



**Condensed consolidated interim financial
statements of**

Ceramika Nowa Gala SA

for the period from 1 January 2018 to 30 June 2018

Końskie, 31 August 2018

Consolidated statement of profit and loss and other comprehensive income for the period from 1 January 2018 to 30 June 2018

Amounts in PLN thousand (PLN '000)

	H1 2018 2017	H1 2017 2016
Revenue	75,246	80,182
Cost of sales	58,427	57,595
Gross profit	16,819	22,587
Other income	18	160
Selling and administrative expenses	22,454	19,964
Other expenses	706	640
Profit before interest and tax	-6,323	2,143
Finance income	170	3
Finance expenses	1,311	1,170
Share in profits of associates and joint ventures	-	-
Profit from continued operations before tax	-7,464	976
Income tax expense	280	643
Profit from continued operations after tax	-7,744	333
Profit from discontinued operations after tax	-	-
Net profit/(loss)	-7,744	333
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	-17	9
Total comprehensive income	-7,761	342
Net profit attributable to		
shareholders of the parent company	-7,744	333
non-controlling interests	-	-
	-7,744	333
Total comprehensive income attributable to		
shareholders of the parent company	-7,761	342
non-controlling interests	-	-
	-7,761	342

	Unit	H1 2018	H1 2017
Annualized profit/(loss)	PLN thousand	-13,411	-7,132
Weighted average number of shares	thousand shares	46,894	46,894
Basic earnings/(loss) per share from continued operations	PLN	-0.29	-0.15
Weighted average diluted number of shares	thousand shares	46,894	46,894
Diluted earnings/(loss) per share from continued operations	PLN	-0.29	-0.15

Consolidated statement of financial position as at 30 June 2018

Amounts in PLN thousand (PLN '000)

Assets	30.06.2018	31.12.2017
Non-current assets		
Goodwill	18,851	18,851
Intangible assets	2,778	2,584
Property, plant and equipment	86,439	90,751
Investment property	7,550	7,550
Other financial assets	145	145
Deferred tax assets	7,529	8,414
Total non-current assets	123,292	128,295
Current assets		
Inventory	85,164	75,776
Trade and other receivables	25,287	24,303
Receivables from current income tax	231	-
Cash and cash equivalents	10,509	13,623
Other current assets	1,106	442
Total current assets	122,297	114,144
Fixed assets classified as held for sale in accordance with IFRS 5	-	-
Total assets	245,589	242,439

(continued on the next page)

Consolidated statement of financial position as at 30 June 2018 (contd.)

Amounts in PLN thousand (PLN '000)

Equity and liabilities	30.06.2018	31.12.2017
Equity		
Share capital	46,894	46,894
Capital reserves	117,169	122,146
Revaluation reserve	-	-
Exchange rate differences from translation	-2	15
Reserve capital	8,719	8,719
Retained earnings	-10,538	-5,427
Equity attributable to shareholders of the parent company	162,242	172,347
Non-controlling interests	-	-
Total equity	162,242	172,347
Non-current liabilities		
Borrowings	-	7,165
Provision for deferred income tax	3,011	3,668
Provision for employee benefits	24	24
Total non-current liabilities	3,035	10,857
Current liabilities		
Trade and other payables	31,236	21,731
Current tax liability	18	427
Borrowings	42,831	27,202
Other financial liabilities*	512	851
Provision for employee benefits	1,534	1,569
Other provisions	4,181	7,455
Total current liabilities	80,312	59,235
Liabilities associated with assets classified as held for sale in accordance with IFRS 5	-	-
Total liabilities	83,347	70,092
Total equity and liabilities	245,589	242,439
Book value (in PLN thousand)	162,242	172,347
Number of shares (in thousand shares)	46,894	46,894
Book value per share (in PLN)	3.46	3.68
Diluted number of shares (in thousand shares)*	46,894	46,894
Diluted book value per share (in PLN)	3.46	3.68

*Factoring agreement concluded by a subsidiary

Consolidated cash flow statement for the period from 1 January 2018 to 30 June 2018

Amounts in PLN thousand (PLN '000)

	H1 2018	H1 2017
<u>Operating activities</u>		
Net profit/(loss)	-7,744	333
Amortization and depreciation	7,036	6,586
Interest revenue and expenses	1,083	542
Exchange rate gains/(losses)	-148	71
Gain/(loss) on disposal of intangible and tangible non-current assets	-28	25
Movement in provisions, write-downs, prepayments and accruals	-4,335	-2,467
Income tax expense	280	643
Other adjustments	-	-89
Cash flow from operations before movements in working capital	-3,856	5,644
Movement in inventory	-9,408	-3,154
Movement in receivables	121	-3,212
Movement in liabilities	6,186	5,647
Cash flow from operations before tax	-6,957	4,925
Interest received from operating activities	-	3
Interest paid on operating activities	-1	-1
Income tax paid	-692	-373
Net cash from operating activities	-7,650	4,554
<u>Investing activities</u>		
Proceeds from disposal of tangible and intangible non-current assets	5	149
Purchase of tangible and intangible non-current assets	-1,974	-10,715
Net cash from investing activities	-1,969	-10,566

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Consolidated cash flow statement for the period from 1 January 2018 to 30 June 2018 (contd.)

Amounts in PLN thousand (PLN '000)

	H1 2018	H1 2017
<u>Financing activities</u>		
Proceeds from borrowings	9,712	4,123
Inflows from other sources of funding*	-	-
Dividends paid to shareholders of the parent company	-	-4,689
Repayment of borrowings	-2,239	-573
Repayment of other sources of funding*	-337	-789
Interest paid pertaining to financing activities	-833	-554
Net cash from financing activities	6,303	-2,482
Net cash from financing activities	-3,316	-8,494
Cash and cash equivalents at the beginning of the period	13,623	22,596
Exchange rate differences	202	-132
Cash and cash equivalents at the end of the period	10,509	13,970
<u>Structure of cash and cash equivalents:</u>		
Unrestricted cash	10,292	12,923
Restricted cash	217	1,047
	10,509	13,970

*pertains to a factoring agreement concluded by a subsidiary

Consolidated statement of changes in equity

for the period from 1 January 2018 to 30 June 2018

Amounts in PLN thousand (PLN '000)

	Attributable to the shareholders of the parent company							TOTAL	Non-controlling interests	Total equity
	Share capital	Capital reserves	Exchange rate differences from translation	Reserve capital	Revaluation reserve	Treasury shares	Retained earnings			
As at 1 January 2017	46,894	136,034	2	8,719	-	-	-8,963	182,686	-	182,686
Effects of changes to the accounting policies	-	-	-	-	-	-	-328	-328	-	-328
As at 1 January 2017 after transformation	46,894	136,034	2	8,719	-	-	-9,291	182,358	-	182,358
Total comprehensive income*	-	-	9	-	-	-	333	342	-	342
Coverage of loss from previous years	-	-9,362	-	-	-	-	9,362	-	-	-
Distribution of profit from previous years	-	163	-	-	-	-	-163	-	-	-
Payment of dividend	-	-4,689	-	-	-	-	-	-4,689	-	-4,689
As at 30 June 2017	46,894	122,146	11	8,719	-	-	241	178,011	-	178,011
As at 1 January 2018	46,894	122,146	15	8,719	-	-	-5,427	172,347	-	172,347
Total comprehensive income*	-	-	-17	-	-	-	-7,744	-7,761	-	-7,761
Coverage of loss from previous years	-	-2,821	-	-	-	-	2,821	-	-	-
Distribution of profit from previous years	-	188	-	-	-	-	-188	-	-	-
Payment of dividend	-	-2,344	-	-	-	-	-	-2,344	-	-2,344
As at 30 June 2018	46,894	117,169	-2	8,719	-	-	-10,538	162,242	-	162,242

*After H1 2018, the amounts of comprehensive income were allocated to the following equity items: net loss in the amount of PLN -7,744 thousand decreased the amount of retained earnings, exchange rate differences from translation in the amount of PLN 17 thousand decreased the relevant capital item. After H1 2017, the amounts of comprehensive income were allocated to the following equity items: net profit in the amount of PLN 333 thousand increased the amount of retained earnings, exchange rate differences from translation in the amount of PLN 9 thousand increased the relevant capital item.

Financial highlights

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

- as regards balance sheet data, the average exchange rates of NBP were used: 4.1709 PLN/EUR as at 31 December 2017 and 4.3616 PLN/EUR as at 30 June 2018;
- 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: 4,2474 PLN/EUR in H1 2017; 4.2395 PLN/EUR in H1 2018.

The average exchange rates of the NBP for USD, used for translating the monetary items, were as follows: 3.4813 PLN/USD as at 31 December 2017 and 3,744 PLN/USD as at 30 June 2018.

Consolidated data	in PLN thousand		in EUR thousand	
	H1 208	2017 (comparative data)**	H1 2018	2017 (comparative data)**
I. Net sales	75,246	80,182	17,749	18,878
II. Profit/(loss) from operating activities	-6,323	2,143	-1,491	505
III. Profit/(loss) before tax	-7,464	976	-1,761	230
IV. Net profit/(loss)	-7,744	333	-1,827	78
V. Net cash flows from operating activities	-7,650	4,554	-1,804	1,072
VI. Net cash flows from investing activities	-1,969	-10,566	-464	-2,488
VII. Net cash flows from financing activities	6,303	-2,482	1,487	-584
VIII. Net cash flows (in total)*	-3,114	-8,626	-735	-2,031
IX. Total assets	245,589	242,439	56,307	58,126
X. Liabilities and provisions for liabilities	83,347	70,092	19,109	16,805
XI. Non-current liabilities	3,035	10,857	696	2,603
XII. Current liabilities	80,312	59,235	37,311	14,202
XIII. Equity	162,242	172,347	37,198	41,321
XIV. Share capital	46,894	46,894	10,752	11,243
XV. Number of shares	46,893,621	46,893,621	-	-
XVI. Profit/(loss) per share (in PLN/EUR)	-0.29	-0.15	-0.07	-0.03
XVII. Diluted profit/(loss) per share (in PLN/EUR)	-0.29	-0.15	-0.07	-0.03
XVIII. Book value per share (in PLN/EUR)	3.46	3.68	0.79	0.88
XIX. Diluted book value per share (in PLN/EUR)	3.46	3.68	0.79	0.88
XX. Declared or paid dividend per share (in PLN/EUR)	0.05	0.1	0.01	0.02

* Balance sheet movement of 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 2017, while in the case of the other items, comparative data relate to H1 2017.

Additional Information

to the condensed consolidated interim financial statements for the period from 1 January 2018 to 30 June 2018

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

When preparing the consolidated financial statements, the Company complies with 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 company;
- CNG Luxembourg S.à.r.l. – a subsidiary company;
- Energia Park Trzemoszna Sp. z o.o. - a company controlled by the subsidiaries.

Except for 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 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.

On 16 April 2018, the Management Board of the parent company, i.e. Ceramika Nowa Gala SA (surviving company), decided to merge the parent company with Ceramika Nowa Gala II Sp. z o.o. subsidiary (target company). The management boards of the surviving company and the target company arranged and signed a merger plan. The will be carried out in accordance with Article 492(1)(1) and Article 516(6) read together with Article 516(5) of the Code of Commercial Partnerships and Companies, by transferring all assets of the target company to the surviving company – combination by acquisition). On 18 June 2018, having got acquainted with the merger plan, the General Meeting of Shareholders adopted Resolution 15 on carrying out the merger. The merger was registered with the court on 31 August 2018 (for more details see section 17).

These condensed consolidated semi-annual financial statements have been drawn up in line with IAS 34. The applied accounting policies are the same as those which governed the preparation of the financial statements for 2017, except for changes resulting from the introduction of new standards (for more details see section 2).

These condensed consolidated semi-annual financial statements have been prepared with the assumption that the companies which belong to the Group would continue their business 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 semi-annual 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 2017, prepared in accordance with IFRSs.

2. Changes to the accounting policies

2.1. First time adoption of IFRS 15 "Revenue from Contracts with Customers"

The overwhelming majority of the Group's revenue comes, according to the new standard, from contracts for supplies of ceramic tiles or decorative elements. The key and only obligation to be satisfied under such a contract involves the delivery of sold products. In some cases the companies of the Group charge their customers with the cost of arranging the transport of products, but in this case this service cannot be separated from the delivery of tiles, and is rendered along with the delivery. The sale of products takes place at a specific moment – at the time of their delivery and acceptance by the customer (following which the product is under the customer's control), hence it is not revenue to be settled over time. The sales value is clearly specified in the invoice and may be recognized in the accounting records of the companies of the Group once the products have been delivered. Customers that buy contractually agreed quantities of products over a specific period (a quarter or a year) can often count on an extra discount. As at each balance sheet date, the Group estimates in a detailed manner the level of discounts due to customers, and thus calculated amounts decrease the sales result for a given period. Guarantees granted by the Group are compliant with applicable laws and do not entail any additional liabilities. Their costs, if any, are disclosed in accordance with the regulations provided for in IAS 37. Therefore the application of this standard has no effect on the amount of disclosed revenue.

2.2. First time adoption of IFRS 9 "Financial Instruments"

In January 2018, the companies of the Group adopted the new IFRS 9 relating to financial instruments. In accordance with this standard, under retrospective application (with initial application on 1 January 2017), a change in identified groups of financial assets (change in the classification) and a change in the model of impairment losses on financial assets were introduced. Trade receivables maturing within maximum 12 months are the key group of financial assets. The companies of the Group use the simplified method of estimating the amount of impairment losses on trade receivables. The total portfolio of receivables is determined using a provision matrix by the past due date and the counterparty's country. Each item in this matrix is assigned the expected loss level. The amount of an estimated impairment is obtained by multiplying the amount of receivables in a given country and a given past due period by the expected loss level. As a result of applying this procedure to the receivables portfolio as at 30 June 2018, the Group made an additional impairment of receivables, using retrospective application, making thus changes to selected items in the financial statements. The changes are presented in the table below.

Effects of changes in IFRS 9 (consolidated data)	30.06.2018	31.12.2017	01.01.2017
Deferred tax assets	19	-38	77
Trade and other receivables	-275	201	-405
Retained earnings from previous years	-	-	-328
Profit/(loss) for the current year	-256	163	-

Effects of changes in IFRS 9 (separate data)	30.06.2018	31.12.2017	01.01.2017
Deferred tax assets	19	-39	56
Trade and other receivables	-101	206	-293
Retained earnings from previous years	-	-	-237
Profit/(loss) for the current year	-82	167	-

3. Seasonal nature of the Issuer's business

Similarly to 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.

4. Impact of unusual events on the financial statements

- Due to production downtime, the profit was lower by PLN 4,172 thousand. In the comparative period of 2017, this figure was PLN 4,369 thousand.
- Adoption of a resolution by the General Meeting of Shareholders on the payment of a dividend to shareholders of the parent company (see section 9): PLN 2,345 thousand.
- The profit was reduced by a write-off for deferred income tax assets with respect to a loss from previous years: PLN 492 thousand.

5. 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 5.030 thousand;
- utilizing the provision for liabilities: PLN 8.341 thousand;
- increasing the provision for deferred income tax: PLN 56 thousand;
- utilizing the provision for deferred income tax: PLN 714 thousand;
- increasing deferred income tax assets: PLN 504 thousand;
- utilizing or reversing deferred income tax assets: PLN 1,352 thousand.

6. 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.

6.1. Information on geographic segments

Amounts in PLN thousand (PLN '000).

	DOMESTIC		EXPORTS		TOTAL	
	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017
Revenue	58,754	65,369	16,492	14,813	75,246	80,182
Cost of sales	41,775	43,127	12,262	10,496	54,037	53,623
Sales result	16,979	22,42	4,230	4,317	21,209	26,559
Unallocated costs					4,390	3,972
Gross profit					16,819	22,587
Assets	30.06. 2018	31.12. 2017	30.06. 2018	31.12. 2017	30.06. 2018	31.12. 2017
Trade receivables	11,399	15,035	7,245	5,504	18,644	20,539
Other receivables (unallocated)					6,643	3,764
					25,287	24,303

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.

6.2. 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 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017
Revenue from sales to external customers	74,691	79,943	555	239	75,246	80,182
Purchase of fixed assets	2,945	12,844	-	-	2,945	12,844

6.3. Information on significant customers

In H1 2018, sales to none of the Group's customers exceeded 10% of consolidated revenue from sales.

7. Changes in off-balance sheet items relative to the annual report for 2017

There were changes in off-balance sheet items relative to the information disclosed in the latest consolidated annual report. 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 9,376 thousand.

8. Loan agreements concluded in H1 2018

8.1. Loans contracted by Ceramika Nowa Gala SA

Annex to the investment loan agreement concluded with Bank Pekao SA on 9 February 2017

As the credit limit was underused, Ceramika Nowa Gala SA and Bank Pekao SA signed, on 29 January 2018, an annex to the loan agreement to reduce the amount of the investment loan from EUR 912 thousand to EUR 642 thousand.

Annex to the overdraft facility agreement concluded with mBank SA on 15 December 2014

On 26 February 2018, Ceramika Nowa Gala SA and mBank SA signed an annex to the overdraft facility agreement to extend the deadline for the repayment of the loan from 27 February 2018 to 27 February 2019, while maintaining the existing collateral and the maximum amount of financing of PLN 500 thousand. The bank's margin was increased from 0.9 p.p. to 1.3 p.p.

8.2. Loans contracted by Ceramika Gres SA subsidiary

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

On 9 February 2018, 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 October 2018 to 31 October 2019, while maintaining the existing collateral and the maximum amount of financing of PLN 40,000 thousand.

9. Planned payment of a dividend resolved by the General Meeting of Shareholders of the parent company

On 18 June 2018, the General Meeting of Shareholders resolved to pay a dividend from available accumulated profit from previous years. The amount of dividend per share is PLN 0.05, thus the total amount to be paid is PLN 2,344,681.05. The dividend will be paid on 46,893,621 shares on 10 September 2018.

10. Position of the Management Board concerning the fulfilment of earnings guidance for 2018

The Company did not publish any earnings guidance for 2018.

11. 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 following indicators specified by the bank were not achieved as at the balance sheet date:

- EBITDA on sales revenue;
- Net financial liabilities as regards the achieved EBITDA.

In the case of Ceramika Gres SA the specified level of interest-bearing debt in relation to EBITDA calculated based on consolidated data was not achieved.

Loans for which covenants were not fulfilled, irrespective of the repayment deadline specified in the agreement, were posted to current liabilities. The Group believes that all the loans that need to be renewed in the next 12 months will be renewed, as was the case in earlier periods, but it does not rule out changing the financing bank and decreasing the funding level.

12. Adoption of a resolution by the General Meeting of Shareholders on a merger of the parent company with its subsidiary company

On 16 April 2018, the Management Board of the parent company, i.e. Ceramika Nowa Gala SA (surviving company), decided to merge the parent company with Ceramika Nowa Gala II Sp. z o.o. subsidiary (target company). Following this decision, the management boards of the surviving company and the target company arranged and signed a merger plan. The merger will be carried out in accordance with Article 492(1)(1) and Article 516(6) read together with Article 516(5) of the Code of Commercial Partnerships and Companies, by transferring all assets of the target company to the surviving company – combination by acquisition). The merger plan was announced by the parent company in its Current Report 2/2018.

On 18 June 2018, having got acquainted with the merger plan, the General Meeting of Shareholders adopted Resolution 15 on carrying out the merger. The merger was registered with the court on 31 August 2018 (for more details see section 17).

13. Signing an annex to the agreement providing for a loan granted by Ceramika Nowa Gala SA to its subsidiary

In April 2018, Ceramika Nowa Gala SA increased, by way of another annex, the amount of the loan granted to CNG Luxembourg S.a.r.l. subsidiary by EUR 30 thousand. The increased loan amount (without accrued interest) is EUR 105 thousand. The other loan terms and conditions remained unchanged.

14. Loan granted by Ceramika Gres SA to Energia Park Trzemoszna Sp. z o.o.

In April 2018, Ceramika Gres SA granted a loan to Energia Park Trzemoszna Sp. z o.o. (entity controlled by Ceramika Nowa Gala II Sp. z o.o. by Ceramika Gres SA) in the amount of PLN 1,100 thousand. The loan will be used to finance business operations, mainly to repay the liability due to a loan granted by Ceramika Nowa Gala II Sp. z o.o. (see also section 15). The loan has been granted for two years, and the interest rate is 4.5% per annum.

15. Repayment by Energia Park Trzemoszna Sp. z o.o. of a loan granted by Ceramika Nowa Gala II Sp. z o.o.

In April 2018, Energia Park Trzemoszna Sp. z o.o. repaid in total the liability under a loan granted by Ceramika Nowa Gala Sp. z o.o. in the amount of PLN 991 thousand with accrued interest.

16. Change in the composition of the Issuer's Supervisory Board

On 11 May 2018, the Company received a notice from Mr. Grzegorz Ogonowski, member of the Supervisory Board, in which he informed about resignation from this function, effective as at:

the next General Meeting of Shareholders, or
30 June 2018, whichever is earlier.

The resignation was due to the loss of the independence attribute within the meaning of Article 129 of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision, due to the expiry of the maximum permissible period of sitting on a supervisory board, set out for independent members.

On 18 June 2018, the General Meeting of the Issuer's Shareholders appointed Mr. Michał Hulboj Member of the Supervisory Board.

As at the date of publication of these financial statements, the Company's Supervisory Board was composed of:

- Mr. Paweł Marcinkiewicz – Chairman of the Supervisory Board;
- Mr. Wojciech Włodarczyk – Deputy Chairman of the Supervisory Board;
- Mr. Łukasz Żuk – Member of the Supervisory Board;
- Mr. Jacek Tomasiak – Member of the Supervisory Board;
- Mr. Michał Hulbój – Member of the Supervisory Board.

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

On 31 August 2018, the District Court in Kielce, 10th Commercial Division of the National Court Register, registered the merger of the parent company, i.e. Ceramika Nowa Gala SA (surviving company) with its subsidiary, i.e. Ceramika Nowa Gala II Sp. z o.o. (target company). The merger was carried out in accordance with Article 492(1)(1) and Article 516(6) read together with Article 516(5) of the Code of Commercial Partnerships and Companies, by transferring all assets of the target company to the surviving company (combination by acquisition), with no increase in the share capital of the surviving company as the surviving company held 100% of shares in the share capital of the target company, and with no exchange of shares in the target company for shares in the surviving company.

Signatures

These financial statements were drawn up and signed on **31 August 2018** and will be published on 31 August 2018.

Management Board

Chief Accountant

Separate statement of profit and loss and other comprehensive income for the period from 1 January 2018 to 30 June 2018

Amounts in PLN thousand (PLN '000)

	H1 2018 2017	H1 2017 2016
Revenue	56,182	59,930
Cost of sales	48,303	49,884
Gross profit	7,879	10,046
Other income	6	50
Selling and administrative expenses	14,427	12,005
Other expenses	896	-83
Profit before interest and tax	-7,438	-1,826
Finance income*	2,155	1,878
Finance expenses	694	449
Profit from continued operations before tax	-5,977	-397
Income tax expense	109	-332
Profit from continued operations after tax	-6,086	-65
Profit from discontinued operations after tax	-	-
Net profit/(loss)	-6,086	-65
Other comprehensive income – none		
Total comprehensive income	-6,086	-65

*The amount of a dividend from Ceramika Gres SA subsidiary

	Unit	H1 2018 2017	H1 2017 2016
Annualized profit/(loss)	PLN thousand	-12,254	-4,163
Weighted average number of shares	thousand shares	46,894	46,894
Basic earnings/(loss) per share from continued operations	PLN	-0.26	-0.09
Weighted average diluted number of shares	thousand shares	46,894	46,894
Diluted earnings/(loss) per share from continued operations	PLN	-0.26	-0.09

Separate statement of financial position as at 30 June 2018

Amounts in PLN thousand (PLN '000)

Assets	30.06.2018	31.12.2017
Non-current assets		
Intangible assets	746	262
Property, plant and equipment	41,693	41,792
Investments in related parties	78,212	78,212
Other financial assets	121	121
Deferred tax assets	4,486	5,244
Total non-current assets	125,258	125,631
Current assets		
Inventory	67,134	56,733
Trade and other receivables	17,282	15,973
Receivables from current income tax	-	-
Other financial assets	-	-
Cash and cash equivalents	5,180	6,029
Other current assets	770	175
Total current assets	90,366	78,910
Fixed assets classified as held for sale in accordance with IFRS 5	-	-
Total assets	215,624	204,541

(continued on the next page)

Separate statement of financial position as at 30 March 2018 (contd.)

Amounts in PLN thousand (PLN '000)

Equity and liabilities	30.06.2018	31.12.2017
Equity		
Share capital	46,894	46,894
Capital reserves	118,103	127,015
Revaluation reserve	-	-
Reserve capital	-	-
Treasury shares	-	-
Retained earnings	-6,156	-6,637
Total equity	158,841	167,272
Non-current liabilities		
Borrowings	-	7,165
Provision for deferred income tax	1,024	1,674
Provision for employee benefits	-	-
Other provisions	-	-
Total non-current liabilities	1,024	8,839
Current liabilities		
Trade and other payables	34,958	19,285
Current tax liability	-	-
Borrowings	16,027	2,492
Provision for employee benefits	1,201	1,212
Other provisions	3,573	5,441
Total current liabilities	55,759	28,430
Liabilities associated with assets classified as held for sale in accordance with IFRS 5	-	-
Total liabilities	56,783	37,269
Total equity and liabilities	215,624	204,541

	Unit	30.06.2018	31.12.2017
Book value	PLN thousand	158,841	167,272
Number of shares	thousand shares	46,894	46,894
Book value per share	PLN thousand	3.39	3.57
Diluted number of shares	thousand shares	46,894	46,894
Diluted book value per share	PLN	3.39	3.57

Separate cash flow statement for the period from 1 January 2018 to 30 June 2018

Amounts in PLN thousand (PLN '000)

	H1 2018	H1 2017
<u>Operating activities</u>		
Net profit/(loss)	-6,086	-65
Amortization and depreciation	4,522	4,050
Dividend income	-2,155	-1,878
Interest revenue and expenses	182	76
Exchange rate gains/(losses)	-8	-53
Gain/(loss) on disposal of intangible and tangible non-current assets	154	-9
Movement in provisions, write-downs, prepayments and accruals	-2,491	-929
Income tax expense	109	-332
Other adjustments	147	-127
Cash flow from operations before movements in working capital	-5,626	733
Movement in inventory	-10,401	-695
Movement in receivables	-1,453	-840
Movement in liabilities	12,299	3,269
Cash flow from operations before tax	-5,181	2,467
Interest received from operating activities	-	-
Interest paid on operating activities	-1	-1
Income tax paid	-	-
Net cash from operating activities	-5,182	2,466
<u>Investing activities</u>		
Proceeds from disposal of tangible and intangible non-current assets	23	41
Dividends received**	-	1,878
Purchase of tangible and intangible non-current assets	-1,814	-8,640
Loans granted	-126	-
Net cash from investing activities	-1,917	-6,721

(continued on the next page)

Separate cash flow statement (contd.)

Amounts in PLN thousand (PLN `000)

	H1 2018	H1 2017
Financing activities		
Proceeds from borrowings	7,618	1,842
Dividends to shareholders of the parent company	-	-4,689
Repayment of borrowings	-1,248	-573
Interest paid pertaining to financing activities	-182	-75
Net cash from financing activities	6,188	-3,495
Net cash from financing activities	-911	-7,750
Cash and cash equivalents at the beginning of the period	6,029	16,309
Exchange rate differences	62	-8
Cash and cash equivalents at the end of the period	5,180	8,551
Structure of cash and cash equivalents:		
Unrestricted cash	5,131	7,757
Restricted cash	49	794
	5,180	8,551

Separate statement of changes in equity for the period from 1 January 2018 to 30 June 2018

Amounts in PLN thousand (PLN '000)

	Share capital	Capital reserves	Reserve capital	Revaluation reserve	Treasury shares	Retained earnings	Total equity
As at 1 January 2017	46,894	137,475	-	-	-	-5,771	178,598
Effects of changes to the accounting policies	-	-	-	-	-	-237	-237
As at 1 January 2017 after transformation	46,894	137,475	-	-	-	-6,008	178,361
Total comprehensive income*	-	-	-	-	-	-65	-65
Coverage of loss from previous years	-	-5,771	-	-	-	5,771	-
Distribution of profit from previous years	-	-	-	-	-	-	-
Dividend to be paid	-	-4,689	-	-	-	-	-4,689
As at 30 June 2017	46,894	127,015	-	-	-	-302	173,607
As at 1 January 2018	46,894	127,015	-	-	-	-6,637	167,272
Total comprehensive income*	-	-	-	-	-	-6,086	-6,086
Coverage of loss from previous years	-	-6,567	-	-	-	6,567	-
Distribution of profit from previous years	-	-	-	-	-	-	-
Payment of dividend	-	-2,345	-	-	-	-	-2,345
As at 30 June 2018	46,894	118,103	-	-	-	-6,156	158,841

*The amount of total comprehensive income for H1 2018 includes only net loss of PLN 6,086 thousand. The amount of total comprehensive income for H1 2017 includes only net loss of PLN 65 thousand.

Financial highlights

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

- as regards balance sheet data, the average exchange rates of NBP were used: 4.1709 PLN/EUR as at 31 December 2017 and 4.3616 PLN/EUR as at 30 June 2018;
- 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: 4.2474 PLN/EUR in H1 2017; 4.2395 PLN/EUR in H1 2018.

The average exchange rates of the NBP for USD, used for translating the monetary items, were as follows: 3.4813 PLN/USD as at 31 December 2017 and 3,744 PLN/USD as at 30 June 2018.

Individual data	in PLN thousand		in EUR thousand	
	H1 2018	2017 (comparative data)*	H1 2018	2017 (comparative data)*
I. Net sales	56,182	59,930	13,252	14,110
II. Profit/(loss) from operating activities	-7,438	-1,826	-1,754	-430
III. Profit/(loss) before tax	-5,977	-397	-1,410	-93
IV. Net profit/(loss)	-6,086	-65	-1,436	-15
V. Net cash flows from operating activities	-5,182	2,466	-1,222	581
VI. Net cash flows from investing activities	-1,917	-6,721	-452	-1,582
VII. Net cash flows from financing activities	6,188	-3,495	1,460	-823
VIII. Net cash flows (total)	-849	-7,758	-200	-1,827
IX. Total assets	215,624	204,541	49,437	49,040
X. Liabilities and provisions for liabilities	56,783	37,269	13,019	8,935
XI. Non-current liabilities	1,024	8,839	235	2,119
XII. Current liabilities	55,759	28,430	12,784	6,816
XIII. Equity	158,841	167,272	36,418	40,105
XIV. Share capital	46,894	46,894	10,752	11,243
XV. Number of shares	46,893,621	46,893,621	-	-
XVI. Profit/(loss) per share (in PLN/EUR)	-0.26	-0.09	-0.06	-0.02
XVII. Diluted profit/(loss) per share (in PLN/EUR)	-0.26	-0.09	-0.06	-0.02
XVIII. Book value per share (in PLN/EUR)	3.39	3.57	0.78	0.86
XIX. Diluted book value per share (in PLN/EUR)	3.39	3.57	0.78	0.86
XX. Declared or paid dividend per share (in PLN/EUR)	0.05	0.1	0.01	0.02

* Balance sheet movement of 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 2017, while in the case of the other items, comparative data relate to H1 2017.

Additional Information

to the condensed separate interim financial statements of Ceramika Nowa Gala SA for the period from 1 January 2018 to 30 June 2018

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

These condensed separate 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 2017, except for changes resulting from the introduction on new standards (for details see Section 2 of Additional Information to the consolidated interim financial statements for H1 2018).

These financial statements were prepared with the assumption that the Company would continue its activities in the foreseeable future. As at the date of approval of these financial statements for publication, there were no circumstances which would indicate any threat to the continuation of its business by the Company.

These condensed separate semi-annual financial statements do not contain all information and disclosures which are required to be included in the separate annual financial statements, hence all information contained herein should be read together with the separate annual financial statements for the financial year which ended on 31 December 2017, prepared in accordance with IFRSs.

2. Seasonal nature of the Issuer's business

Like 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

- Due to production downtime, the profit was lower by PLN 2,325 thousand. In the same period of 2017, this figure was PLN 3,044 thousand.
- The General Meeting of Shareholders resolved to pay a dividend to shareholders of the parent Company (see section 8): PLN 2,345 thousand.
- The General Meeting of Shareholders of Ceramika Gres SA subsidiary resolved to pay a dividend to Ceramika Nowa Gala SA (see section 9): PLN 2,155 thousand.
- The profit was reduced by a write-off for deferred income tax assets with respect to a loss from previous years: PLN 492 thousand.

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 3,502 thousand;
- utilizing the provision for liabilities: PLN 5,408 thousand;
- increasing the provision for deferred income tax: PLN 9 thousand;

- utilizing the provision for deferred income tax: PLN 659 thousand;
- increasing deferred income tax assets: PLN 263 thousand;
- utilizing or reversing deferred income tax assets: PLN 1.019 thousand;
- increasing the amount of write-downs on inventory: PLN 445 thousand.

5. Business segments

Ceramika Nowa Gala SA publishes consolidated financial statements for H1. Therefore information relating to business segments is provided only with respect to consolidated data.

6. Changes in off-balance sheet items relative to the annual report for 2017

There were changes in off-balance sheet items relative to the information disclosed in the latest consolidated annual report. 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 9,376 thousand.

7. Loan agreements concluded in H1 2018

7.1. Annex to the investment loan agreement concluded with Bank Pekao SA on 9 February 2017

As the credit limit was underused, Ceramika Nowa Gala SA and Bank Pekao SA signed, on 29 January 2018, an annex to the loan agreement to reduce the amount of the investment loan from EUR 912 thousand to EUR 642 thousand.

7.2. Annex to the overdraft facility agreement concluded with mBank SA on 15 December 2004

On 26 February 2018, Ceramika Nowa Gala SA and mBank SA signed an annex to the overdraft facility agreement to extend the deadline for the repayment of the loan from 27 February 2018 to 27 February 2019, while maintaining the existing collateral and the maximum amount of financing of PLN 500 thousand. The bank's margin was increased from 0.9 p.p. to 1.3 p.p.

8. Planned payment of a dividend resolved by the General Meeting of Shareholders of the parent company

On 18 June 2018, the General Meeting of Shareholders resolved to pay a dividend from available accumulated profit from previous years. The amount of dividend per share is PLN 0.05, thus the total amount to be paid is PLN 2,344,681.05. The dividend will be paid on 46,893,621 shares by 10 September 2018.

9. Planned payment of a dividend resolved by the General Meeting of Shareholders of Ceramika Gres SA subsidiary

On 18 June 2018, the General Meeting of Shareholders of Ceramika Gres SA subsidiary resolved to allocate part of profit for 2017 on the payment of a dividend in the amount to PLN 2,155 thousand to Ceramika Nowa Gala SA. The dividend will be paid by 30 September 2018.

10. Position of the Management Board concerning the fulfilment of earnings guidance for 2018

The Company did not publish any earnings guidance for 2018.

11. 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 following indicators specified by the bank were not achieved as at the balance sheet date:

- EBITDA on sales revenue;
- Net financial liabilities as regards the achieved EBITDA.

Loans for which covenants were not fulfilled, irrespective of the repayment deadline specified in the agreement, were posted to current liabilities. The Company believes that all the loans that need to be renewed in the next 12 months will be renewed, as was the case in earlier periods, but it does not rule out changing the financing bank and decreasing the funding level.

12. Adoption of a resolution by the General Meeting of Shareholders on a merger of the parent company with its subsidiary company

On 16 April 2018, the Management Board of the parent company, i.e. Ceramika Nowa Gala SA (surviving company), decided to merge the parent company with Ceramika Nowa Gala II Sp. z o.o. subsidiary (target company). Following this decision, the management boards of the surviving company and the target company arranged and signed a merger plan. The merger will be carried out in accordance with Article 492(1)(1) and Article 516(6) read together with Article 516(5) of the Code of Commercial Partnerships and Companies, by transferring all assets of the target company to the surviving company – combination by acquisition). The merger plan was announced by the parent company in its Current Report 2/2018. On 18 June 2018, having got acquainted with the merger plan, the General Meeting of Shareholders adopted Resolution 15 on carrying out the merger. The merger was registered with the court on 31 August 2018 (for more details see section **Błąd! Nie można odnaleźć źródła odwołania.**). **Signing an annex to the agreement providing for a loan granted by Ceramika Nowa Gala SA to its subsidiary**

In April 2018, Ceramika Nowa Gala SA increased, by way of another annex, the amount of the loan granted to CNG Luxembourg S.a.r.l. subsidiary by EUR 30 thousand. The increased loan amount (without accrued interest) is EUR 105 thousand. The other loan terms and conditions remained unchanged.

14. Change in the composition of the Issuer's Supervisory Board

On 11 May 2018, the Company received a notice from Mr. Grzegorz Ogonowski, member of the Supervisory Board, in which he informed about resignation from this function, effective as at:

- the next General Meeting of Shareholders, or
- 30 June 2018, whichever is earlier.

The resignation was due to the loss of the independence attribute within the meaning

of Article 129 of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision, due to the expiry of the maximum permissible period of sitting on a supervisory board, set out for independent members.

On 18 June 2018, the General Meeting of the Issuer's Shareholders appointed Mr. Michał Hulboj Member of the Supervisory Board.

As at the date of publication of these financial statements, the Company's Supervisory Board was composed of:

- Mr. Paweł Marcinkiewicz – Chairman of the Supervisory Board;
- Mr. Wojciech Włodarczyk – Deputy Chairman of the Supervisory Board;
- Mr. Łukasz Żuk – Member of the Supervisory Board;
- Mr. Jacek Tomasiak – Member of the Supervisory Board;
- Mr. Michał Hulbój – Member of the Supervisory Board.

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

On 31 August 2018, the District Court in Kielce, 10th Commercial Division of the National Court Register, registered the merger of the parent company, i.e. Ceramika Nowa Gala SA (surviving company) with its subsidiary, i.e. Ceramika Nowa Gala II Sp. z o.o. (target company). The merger was carried out in accordance with Article 492(1)(1) and Article 516(6) read together with Article 516(5) of the Code of Commercial Partnerships and Companies, by transferring all assets of the target company to the surviving company (combination by acquisition), with no increase in the share capital of the surviving company as the surviving company held 100% of shares in the share capital of the target company, and with no exchange of shares in the target company for shares in the surviving company.

Signatures

These financial statements were drawn up and signed on **31 August 2018** and will be published on 31 August 2018.

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 2018 to 30 June 2018

Końskie, 31 August 2018

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

Principles adopted in the preparation of the condensed consolidated semi-annual financial statements and the description of the organizational structure of the Company's Group are included in section 1 of Additional Information to the condensed consolidated semi-annual financial statements.

2. Change in the composition of the Issuer's Supervisory Board

The change in the composition of the Issuer's Supervisory Board is described in section 16 of Additional Information to the condensed consolidated semi-annual financial statements.

3. Position of the Management Board concerning the fulfilment of earnings guidance for 2018

The Company did not publish any earnings guidance for 2018.

4. Shareholders holding at least 5% of the total number of votes at the General Meeting on the date 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	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%

Shareholders holding at least 5% of votes at the General Meeting of Shareholders in accordance with the consolidated quarterly report for Q1 2018 published on 15 May 2018.

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 Otworthy Fundusz Emerytalny	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 Otworthy Fundusz Emerytalny Aviva BZ WBK	5,834,364	12.44%	5,834,364	12.44%
Nationale-Nederlanden Otworthy 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%

5. Changes in the ownership of the Company's shares held by its managing and supervisory persons or rights to these shares enjoyed by these 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.

6. Information on major proceedings pending before court, an arbitration authority or a public administration authority, regarding liabilities and receivables of the Company or its subsidiary

There are no such proceedings.

7. Information on entering by the Company or its subsidiary 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, either individually or jointly, otherwise than on the arm's length basis.

8. Information on granting a loan guarantee, loan or credit sureties with a significant value by Ceramika Nowa Gala SA or its subsidiaries

Due to the refinancing of the working capital loan by Ceramika Gres SA subsidiary (see also section 8.2), 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. In both cases the bank shall have the right to pursue claims under the surety bonds until 31 October 2037.

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

9. Description of the Issuer's significant achievements or failures in the period covered by the report, with a list of the most important events

In 2017, the Company reorganized the production process 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 that used to be carried out in three plants is carried out in two ones, which has significantly simplified production processes and reduced costs. Production consolidation was coupled with modernization in the plant of CNG SA to increase the share of large formats in sales and extend the product offering. Works in this respect cost approx. PLN 11 million, spent in 2017, Owing to this modernization, new products, mainly technical stoneware tiles and glazed ones on coloured mass are being put on the market, with a significant proportion of larger formats – 60x120 cm and similar ones. All new products were put on the market in H1 2018. Along with the introduction of modern products, a program of changes in the sales management system is also being implemented to reverse the downward trend in sales. Compared to H1 2017, an increase in exports was recorded in the reporting period.

At the same time the merger of Ceramika Nowa Gala SA and Ceramika Nowa Gala II Sp. z o.o. was carried out in accordance with Article 492(1)(1) and Article 516(6) read together with Article 516(5) of the Code of Commercial Partnerships and Companies, by transferring all assets of Ceramika Nowa Gala II Sp. z o.o. (target company) to Ceramika Nowa Gala SA (surviving company – combination by acquisition), with no increase in the share capital of the surviving company (see also section 12 of Additional Information to the condensed consolidated semi-annual financial statements).

10. 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

After the 2017 modernization of the production lines in the plant of the parent company (see section 9) and a temporary increase in inventory related to e.g. production of new products, there was an increase in the Group's net debt, which will be systematically repaid in subsequent periods. As regards this year, only minor replacement investments are carried out. All of them are financed with the Group's own funds. Major lines of revolving loans are renewed and the companies of the Group satisfy their all financial liabilities.

11. Factors which the Company believes to affect the financial performance of the Group within at least the next semi-annual period

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

- merger of the parent company with its subsidiary company (see also section 9);

Semi-annual report on the operations of Ceramika Nowa Gala SA

- foreign exchange volatility;
- economic recovery in Poland and on markets onto which the Group exports its products;
- growing costs of purchase of key raw material groups;
- growth of sales of new product lines;
- change to the sales management rules;
- 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 but were not disclosed in these financial statements.

Signatures

These financial statements were drawn up and signed on **31 August 2018** and will be published on 31 August 2018.

Management Board

Chief Accountant