company a review of strategic options related to the further development of the business

On 24 March 2017, the Management Board resolved to initiate by the Company a review of strategic options related to the further development of the Company's business. At this stage, the Management Board will consider various strategic options, in particular, seeking a strategic investor for the Company, entering into a strategic alliance, effecting a transaction with a different structure, as well as not taking action by the Company with respect to finding an investor, entering into a strategic alliance or effecting any transaction. No decisions regarding the choice of a specific strategic option have been taken by the Management Board yet, and it is not certain whether such a decision will be taken in the future and when it will be taken. There were no material changes in this regard as at the balance sheet date.

10. Factors which the Company believes to affect the financial performance of the Group at least within the next half-year

Factors which may influence the Group's financial performance in the nearest future include:

- implementation of the modernization and production processes restructuring program referred to in section 9.1;
- foreign exchange volatility;
- uncertainty about the dynamics of economic growth in Poland and on markets to which the Group exports its products;
- uncertainty due to the conflict in Ukraine;
- growth of sales of new product lines;
- volatility of prices of some raw materials and energy carriers, especially natural gas;
- seasonal increase in sales in Q3 of the year.

As regards the parent company, no circumstances occurred that could have had an impact on the assessment of its financial position and that were not disclosed in these financial statements.

Signatures

These financial statements were drawn up and signed on **31 August 2017** and will be published on 31 August 2017.

Management Board

Chief Accountant