Consolidated annual financial statements of

Ceramika Nowa Gala SA Group

for the period from 1 January 2017 to 31 December 2017

Końskie, 26 March 2018

Introduction

Reporting Entity

These consolidated financial statements have been drawn up by Ceramika Nowa Gala SA, based in Końskie at 1 Ceramiczna Street, registered as a public limited company established in Poland in accordance with the Commercial Companies Code, entered into the National Court Register under KRS number 0000011723. Ceramika Nowa Gala SA is the parent company of the group to which these statements refer. These consolidated financial statements are subject to approval by the General Meeting of Shareholders of the parent company.

Ceramika Nowa Gala SA is the ultimate parent company in the Group and is not controlled by any entity.

The data included in the financial statements has been rounded to the nearest PLN thousand.

Composition of the managing and supervisory bodies

On 14 July 2017, the Extraordinary General Meeting of the Issuer's Shareholders, appointed Mr. Marek Gabryjelski member of the Supervisory Board due to Mr. Jacek Tomasik's resignation from the function of member of the Supervisory Board, announced on 2 June 2017. As at the balance sheet date, the Issuer's Supervisory Board was composed as follows:

- Mr. Paweł Marcinkiewicz – Chairman of the Supervisory Board;
- Mr. Grzegorz Ogonowski – Vice Chairman of the Supervisory Board;
- Mr. Łukasz Żuk – Member of the Supervisory Board;
- Mr. Wojciech Włodarczyk – Member of the Supervisory Board;
- Mr. Marek Gabryjelski – Member of the Supervisory Board.

The above composition did not change until the date of this Report.

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.

The Issuer's Management Board is composed as follows:

- Mr. Waldemar Piotrowski, President of the Management Board, and
- Mr. Paweł Górnicki, Vice President of the Management Board.

The composition of the Management Board is the same as in 2016.

Business description

The core business of the Group consists in the production and sale of ceramic stoneware tiles. The tiles are made of mineral raw materials (minerals). In the reporting period concerned, production was carried out in two plants located in Końskie and in a plant located in Kopaniny in the Końskie poviat, as the production plant of Ceramika Nowa Gala II sp. o.o. was closed down in Q1 2017, and its production was moved to the other two plants of the Group. In 2018, it is planned to merge Ceramika Nowa Gala SA and Ceramika Nowa Gala II sp. z o.o. 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.

The most important production steps are as follows: milling of raw materials, production of ceramic powder, ceramic tile pressing, glazing (in the case of some products) and firing. The production process is continuous and automated. Part of the tiles are also polished. Supplementary decorative elements are also manufactured and sold within one joint offer.

The products are sold primarily via a network of wholesalers cooperating with the Group, both in Poland and in foreign markets, as well as via DIY chain stores. These products are used as finishing material for flooring, facade and wall cladding in the construction industry.

Signatures

These financial statements were drawn up and signed on 26 March 2018 and will be published on 26 March 2018.

Management Board

Chief Accountant

Consolidated statement of profit and loss and other comprehensive income

for the period from 1 January 2017 to 31 December 2017

Amounts in PLN thousand (PLN '000).

	Note	2017	2016
Revenue	[1]	**156,609**	**170,982**
Cost of sales	[1][2]	116,344	127,836
Gross profit		**40,265**	**43,146**
Other income	[3]	155	187
Selling and administrative expenses	[2]	40,411	41,840
Other expenses	[4]	1,858	9,067
Profit before interest and tax		**-1,850**	**-7,574**
Finance income	[5]	4	23
Finance expenses	[6]	2,141	1,518
Share in profits of associates and joint ventures		-	-
Profit from continued operations before tax		**-3,987**	**-9,069**
Income tax expense	[7]	1,510	-119
Profit from continued operations after tax		**-5,497**	**-8,950**
Profit from discontinued operations after tax		-	-
Profit for the year		**-5,497**	**-8,950**
Other comprehensive income that may not be transferred to the profit in the future			
None		-	-
Other comprehensive income that may be transferred to the profit in the future			
Exchange rate differences from translation	[5b]	13	-3
Total comprehensive income		**- 5 484**	**-8,953**
Net profit attributable to			
shareholders of the parent company		**-5,497**	**-8,950**
non-controlling interests		-	-
		-5,497	**-8,950**
Total comprehensive income attributable to			
shareholders of the parent company		-5,484	-8,953
non-controlling interests		-	-
		-5,484	**- 8,953**

	Unit	Note	2017	2016
Annualized profit/(loss)	PLN thousand		-5,497	-8,950
Weighted average number of shares	thousand shares		46,894	46,894
Basic earnings/(loss) per share from continued operations	PLN	[8]	-0.12	-0.19
Weighted average diluted number of shares	thousand shares		46,894	46,894
Diluted earnings/(loss) per share from continued operations	PLN	[8]	-0.12	-0.19

Consolidated statement of financial position

as at 31 December 2017

Amounts in PLN thousand (PLN '000).

Assets	Note	31.12.2017	31.12.2016
Non-current assets			
Goodwill	[9] [36]	18,851	18,851
Intangible assets	[9]	2,584	3,243
Property, plant and equipment	[10]	90,751	88,408
Investment property	[23]	7,550	7,550
Other financial assets		145	145
Deferred tax assets	[11]	8,375	10,561
Total non-current assets		**128,256**	**128,758**
Current assets			
Inventory	[12]	75,776	68,919
Trade and other receivables	[13]	24,508	25,673
Receivables from current income tax		-	2
Other financial assets		-	-
Cash and cash equivalents	[14]	13,623	22,596
Other current assets		442	421
Total current assets		**114,349**	**117,611**
Fixed assets classified as held for sale in accordance with IFRS 5		-	-
Total assets		**242,605**	**246,369**

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Consolidated statement of financial position (contd.)

Amounts in PLN thousand (PLN '000).

Equity and liabilities	Note	31.12.2017	31.12.2016
Equity			
Share capital	[15a]	46,894	46,894
Capital reserves	[15b]	122,146	136,034
Revaluation reserve	[15d]	-	-
Exchange rate differences from translation	[15h]	15	2
Reserve capital	[15f]	8,719	8,719
Treasury shares	[15g]	-	-
Retained earnings	[15c]	-5,261	-8,963
Equity attributable to shareholders of the parent company		**172,513**	**182,686**
Non-controlling interests	[15e]	-	-
Total equity		**172,513**	**182,686**
Non-current liabilities			
Borrowings	[16]	7,165	848
Provision for deferred income tax	[17]	3,668	4,909
Provision for employee benefits	[20]	24	24
Total non-current liabilities		**10,857**	**5,781**
Current liabilities			
Trade and other payables	[18]	21,731	22,651
Current tax liability		427	331
Borrowings	[16]	27,202	24,052
Other financial liabilities*	[16]	851	1,401
Provision for employee benefits	[20]	1,569	1,492
Other provisions	[19]	7,455	7,975
Total current liabilities		**59,235**	**57,902**
Liabilities associated with assets classified as held for sale in accordance with IFRS 5		-	-
Total liabilities		**70,092**	**63,683**
Total equity and liabilities		**242,605**	**246,369**
Book value (in PLN thousand)		172,513	182,686
Number of shares (in thousand shares)		46,894	46,894
Book value per share (in PLN)		3.68	3.90
Diluted number of shares (in thousand shares)*		46,894	46,894
Diluted book value per share (in PLN)		3.68	3.90

*Factoring agreement concluded by a subsidiary

Consolidated cash flow statement

for the period from 1 January 2017 to 31 December 2017

Amounts in PLN thousand (PLN '000).

	Note	2017	2016
Operating activities			
Net profit/(loss)		**-5,497**	**-8,950**
Amortization and depreciation		13,368	13,893
Interest revenue and expenses		1,083	1,207
Exchange rate gains/(losses)		34	-2
Gain/(loss) on disposal of intangible and tangible non-current assets		111	95
Movement in provisions, write-downs, prepayments and accruals		-458	-992
Income tax expense		1,510	-119
Other adjustments		-148	6,122
Cash flow from operations before movements in working capital		**10,003**	**11,254**
Movement in inventory	[25a]	-6,855	15,433
Movement in receivables	[25b]	1,167	12,698
Movement in liabilities	[22c]	312	-4,448
Cash flow from operations before tax		**4,627**	**34,937**
Interest received from operating activities		4	1
Interest paid on operating activities		-1	-3
Income tax paid		-468	-176
Net cash flows from operating activities		**4,162**	**34,759**
Investing activities			
Proceeds from disposal of tangible and intangible non-current assets		242	59
Purchase of tangible and intangible non-current assets		-16,402	-5,459
Net cash from investing activities		**-16,160**	**-5,400**

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Consolidated cash flow statement (contd.)

Amounts in PLN thousand (PLN '000).

	Note	2017	2016
Financing activities			
Proceeds from borrowings	[25d]	10,769	-
Inflows from other sources of funding (factoring agreement)	[25d]	-	91
Dividends to shareholders of the parent company		-4,689	-4,689
Repayment of borrowings	[25d]	-1,196	-10,918
Repayment of other sources of funding (factoring agreement)	[25d]	-549	-
Interest paid pertaining to financing activities		-1,086	-1,205
Net cash from financing activities		**3,249**	**-16,721**
Net cash from financing activities		**-8,749**	**12,638**
Cash and cash equivalents at the beginning of the period		22,596	9,894
Exchange rate differences		-224	64
Cash and cash equivalents at the end of the period		**13,623**	**22,596**
Structure of cash and cash equivalents:	[14]		
Unrestricted cash		13,264	22,578
Restricted cash		359	18
		13,623	**22,596**

Consolidated statement of changes in equity

for the period from 1 January 2017 to 31 December 2017

Amounts in PLN thousand (PLN '000).

	Attributable to the shareholders of the parent company								Non-controlling interests	Total equity
	Share capital	Capital reserves	Foreign exchange differences from translation	Reserve capital	Revaluation reserve	Treasury shares	Retained earnings	TOTAL		
As at 1 January 2016	**46,894**	**125,274**	**5**	**8,719**	**-**	**-**	**15,437**	**196,329**	**-**	**196,329**
Total comprehensive income*	-	-	-3	-	-	-	-8,950	-8,953	-	-8,953
Coverage of loss from previous years	-	-	-	-	-	-	-	-	-	-
Division of profit from previous years**	-	10,760	-	-	-	-	-10,760	-	-	-
Payment of dividend	-	-	-	-	-	-	-4,690	-4,690	,	-4,690
As at 31 December 2016	**46,894**	**136,034**	**2**	**8,719**	**-**	**-**	**-8,963**	**182,686**	**-**	**182,686**
As at 1 January 2017	**46,894**	**136,034**	**2**	**8,719**	**-**	**-**	**-8,963**	**182,686**	**-**	**182,686**
Total comprehensive income*	-	-	13	-	-	-	-5,497	-5,484	-	-5,484
Coverage of loss from previous years	-	-9,362	-	-	-	-	9,362	-	-	-
Division of profit from previous years**	-	163	-	-	-	-	-163	-	-	-
Payment of dividend	-	-4,689	-	-	-	-	-	-4,689	,	-4,689
As at 31 December 2017	**46,894**	**122,146**	**15**	**8,719**	**-**	**-**	**-5,261**	**172,513**	**-**	**172,513**

*In 2017, the amounts of comprehensive income were allocated to the following equity items: net loss in the amount of PLN 5,497 thousand decreased the amount of retained earnings, exchange rate differences from translation in the amount of PLN 13 thousand increased the relevant capital item. In 2016, the amounts of comprehensive income were allocated to the following equity items: net loss in the amount of PLN 8,950 thousand decreased the amount of retained earnings, exchange rate differences from translation in the amount of PLN 3 thousand decreased the relevant capital item.

**Including the effects of consolidation.

Financial highlights

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

- as for balance sheet data, the average exchange rates of the NBP were used: 4.1709 PLN/EUR as at 31 December 2017 and 4.424 PLN/EUR as at 31 December 2016;
- 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, prevailing on the last day of each month in the reporting period, were used: 4,2447 PLN/EUR in 2017; 4.3757 PLN/EUR in 2016.

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 4.1793 PLN/USD as at 31 December 2016.

Consolidated data	in PLN thousand		in EUR thousand	
	2017	2016	2017	2016
Net sales	156,609	170,982	36,895	39,075
Profit/(loss) from operating activities	-1,850	-7,574	-436	-1,731
Profit/(loss) before tax	-3,987	-9,069	-939	-2,073
Net profit/(loss)	-5,497	-8,950	-1,295	-2,045
Net cash flows from operating activities	4,162	34,758	981	7,943
Net cash flows from investing activities	-16,160	-5,400	-3,807	-1,234
Net cash flows from financing activities	3,249	-16,721	765	-3,821
Net cash flows (in total)*	-8,973	12,701	-2,114	2,903
Total assets	242,605	246,369	58,166	55,689
Liabilities and provisions for liabilities	70,092	63,683	16,805	14,395
Non-current liabilities	10,857	5,781	2,603	1,307
Current liabilities	59,235	57,902	14,202	13,088
Equity	172,513	182,686	41,361	41,294
Share capital	46,894	46,894	11,243	10,600
Number of shares	46,893,621	46,893,621	-	-
Profit/(loss) per share (in PLN/EUR)	-0.12	-0.19	-0.03	-0.04
Diluted profit/(loss) per share (in PLN/EUR)	-0.12	-0.19	-0.03	-0.04
Book value per share (in PLN/EUR)	3.68	3.90	0.88	0.88
Diluted book value per share (in PLN/EUR)	3.68	3.90	0.88	0.88
Declared or paid dividend per share (in PLN/EUR)	0.1	0.1	0.02	0.02

*Balance sheet movement in cash, taking into account the movement in revaluation from exchange rate differences.

Accounting principles

Compliance with International Financial Reporting Standards

These consolidated financial statements of Ceramika Nowa Gala SA have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS).

Standards, interpretations or amendments thereto, which entered into force and were applied for the first time during the reporting period, had an impact only on the extent of the presented disclosures. They did not affect the measurement of financial statement items and their application did not entail restating the comparative amounts.

While preparing these consolidated financial statements, the opportunity of an early application of standards and interpretations published before the balance sheet date and before their effective date, was not exercised. As at the balance sheet date, the following standards and interpretations issued by the International Accounting Standards Board had not entered into force yet.

IFRS 15 "Revenue from Contracts with Customers"

The standard establishes a single model of accounting treatment of all revenue arising from contracts with customers, mandatory for all reporting units. Once effective, IFRS 15 will replace the guidance on revenue recognition defined in IAS 18 "Revenue", IAS 11 "Construction Contracts" and the guidance provided for in related Interpretations. Under the new standard, the entity should recognize revenue once it has satisfied a performance obligation, i.e. when the customer obtains control over the goods or services covered by this commitment. IFRS 15 includes more restrictive guidance on specific aspects of revenue recognition. It also requires disclosure of a wide range of information.

The standard will be applicable to annual periods beginning on 1 January 2018 or after that date. The standard has been approved to be used in the European Union Member States.

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 contained in IAS 37. Therefore the application of the standard will have no effect on the amount of disclosed revenue, but it will, however, result in an increase in the level of detail as regards disclosures related to the sales structure. The final arrangements concerning detailed requirements provided for in the standard will be refined at its first application.

Refinement of the provisions contained in IFRS 15: Revenue from Contracts with Customers

Amendments to the standard were to clarify doubts arising in the course of pre-introductory analyses as regards: identifying the performance obligation, guidelines relating to the application of the standard as regards identification of the customer or agent, revenue from licenses regarding intellectual property and the transitional period when applying the new standard for the first time.

The standard will be applicable to annual periods beginning on 1 January 2018 or after that date. The standard has been approved to be used in the European Union Member States.

Application of the above amendments would have no impact on the consolidated financial statements of the Company.

IFRS 16 "Leases"

The standard introduces a single model of recognizing by the lessee in the balance sheet virtually all kinds of lease agreements. The standard eliminates the classification into finance leases (recognized in the balance sheet) and operating leases (off-balance ones). Under the new regulations each lease agreement will result in obtaining by the lessee an intangible asset (the right to use a given asset) and it will generate a financial liability. Such intangible assets will be amortized and the associated costs will decrease the operating profit. Lease liabilities will be, as financial liabilities, measured at amortized cost. Such measurement will entail finance costs in the statement of comprehensive income. The lessee will report such agreements virtually in the same way as he does now in accordance with IAS 17.

The standard will be applicable to annual periods beginning on 1 January 2019 or after that date. The standard has been approved to be used in the European Union Member States.

The companies of the Group are now parties to a number of short-term lease contracts that meet the definition of operating lease. The following can be expected in the statement of comprehensive income for 2018 as a result of applying the new standard: a decrease in the cost of third-party services by PLN 2.1 million (estimated amounts based on 2017 data), an increase in depreciation costs by PLN 1.6 million and an increase in financial costs by PLN 0.1 million (estimated amounts based on 2017 data). In the case of the statement of financial position the application of the standard will result in an increase in the asset value (intangible assets) – at the end of 2017, this increase was estimated at PLN 3.4 million which will increase debt due to concluded agreements. Ultimate values of the changes will be determined at the time of the first application of the standard.

IFRS 9 "Financial Instruments"

IFRS 9 is a new standard concerning financial instruments. The standard introduces new requirements for the classification and measurement of financial assets and liabilities. In terms of hedge accounting, changes have been made to simplify and increase the flexibility of the basic model defined previously in IAS 39. Furthermore, the requirements for the recognition of impairment of financial assets have been significantly changed in such a way that it will be required to use an expected credit loss model instead of the incurred credit loss model required previously by IAS 39.

The standard will be applicable to annual periods beginning on 1 January 2018 or after that date. The standard has been approved to be used in the European Union Member States.

Application of the standard may have an impact on the Company's consolidated financial statements, in particular, by changing the identified groups of financial assets and the amounts of recognized impairment losses on financial assets (mainly trade receivables). Based on data from the end of 2017 (taking into account the structure of overdue receivables by country) an additional write-down of receivables is estimated at PLN 300 thousand. Ultimate values of the changes will be determined at the time of the first application of the standard.

Amendment to IFRS 9: Prepayment Features with Negative Compensation

The standard has been amended to specify the measurement rules concerning financial assets which can be repaid at an earlier date in accordance with contractual terms, and formally could not meet the requirements of the 'solely payments of principal and interest on the principal amount' criterion, which would exclude their measurement at amortized cost or fair value through other comprehensive income.

The standard will be applicable to annual periods beginning on 1 January 2019 or after that date. The standard has been approved to be used in the European Union Member States.

Application of the standard would have no impact on the consolidated financial statements of the Company.

IFRS 14 "Deferred balance of regulated activity"

The standard allows the first-time adopter of the International Financial Reporting Standards to continue to use the previously adopted accounting principles relating to regulated activity, taking into account some minor changes. The standard requires separate presentation of deferred balances arising from regulated activity in the statement of financial position and changes in these balances in the statement of profit or loss and other comprehensive income. This applies both to the first financial statements after the transition to IFRS and subsequent financial statements. Specific disclosures are also required.

The standard has been approved by the IASB to be applied to annual periods beginning on 1 January 2016 or after that date. The standard in its present form will not be approved to be applied in the European Union Member States.

Application of the standard would have no impact on the consolidated financial statements of the Company.

IFRS 17: Insurance Contracts

The standard supersedes the existing regulations concerning insurance contracts (IFRS 4).

The standard will be applicable to annual periods beginning on 1 January 2021 or after that date. The standard has been approved to be used in the European Union Member States.

Application of the standard would have no impact on the consolidated financial statements of the Company.

Amendments to IFRS 10 and IAS 28 – "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"

The amendments are designed to eliminate the contradiction between the requirements of IAS 28 and those of IFRS 10, and to clarify that the recognition of a gain or loss in transactions involving an associate or joint venture depends on whether sold or contributed assets constitute a joint venture.

Its entry into force has been postponed for an indefinite time. The amendments have not been approved to be applied in the European Union Member States.

Application of the amendments to the standards would have no impact on the consolidated financial statements of the Company.

Amendments to IFRS 2 "Share-based Payment"

The amendments require the entity to recognize share-based transactions settled in cash, share-based payments (including withholding tax liabilities) and reclassify a transaction settled in cash into a transaction settled in equity instruments.

The amendments have been approved to be applied to annual periods beginning on 1 January 2018 or after that date. The amendments have been approved to be applied in the European Union Member States.

Application of the above amendments would have no impact on the consolidated financial statements of the Company.

Amendments to IFRS 4: Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts"

The amendments concern entities whose activities are predominately connected with insurance and introduce an opportunity to defer the application of IFRS 9 by such entities.

The amendments have been approved to be applied to annual periods beginning on 1 January 2018 or after that date. The amendments have been approved to be applied in the European Union Member States.

Application of the above amendments would have no impact on the consolidated financial statements of the Company.

Amendments to IAS 40: Transfers of Investment Property

The amendments clarify that a transfer of real property from or to investment property may be effected when, and only when, there has been a change in the manner in which this real property is used.

The amendments have been approved to be applied to annual periods beginning on 1 January 2018 or after that date. The amendments have been approved to be applied in the European Union Member States.

Application of the above amendments would have no impact on the consolidated financial statements of the Company.

IFRIC Interpretation 22—Foreign Currency Transactions and Advance Consideration

The interpretation clarifies the rules for specifying the transaction date for the purpose of determining the exchange rate in the case of advance consideration received in a foreign currency. In this situation received advance consideration is measured before the recognition of assets, costs or revenue related to the transaction.

The interpretation has been approved to be applied to annual periods beginning on 1 January 2018 or after that date. The interpretation has not been approved yet to be used in the European Union Member States.

Application of the above interpretation would have no impact on the consolidated financial statements of the Company.

IFRIC 23: Uncertainty over Income Tax Treatments

The interpretation specifies how to recognize income tax in financial statements in cases where existing tax provisions may leave room for interpretation and the divergent opinions between the taxpayer and tax authorities.

The interpretation has been approved to be applied to annual periods beginning on 1 January 2019 or after that date. The interpretation has not been approved yet to be used in the European Union Member States.

Application of the above interpretation would have no impact on the consolidated financial statements of the Company.

Amendment to IAS 28: Investments in Associates and Joint Ventures

The amendment specifies the measurement rules applicable to shares in associates and joint ventures where such shares are not measured in accordance with the equity method.

The amendment has been approved to be applied to annual periods beginning on 1 January 2019 or after that date. The amendment has not been approved yet to be applied in the European Union Member States.

Application of the above amendment would have no impact on the consolidated financial statements of the Company.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments concern re-measurement of defined benefit plans where these are modified. The amendments to the standard introduce a requirement to apply updated assumptions to determine the current payroll cost and the interest cost for periods after a plan amendment when an entity remeasures its net defined assets or liabilities relating to the plan.

The amendments have been approved to be applied to annual periods beginning on 1 January 2019 or after that date. The amendments have not been approved yet to be applied in the European Union Member States.

Application of the above amendments would have no impact on the consolidated financial statements of the Company.

Amendments arising from a review of IFRSs (2015-2017 cycle)

As a result of the review of IFRSs, the following standards have been amended:

IFRS 3 Business Combinations, to clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business;

IFRS 11 Joint Arrangements, to clarify that when an entity obtains joint control of a business that is joint operation, it does not remeasure previously held interests in that business;

IAS 12 Income Taxes, specifying that any tax consequences of dividend payment must be recognized in the same manner;

IAS 23 Borrowing Costs, introducing a requirement that when an asset is ready for its intended use or sale, an entity must treat any borrowings made specifically to obtain that asset as part of the funds that it has borrowed generally.

The amendments have been approved to be applied to annual periods beginning on 1 January 2019 or after that date. The amendments have not been approved yet to be applied in the European Union Member States.

Application of the above amendments would have no impact on the consolidated financial statements of the Company.

Functional currency

The Polish złoty is the primary currency used in the economic environment in which the Group operates. In the case of CNG Luxembourg S.à.rl subsidiary, this is the Euro. The books of the companies of the Group are kept in PLN, except for CNG Luxembourg S.à.r.l., whose books are kept in EUR. Prior to the consolidation, the financial statements of CNG Luxembourg S.à.rl had been translated from EUR into PLN.

Measurement basis

Measurement for the purposes of the consolidated financial statements is performed in accordance with the historical cost principle, unless standards require the adoption of a different method.

Going concern principle

The financial statements of the companies of the Group are prepared on a going concern basis, unless there are circumstances that make this assumption unfounded.

In the reporting period concerned, production was carried out in two plants located in Końskie and in a plant located in Kopaniny in the Końskie poviat, as the production plant of Ceramika Nowa Gala II sp. z o.o. was closed down in Q1 2017, and its production was moved to the other two plants of the Group. In 2018, it is planned to merge Ceramika Nowa Gala SA and Ceramika Nowa Gala II sp. z o.o. 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.

In accordance with the planned combination method accounting records of Ceramika Nowa Gala II will not be closed and there is no premise of discontinuation of its operations.

The structure of the Group and consolidation principles

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 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.

CNG Luxembourg S.à.r.l. has been established to manage the portfolio of treasury shares of the parent company, purchased in the framework of share buyback programs. Currently, this company does not conduct any other activity, and all treasury shares held by this entity have been transferred to Ceramika Nowa Gala SA and redeemed.

In 2015, Energia Park Trzemoszna Sp. z o.o. was granted a licence to trade in gas. This line of business was, however, actually launched in March 2016. This company purchases part of gas for the other companies in the Group.

Furthermore, Ceramika Nowa Gala SA has a significant impact on its two associated companies: Energo-Gaz Sp. z o.o. based in Końskie (50% share) and Ceramika Nova Sp. z o.o. based in Końskie (50% share). Shares in the aforementioned associated companies were recognized in the consolidated financial statements at cost less a possible write-down for impairment. The carrying amount of the shares in Energo-Gaz Sp. z o.o. is PLN 31 thousand,

and the share of Ceramika Nowa Gala SA in its equity amounted, as at 31 December 2017, to PLN 405 thousand. Financial data of this company for 2017, determined in accordance with Polish accounting standards, is as follows: assets: PLN 918 thousand, provisions and liabilities: PLN 109 thousand, revenue: PLN 1,941 thousand, net profit for 2017: PLN 91 thousand. Transactions concluded with this company are described in Note [22] in the consolidated financial statements and relate mainly to the handling of a siding (the siding is owned by Ceramika Nowa Gala SA and an entity not related to it – joint ownership). The carrying amount of a 50% stake in Ceramica Nova Sp. z o.o., amounting to PLN 2 thousand, is written down in 100% for impairment, and the company has never commenced any operations and holds no assets.

The Group comprises no other subsidiaries or associates, and no joint ventures have been taken.

Transactions in foreign currencies

Transactions in foreign currencies recognized in the financial statements of the companies of the Group are translated into PLN at the average rate of the NBP, prevailing on the transaction date. As at the balance sheet date, monetary assets and liabilities denominated in foreign currencies (interpreted in accordance with IAS 21) are translated at the average exchange rate of the NBP, prevailing at that date. The resulting foreign exchange differences are recognized in income or expenses. Non-monetary assets denominated in foreign currencies are shown as at the balance sheet date at the exchange rate prevailing on the transaction date. The measurement of payments in foreign currencies made from bank accounts is made using the FIFO method, and those from exchange offices – in accordance with the weighted average method. Foreign exchange differences from translation of the financial statements of CNG Luxembourg S.à.rl into PLN are recognized in other comprehensive income and are posted directly to equity.

Borrowing costs

In accordance with IAS 23, borrowing costs attributable directly to the acquisition, construction or production cost of an asset which requires a long time to be made suitable for use, incurred during this period, increase the initial value of this asset component. Borrowing costs posted to the increased initial value of a given asset are reduced by the revenue generated from the temporary investment of funds allocated for the production of this asset component.

These borrowing costs and revenue affecting the initial value of assets do not include foreign exchange rate differences.

Segment reporting

The organizational structure of the Group is a functional one. Four key areas can be identified: sales, production, finance, administration and logistics. Each of the persons responsible for these areas reports directly to the Management Board. Key decisions regarding the ongoing operations and the Group's growth strategy are taken by the Management Board. The Group specializes in the production of ceramic stoneware tiles which are sold under two brands: 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. CNG Luxembourg S.à.r.l. subsidiary does not own fixed assets and does not manufacture goods or conduct trade operations. Therefore, there are no significant assets located outside the territory of the country in which the parent company is established.

Property, plant and equipment

Property, plant and equipment: buildings, plant and equipment used for the production and delivery of products, provision of services or for management purposes, as well as other similar non-current assets are measured as at the balance sheet date at cost or manufacturing cost, less accumulated depreciation and impairment write-downs.

The acquisition price includes the purchase price, the cost of transport, installation and other direct costs associated with the delivery of the asset and its adaptation for use. In the case of assets acquired as a result of the take-over of Ceramika Gres SA subsidiary, the acquisition cost was determined based on their fair value as at the acquisition date. This value arose from a measurement performed by a certified appraiser.

Land owned by the companies of the Group is measured at cost and is not depreciated. Land in perpetual usufruct is classified as a non-current asset and is depreciated. If necessary, the value of land is written down for impairment.

As at the date of transition to IFRS reporting, real property (land and buildings) was measured at deemed cost, as determined by the appraiser and adjusted for the amount of depreciation accumulated between the date of measurement and the date of transition to IFRS, as well as the expenditure increasing the value of the measured real property, incurred during this period (no impairment write-downs were made). The thus determined initial value serves as the basis for depreciation arising from the expected economic life.

The value of assets produced in-house includes the cost of materials and direct labour. The costs of production of assets are increased by a reasonable part of the borrowing costs (see the rules on financing costs).

Non-current assets are depreciated on a straight-line basis, taking into account their expected useful lives and the recoverable value (where warranted), from the date of putting the asset into operation. Land is not depreciated, with the exception of land in perpetual usufruct, which is depreciated on a straight-line basis until the end of the period of perpetual usufruct, without taking into account the right to extend this period provided for in law.

The expected depreciation periods for each type of non-current assets are as follows:

▪ land in perpetual usufruct	from 8 to 95 years;
▪ buildings	from 1 to 35 years;
▪ plant and equipment	from 1 to 40 years;
▪ other non-current assets	from 1 to 23 years.

The assumed useful lives of non-current assets are reviewed at least once during the financial year.

The costs of routine repairs, renovation, replacement of smaller parts and similar costs which do not increase the initial useful value of a given fixed asset, are charged to the expenses of the period in which they were incurred. In the case of major repairs that require replacement of expensive parts, the principles set out in IAS 16 are applied. In accordance with those principles, the value of a fixed asset should be reduced by the non-depreciated value of a replaced component and increased, at the same time, by the purchase price of a new part (such items are accounted for as separate components). The costs of improvements that increase the value of a given non-current asset component, as compared to its initial value, increase assets and are depreciated. This applies also to renovation and adaptation of buildings whose condition at the time of acquisition necessitated such costs to be incurred.

Advertising displays for displaying the companies' products in outlets, which despite their transfer outside the companies' seats are at their disposal and remain their property, are entered in the records of non-current assets and depreciated over the expected useful life. Other displays are posted to costs at the time they are handed over to a counterparty.

Non-current assets classified as held for sale

Where the Group expects that the sale of a given asset component or a group of assets will be more beneficial than their further use, such assets are classified as non-current assets available for sale. To be classified as non-current assets held for sale, assets must be available for prompt sale in their current form and their sale must be highly probable. High probability means that the decision-making bodies of the company have resolved to sell such assets, and their sale will take place within 12 months of the balance sheet date. As at the date of reclassification of assets to the this group, the book value of these assets is compared to their fair value less their selling costs, and – where it is greater – the difference is written off by a charge to the profit or loss of a given period.

Intangible assets

Intangible assets acquired from an external business entity in a separate transaction are capitalized at acquisition or manufacturing cost.

Intangible assets generated in-house concern development and are to be recognized as assets, provided the following conditions are met:

- they are identifiable;
- they are likely to generate economic benefits in the future;
- development costs can be reliably measured.

Capitalized development costs are amortized on a straight-line basis over their useful lives.

The assumed economic useful lives for the various categories of intangible assets are as follows:

- computer software from 2 to 14 years.

Impairment of property, plant and equipment as well as intangible assets

Where there is evidence indicating the possibility of impairment of property, plant and machinery as well as intangible assets held, an impairment test is performed. The amounts of impairment write-downs reduce the carrying value of the assets to which they relate and are recognized in profit or loss.

Goodwill and intangible assets acquired as a result of a take-over

In accordance with IFRS 3, taking over a subsidiary entails that goodwill shown in the consolidated financial statements is determined as the difference between the acquisition cost and the corresponding share in the fair value of the net assets of the acquired company. Goodwill is not amortized, but it is subject to an annual impairment test. Impairment write-downs relating to goodwill are not reversed. Furthermore, as a result of the settlement of the purchase price allocation process, the consolidated financial statements show intangible assets that are not subject to disclosure in the separate financial statements of the acquired company: the brand and the customer portfolio of Ceramika Gres SA. The measurement of these items was based on their fair value. They are amortized in accordance with the assumed time of their useful life, i.e. 14 years. If there is any evidence indicating the possibility of impairment of these assets, appropriate tests are carried out and impairment write-downs can be made.

Investments in real property

Real property held by the Group in order to obtain economic benefits resulting from its appreciation or rental, and not to be used in production or for quick resale, is classified as investment property. Such assets are measured at their fair value whose changes are recognized in profit or loss. Within up to 12 months of the date of expenditures, it is assumed that the fair value of given real property corresponds to incurred expenditures, as long as these expenditures result from transactions concluded at arm's length, and there have been no significant changes within this period as regards the condition of the real property or economic conditions. After this period, the fair value of real property is determined taking into account expert reports of independent appraisers, whereby this procedure should be carried out at least once in 12 months (see note [24]).

Inventory

Inventory of purchased goods is measured as at the balance sheet date at acquisition cost or realizable net selling price less costs of sale.

Inventory of raw materials intended for production is measured as at the balance sheet date at acquisition cost, unless it cannot be used in production or its use in production is not economically viable (the costs of manufacture of products made from these raw materials exceed the realizable net selling price of these products). In this case, the value of these raw materials is reduced, usually to their net resale price, unless the acquisition cost was lower. The standard cost method is used for the purpose of costing the inventory of raw materials and production materials.

Inventory of technical materials (parts, consumables) is recognized at acquisition cost. Its value is reduced if it is no longer useful or has been damaged.

Costs of advertising materials (brochures, samples, gadgets, etc.) are charged to profit or loss at the time of their purchase. The value of the inventory of these materials is not recognized in the balance sheet.

The acquisition cost includes the purchase price, costs of transport, cargo handling, customs duties and other costs associated with the delivery (if any).

Work in progress and finished goods are measured at their standard technical cost including direct costs and a suitable portion of indirect costs, determined under assumption of normal production capacity utilization. The standard cost includes also normal levels of waste and the value of by-products, determined based on a realizable selling price. Deviations from the standard cost (e.g. ones due to non-utilization of production capacity) are posted directly to profit or loss for the period, adjusting the cost of sold products. The standard cost can change, e.g. in the case of a change in production costs or the manufacturing process. The FIFO method is used for the disposal of the inventory of finished products and goods.

The technical costs of manufacture of finished and semi-finished products do not include selling, general and administrative expenses or borrowing costs. Those expenses are charged directly to profit or loss for the period.

Where the acquisition cost or the technical cost of production of inventory is higher than the anticipated selling price, the entity makes write-offs which are recognized in other operating expenses. The selling price should be understood as the price of sale carried out in the ordinary course of business, less the estimated costs of the completion of production and the expenses that need to be incurred to complete the sales transaction.

Provisions

Provisions are created when the Group has a present obligation (legal or customary) arising from a past event, and it is probable that the fulfilment of this obligation will cause an outflow of funds and the amount of this obligation can be reliably estimated, but the amount itself or its maturity are not specified. If it is believed that the costs covered by the provision will be reimbursed, the reimbursement is recognized as a separate asset, but only when it is virtually certain that this reimbursement will occur (e.g. under an insurance contract). Where the effect of changes in the value of money over time has a significant impact on the amount of the provision, its amount is determined by discounting the expected future cash flows to their present value using a gross discount rate that reflects the current market cost of money and the possible risks specific to a given liability. Where the provision was measured taking into account discounting, an adjustment to the provision, associated with the change to the discount, is recognized in the income statement as an adjustment to interest.

Lease

The companies of the Group do not use assets under finance lease agreements. They are bound, however, by rental agreements for office and storage space, as well as other rental agreements concerning technical equipment (including cars and forklifts). In accordance with IAS 17, these agreements can be classified as operating leases.

Post-employment benefit plan

The companies of the Group do not operate a pension scheme or long-term service awards. In accordance with the applicable labour laws, retiring employees are entitled to severance pay equal to their monthly salaries whose expected discounted value is negligible (IAS 19: "Post-employment benefits").

Derivative financial instruments and hedging instruments

The companies of the Group do not hold nor have issued any derivative financial instruments.

Other financial instruments

A financial instrument is understood as a contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party to the contract.

The key financial assets and liabilities shown in the financial statements are discussed below.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand as well as short-term deposits with an original maturity of three months.

The cash balance shown in the consolidated cash flow statement includes the aforementioned cash and cash equivalents. Balances of outstanding loans in overdraft facilities are recognized as short-term or long-term loans, depending on the period in which the companies are entitled to make use of such a limit.

Trade receivables and other receivables

On account of its operating activities, the Group holds trade receivables and other receivables whose maturity period is usually from 60 to 90 days, which are recognized at the amounts initially payable, net of provisions for bad debts. Impairment write-downs of bad debts are made when the collection of the full amount of a receivable is no longer probable.

The amounts of impairment write-downs of receivables are recognized in other operating expenses.

The companies of the Group can be parties to non-recourse factoring agreements. It must follow from the economic content of such agreements that they result in the transfer of liquidity risk with respect to a given part of invoiced amounts to be discounted to the factor, and that the risk of the counterparty's insolvency is taken over by the insurance company. If the agreement meets the above requirement, only part of the amounts of receivables indicated in invoices to be discounted is recognized in the balance sheet and constitutes a deductible. The Company has an off-balance sheet (due to very low likelihood) commitment to satisfy the factor in case the insurance company refuses to pay compensation for the invoice to be discounted.

Interests or shares in other economic operators

The Group has interests of negligible value in three business operators (basic data of two of them is provided in the description of the Group, while the third one is a contractor whose shares have been received upon conversion of debt into shares). These interests are measured at cost.

For the purpose of their measurement, financial assets are grouped into the following categories:

- assets measured at fair value, with changes posted to profit or loss;
- assets held to maturity – measured at amortized cost using the effective interest rate method;
- loans and receivables – measured at amortized cost using the effective interest rate method;
- assets held for sale – measured at fair value, with the exception of assets for which there is no active market, which may serve as the basis for fair value measurement (such assets are measured at cost).

Currently, the Group holds financial assets of the last two categories only. Their amounts are presented in the consolidated statement of financial position and notes to the consolidated financial statements.

Interest-bearing loans and borrowings

Interest-bearing loans, borrowings and debt instruments are recognized in the consolidated statement of financial position as a separate item.

Upon initial recognition, bank loans, borrowings and debt instruments are initially recognized at acquisition cost corresponding to the value of received cash or the fair value of assets acquired in exchange for a given instrument, less the costs of obtaining a loan or issuing a debt security. In subsequent periods, loans and borrowings are measured at amortized cost using the effective interest rate method. The statement of comprehensive income accounts for all the effects of applying the amortized acquisition cost as well as the effects of the removal of a given liability from the statement of financial position or recognition of its impairment. Where there are no significant differences between the measurement at the nominal value and the measurement at amortized cost, or if the effective interest rate cannot be reliably determined, such financial liabilities are measured at their nominal value. These include also recourse factoring liabilities.

Trade and other liabilities

On account of its operating activities, the Group has trade and other liabilities which mature usually within up to 90 days. Upon the initial recognition at fair value, these liabilities are subsequently measured at amortized cost using the effective interest rate method, unless the resulting differences are negligible.

Equity instruments

Equity instruments issued by the companies of the Group are recognized at received net proceeds. The parent company issues equity instruments in the form of shares.

Revenue

Revenue is recognized in the financial statements in the amount of the probable economic benefits that the Group will obtain as a result of a given transaction, provided the amount of revenue can be reliably measured.

Revenue from sale of goods, products, semi-finished products, materials and services are recognized when the significant risks and rewards of ownership of the goods and products have passed to the buyer and the amount of revenue and associated costs can be reliably measured. The Group does not provide services that require settlement taking into account their progress.

Interest income is recognized on an accrual basis, gradually as it accrues, taking into account the effective yield of a given asset.

Dividends are recognized when the shareholders' rights to receive them have been determined.

State subsidies, including non-monetary grants, are recognized in the financial statements when there is reasonable assurance that the entity meets the conditions related to grants and that given grants will be received. Grants are recognized in the financial statements in a way that is commensurate with the related costs or expenditure which the grants are intended to compensate.

Income tax

Tax charges include current corporate income tax and the movement of provisions for deferred income tax or deferred income tax assets. Current tax liabilities are determined in accordance with applicable tax law and based on taxable income.

A provision for deferred income tax is determined for all taxable temporary differences.

Deferred income tax assets are recognized for all deductible temporary differences and unused tax losses carried forward to such an extent that it is probable that future taxable income will allow for the above-mentioned differences to be used, except where:

- deferred income tax assets arise from the initial recognition of an asset or liability in a transaction other than a business combination, where at the time of its recognition they do not affect gross profit or loss, taxable profit or tax loss or net assets;
- in the case of deductible temporary differences associated with investments in subsidiaries or associates as well as interests in joint ventures, deferred income tax assets are recognized in the statement of financial position only to the extent that it is probable that the above-mentioned differences will be reversed in the foreseeable future and sufficient taxable income will be generated to deduct from it the deductible temporary differences.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and is written down, where it is unlikely that the Group will achieve economic benefits associated with the use of tax assets.

Deferred income tax is calculated using tax rates that the management expects to apply within the period when the asset component will be utilized or the liability will be settled, based on tax rates enacted or substantively enacted as of the balance sheet date.

Movement in provisions for deferred income tax and deferred income tax assets is recognized in profit or loss for the financial year, except where the financial effects of events giving rise to a deferred tax asset or its reversal are recognized directly in the entity’s equity capital or affect capital through other comprehensive income.

If applicable, the companies of the Group do not generate tax assets in respect of exemptions granted as a result of performing business activities in a special economic zone. For the purpose of calculation of deferred income tax, exempt activity (the exemption results from a permit to carry out business in the area of a special economic zone) is non-taxable until the limit of state aid is exhausted.

A motion with respect to the termination of the permit to operate in the Starachowice Special Economic Zone is described in Note [29].

Judgements and assumption made by the management in the course of applying the accounting principles

In the course of applying the accounting principles (policy), great importance is attached to the professional judgment of the management, which can significantly affect the amounts recognized in the financial statements.

Estimates concern mainly the created provisions, write-downs of assets, including trade receivables and property, plant and equipment, deferred income tax assets, assumptions applied in the impairment test for goodwill, measurement of investment property and assigning this property to the right level in the hierarchy, measurement of inventory as well as applied depreciation rates. As regards write-downs of deferred income tax assets, estimates concerning the recovery of tax losses recorded in previous years are of particular importance. Estimates are used also to assess the possibility of obtaining compensation from the insurance company in case of receivables covered by non-recourse factoring. Where the estimated risk of lack of possibility of payment is minimal, it is possible to remove receivables covered by such factoring from the balance sheet, and any liabilities due to the factoring company may be presented as contingent (off-balance sheet) liabilities. Detailed rules concerning the estimates of the above-mentioned items were discussed above in the presentation of the accounting principles for the various components of the consolidated financial statements. Each estimate is subject to review at least as at each balance sheet date.

Notes to the consolidated financial statements

[1] The structure of sales revenue and expenses

Amounts in PLN thousand (PLN '000).

	Revenue		Costs		Sales result before tax	
	2017	2016	2017	2016	2017	2016
Products and semi-products	155,248	169,701	115,335	126,743	39,913	42,958
Goods	815	996	686	853	129	143
Raw materials and other materials	223	150	183	123	40	27
Other sales (services)	323	135	140	117	183	18
	156,609	**170,982**	**116,344**	**127,836**	**40,265**	**43,146**

Sales to related entities not covered by these consolidated financial statements are presented in Note [22].

[2] Operating expenses

[2a] Costs by type

Amounts in PLN thousand (PLN '000).

	2017	2016
Raw materials and other materials	62,703	56,577
Gas and electricity	28,544	27,082
Purchased goods and semi-products	2,618	1,558
Amortization and depreciation	13,368	13,893
Payroll with fringe benefits	31,827	31,687
Third-party services*	16,940	16,487
Representation and advertising	4,135	4,030
Taxes and fees	2,402	2,383
Other	1,488	1,613
	164,026	**155,310**
of which:		
Cost of products and goods sold**	116,161	127,713
Selling and administrative expenses	40,411	41,840
Movement in inventory and prepayments and accruals	7,454	-14,243
	164,026	**155,310**

*Expenses under lease agreements classified as operating leases, included in third-party services, amounted to: PLN 3,624 thousand in 2017 and PLN 3,616 thousand in 2016.

**Includes the cost of products and semi-products, goods, as well as other sales expenses. The figure does not, however, include the cost of sold raw materials (Note[1]).

[2b] Payroll along with fringe benefits

Amounts in PLN thousand (PLN '000).

	2017	2016
Current salaries	25,634	26,176
Social security contributions paid by the employer and other employee benefits	6,114	5,910
	31,748	**32,086**
Movement in the provision for holiday pay (Note [20])	103	82
Movement in the provision for bonuses	-24	-481
	31,827	**31,687**

[3] Other operating income

Amounts in PLN thousand (PLN '000).

	2017	2016
Reimbursement of litigation expenses	1	3
Inventory discrepancies	3	65
Damages received	49	88
Write-downs of inventory	-	4
Rental income from investment property	88	18
Other	14	9
	155	**187**

[4] Other operating expenses

	2017	2016
Loss on disposal of property, plant and equipment	113	99
Write-downs of receivables	54	149
Donations	-	8
Litigation expenses	-	2
Damages	47	63
Expenses caused by Force Majeure events	23	17
Discontinuation of products	342	361
Write-down of inventory	821	1,592
Write-downs of property, plant and equipment	-	6,174
Costs of maintenance of investment property	444	485
Write-down of non-refundable advances	-	100
Other	15	17
	1,858	**9,067**

[5] Financial income

	2017	2016
Interest received	4	23
Gain on exchange rate differences	-	-
	4	**23**

[5a] Exchange rate differences recognized in profit or loss

Amounts in PLN thousand (PLN '000).

	2017	2016
Exchange rate differences recognized in financial income	-	-
Exchange rate differences recognized in financial expenses	602	66
	602	**66**

[5b] Exchange rate differences recognized in equity

The change in the amount of exchange differences on translation of the financial statements of CNG Luxembourg S.à.rl was PLN 13 thousand.

[6] Financial expenses

Amounts in PLN thousand (PLN '000).

	2017	2016
Interest	1,086	1,003
Loss on exchange rate differences	602	66
Other financial expenses	453	449
	2,141	**1,518**

[6a] Debt service costs increasing the value of assets

Amounts in PLN thousand (PLN '000).

	2017	2016
Direct finance costs increasing the value of assets	86	2

The costs are given in net amounts, less income from transitional investment of obtained funds.

[7] Income tax

Amounts in PLN thousand (PLN '000).

	2017	2016
Deferred income tax on:		
- deductible tax losses	1,319	-72
- difference between book depreciation and tax depreciation	-1,174	-762
- movements in provisions and write-downs	252	514
- taxable intra-Group profits	659	-19
- write-downs of current assets	-104	12
- other	-8	-348
	944	**-675**
Current income tax	566	556
Tax amount recognized in equity	-	-
	1,510	**-119**

[7a] Relationship between the profit or loss as at the balance sheet date and tax recognized in the income statement

	2017	2016
Profit before tax	-3,987	-9,069
Ongoing operating expenses which are permanently non-deductible	2,440	4,166
Lost tax losses from previous years	6,939	-
Income exempt from taxation (special economic zone)	-	1,441
Other permanent differences related to carrying out business within a special economic zone	-	2,666
Other permanent differences	2,559	169
	7,952	**-626**
Tax rate	19%	19%
Income tax recognized in the income statement	**1,510**	**-119**

[8] Basic and diluted earnings per share

When calculating the weighted average number of shares, if any, treasury shares held by the parent company or a subsidiary thereof are deducted. To calculate diluted earnings per share, potential dilutive shares (if any) are taken into account.

	Unit	2017	2016
Annualized profit/(loss)	PLN thousand	-5,497	-8,950
Weighted average number of shares	thousand shares	46,894	46,894
Basic earnings/(loss) per share from continued operations	PLN	-0.12	-0.19
Weighted average diluted number of shares	thousand shares	46,894	46,894
Diluted earnings/(loss) per share from continued operations	PLN	-0.12	-0.19

[9] Intangible assets

Amounts in PLN thousand (PLN ‘000).

	Computer software	Other	Goodwill	Total
Net value as at 1 January 2016	**428**	**3,475**	**18,851**	**22,754**
Additions due to acquisition	-1	-	-	-1
Sale or withdrawal from use	-	-	-	-
Change in accumulated depreciation due to sale or withdrawal from use	-	-	-	-
Amortization for the period*	-82	-578	-	-660
Net value as at 31 December 2016	**345**	**2,897**	**18,851**	**22,093**
Net value as at 1 January 2017	**345**	**2,897**	**18,851**	**22,093**
Additions due to acquisition	-1	-	-	-1
Sale or withdrawal from use	-	-	-	-
Change in accumulated depreciation due to sale or withdrawal from use	-	-	-	-
Amortization for the period*	-80	-577	-	-657
Net value as at 31 December 2017	**264**	**2,320**	**18,851**	**21,435**
of which:				,
at acquisition/manufacturing cost	264	2,320	18,851	21,435
at a revalued amount	-	-	-	-
As at 31 December 2016				,
Gross value	3,278	10,811	18,851	32,940
Accumulated depreciation and impairment	2,933	7,914	-	10,847
Net value	**345**	**2,897**	**18,851**	**22,093**
As at 31 December 2017				
Gross value	3,277	10,811	18,851	32,939
Accumulated depreciation and impairment	3,013	8,491	-	11,504
Net value	**264**	**2,320**	**18,851**	**21,435**
Amount of pledges and mortgages used as collateral for loans	-	-	-	-
Contractual commitments to acquire intangible assets	-	-	-	-

*The total amount of amortization of intangible assets is recognized in the statement of comprehensive income in “Administrative and selling expenses”.

[10] Property, plant and equipment

Amounts in PLN thousand (PLN '000).

	Land and buildings	Plant and equipment	Fixed assets under construction	Other	Total
Net value as at 1 January 2016	**38,923**	**57,118**	**3,342**	**2,224**	**101,607**
Additions	605	4,349	6,612	1,073	12,639
Impairment loss charged to profit or loss	-10	-4,978	-1,133	-3	-6,124
Sale or withdrawal from use	-	-2,265	-	-403	-2,668
Change in accumulated depreciation due to sale or withdrawal from use	-	1,767	-	345	2,112
Depreciation for the period	-2,390	-9,900	-	-944	-13,234
Initial measurement of fixed assets	-	-	-5,924	-	-5,924
Other movements (reclassifications)	17	-17	-	-	-
Net value as at 31 December 2016	**37,145**	**46,074**	**2,897**	**2,292**	**88,408**
of which:					
at acquisition/manufacturing cost	37,145	46,047	2,897	2,292	88,408
at a revalued amount	-	-	-	-	-
Net value as at 1 December 2017	**37,145**	**46,074**	**2,897**	**2,292**	**88,408**
Additions	714	14,346	15,917	1,233	32,210
Impairment loss charged to profit or loss	-	117	-	-	117
Sale or withdrawal from use	-25	-5,196	-	-2,656	-7,877
Change in accumulated depreciation due to sale or withdrawal from use	20	4,445	-	2,415	6,880
Depreciation for the period	-2,487	-9,432	-	-792	-12,711
Initial measurement of fixed assets	-	-	-16,276	-	-16,276
Other movements (reclassifications)	11	-11	-	-	-
Net value as at 31 December 2017	**35,378**	**50,343**	**2,538**	**2,492**	**90,751**
of which:					
at acquisition/manufacturing cost	35,378	50,343	2,538	2,492	90,751
at a revalued amount	-	-	-	-	-
Gross value and accumulated depreciation					
As at 31 December 2016					
Gross value	66,658	175,119	4,030	7,505	253,312
Accumulated depreciation and impairment	29,513	129,045	1,133	5,213	164,904
Net value	**37,145**	**46,074**	**2,897**	**2,292**	**88,408**
of which:					
Non-current assets classified as held for sale	-	-	-	-	-
Other property, plant and equipment	37,145	46,074	2,897	2,292	88,408
As at 31 December 2017					
Gross value	67,358	184,375	3,682	6,082	261,497
Accumulated depreciation and impairment	31,980	134,032	1,144	3,590	170,746
Net value	**35,378**	**50,343**	**2,538**	**2,492**	**90,751**
of which:					
Non-current assets classified as held for sale	-	-	-	-	-
Other property, plant and equipment	35,378	50,343	2,538	2,492	90,751
Additional information					
Amount of pledges and mortgages used as collateral for loans	88,700	29,827	-	-	118,527
Contractual commitments to acquire fixed assets	-	-	-	-	-

[11] Income tax assets

Amounts in PLN thousand (PLN '000).

	31.12.2017	31.12.2016
Income tax assets arising from:		
- deductible tax losses	1,597	2,915
- difference between book depreciation and tax depreciation	672	672
- created provisions and write-offs	5,115	5,270
- taxable intra-Group profits	464	1,123
- depreciation of plant and equipment	527	581
	8,375	**10,561**

[12] Inventory

[12a] Inventory structure

Amounts in PLN thousand (PLN '000).

	31.12.2017	31.12.2016
Products and semi-products	55,570	47,629
Goods	541	606
Raw materials and other materials	19,665	20,684
	75,776	**68,919**
Total amount of allowance on inventory	-3,882	-2,950
Value of inventory pledged as collateral for liabilities	22,000	22,000

[12b] Additional information

	2017	2016
Cost of inventory sold	116,204	127,719
Inventory written off as expenses	1,214	2,208
Reversal of write-offs posted to income	-51	-432
	117,367	**129,495**

[13] Trade receivables and other receivables

[13a] Receivables structure

Amounts in PLN thousand (PLN '000).

	31.12.2017	31.12.2016
Trade receivables	20,745	22,375
Other receivables	3,763	3,298
	24,508	**25,673**
Receivables due	4,476	4,991
Receivables with deferred payment	20,032	20,682
	24,508	**25,673**
Receivables in PLN	19,049	20,132
Receivables in EUR	4,171	3,929
Receivables in USD	1,287	1,612
	24,508	**25,673**
Write-down of receivables	8,112	8,899
Receivables used as collateral for loans	2,306	2,401

Trade receivables are non-interest bearing receivables which mature usually within 60 or 90 days. Most of receivables are insured. Receivables bought under non-recourse factoring are removed from the balance sheet when the cash is received.

[13b] Additional information – movement in the balance of write-downs of receivables

Amounts in PLN thousand (PLN '000).

	2017	2016
Opening balance	**8,899**	**8,484**
Write-downs posted to operating expenses	64	73
Reversal of write-downs posted to operating income	-14	-4
Write-downs used	-2	-2
Change in measurement due to foreign exchange differences	-836	348
Closing balance	**8,112**	**8,899**

[13c] Age structure of receivables

Amounts in PLN thousand (PLN '000).

As of	Gross receivables	Write-downs on receivables	Net receivables	Receivables paid on time	Overdue receivables				
					up to 3 months	3-6 months	6-12 months	over 12 months	Total
31.12.2017	32,620	8,112	24,508	20,032	3,875	410	110	81	4,476
31.12.2016	34,572	8,899	25,673	20,682	4,702	233	47	9	4,991

[14] Cash

Cash consists only of cash in hand and at bank. Restricted cash includes PLN 68 thousand belonging to the Company's social benefit fund and PLN 291 thousand deposited on accounts operated by BOŚ Brokerage House in connection with trading in gas or electricity on the Polish Power Exchange.

[15] Equity components

[15a] Share capital

Share capital is composed of: the nominal price of all issued and subscribed shares (less the nominal value of all redeemed treasury shares), i.e. 46,893,621 shares whose nominal price is PLN 1. All shares have been paid up. The share capital shown in the consolidated financial statements corresponds to that of the parent company.

[15b] Capital reserves

Capital reserves are created in accordance with the Code of Commercial Partnerships and Companies. Capital reserves consist of: the share premium less issuance costs recognized in the capital, gains and losses (in minus) from previous years, transferred to capital reserves by way of a resolution of the shareholders' meeting, as well as the amounts recognized in equity in accordance with IASs, unless they are included in another category of equity, including net effects of the transition to IASs recognized in the opening balance, resulting from the revaluation of real property. The value of the capital reserves was also affected by a share buyback carried out by the Company. The capital reserves accounted also for the effects of the incentive scheme measurement. Capital reserves are established e.g. to cover future losses.

[15c] Retained earnings

Retained earnings include profit or loss for the current period, gains or losses from previous years that have not been distributed by way of a resolution of the general shareholders' meeting of the companies of the Group. In the consolidated financial statements, retained gains and losses from previous years include also (cumulatively) effects of consolidation eliminations, including their impact on deferred income tax.

[15d] Revaluation reserve

Revaluation reserve accounts for the effects of revaluation in accordance with IASs. Depreciation of property carried out due to the transition to IASs and in accordance with IFRS 1 has been recognized in the capital reserve.

[15e] Non-controlling interests

The parent company holds 100% of interests in the consolidated subsidiaries.

[15f] Reserve capital

Reserve capital is created in accordance with a resolution of the general shareholders' meeting. Currently, the capital reserve accounts for part of distributed gains or losses from previous years.

[15g] Treasury shares

This item may account for treasury shares of the parent company, bought back in accordance with a resolution of the general shareholders' meeting, to be redeemed or for any other purpose. These shares are measured at acquisition cost which includes also any costs attributable directly to their acquisition.

[15h] Exchange rate differences from translation

This item accounts for the effects of translation of the financial statements of CNG Luxembourg S.à.rl subsidiary company and incorporating them in the consolidated financial statements of the parent company. EUR is the functional currency for the financial statements of this subsidiary, while the items presented in the consolidated financial statements are denominated in PLN.

[16] Loans, borrowings and debt instruments

Amounts in PLN thousand (PLN '000).

Financing institution	Currency	Effective interest rate	Deadline for repayment	Debt		Collaterals	Notes
				31.12.17	31.12.16		
mBank SA	PLN	WIBOR 1M +1.3%	28.06.2019	3,340	3,720	Registered pledge on finished products, blank promissory note; assignment of rights under the insurance policy; pledge on fixed assets	Working capital loan
mBank SA	PLN	WIBOR O/N + 0.95%	27.02.2018*	-	-	Global assignment of receivables, blank promissory note, pledge on two production lines	Overdraft facility, an unused but available funding limit of PLN 500 thousand
mBank SA	EUR	EURIBOR 1M +1.8%	25.01.2019	799	1,634	Blank promissory note, registered pledge on purchased plant and equipment	Investment loan
mBank SA	EUR	EURIBOR 1M +1.8%	28.02.2022	2,836	-	Blank promissory note, registered pledge on purchased plant and equipment	Investment loan
Bank Pekao SA	PLN	WIBOR 1M +1.0%	30.09.2018	-	-	Capped mortgage on real property belonging to the Company and on property belonging to its subsidiary, along with the assignment of rights under the insurance policy, representations of Ceramika Nowa Gala SA and Ceramika Nowa Gala II Sp. z o.o. of submission to enforcement, a power of attorney granted to the bank with respect to the bank account	Overdraft facility, an unused but available funding limit of PLN 9,000 thousand
Bank Pekao SA	EUR	EURIBOR 1M +1.6%	31.12.2021	2,682	-	Blank promissory note, registered pledge on purchased plant and equipment	Investment loan
ING bank Śląski SA	PLN	WIBOR 1M +0.8%	31.08.2018*	24,710	19,546	Surety under civil law: for Ceramika Nowa Gala II Sp. z o.o. of up to PLN 10,000 thousand, Ceramika Nowa Gala SA of up to PLN 21,000 thousand, mortgage of up to PLN 69,000 thousand, assignment of rights under the insurance policy concerning real property, registered pledge on finished products of PLN 15,000 thousand along with the assignment of rights under the insurance policy, registered pledge on fixed assets of PLN 9,500 thousand along with the assignment of rights under the insurance policy	Overdraft facility with an available funding limit of PLN 40,000 thousand
Closing balance of loans				**34,367**	**24,900**		
of which:							
short-term loans				27,202	24,052		
long-term loans				7,165	848		
Recourse factoring of a subsidiary				**851**	**1,401**		

*Change after the balance sheet date of the margin and/or the repayment date (for more information see section [31])

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 at the balance sheet date, the levels of ratios required by the banks were within acceptable ranges.

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, however, changing the financing bank.

[17] Provision for deferred income tax

Amounts in PLN thousand (PLN '000).

	31.12.2017	31.12.2016
Provision for deferred income tax in respect of:		
- difference between book depreciation and tax depreciation	3,216	4,442
- interest	3	11
- measurement of investment property	294	294
- other	155	162
	3,668	**4,909**

[18] Trade and other payables

	31.12.2017	31.12.2016
Trade liabilities	15,064	15,242
Other liabilities	6,667	7,409
	21,731	**22,651**
Liabilities due	3,035	4,788
Liabilities with deferred payment	18,696	17,863
	21,731	**22,651**
Liabilities in PLN	15,805	13,835
Liabilities in EUR	4,921	7,214
Liabilities in USD	1,005	1,602
	21,731	**22,651**

Liabilities with deferred payment mature usually within 15-90 days from the date at which they arose.

[19] Other provisions

Amounts in PLN thousand (PLN '000).

	Costs	Bonuses for customers	Other	Total
As at 1 January 2017	**695**	**7,125**	**155**	**7,975**
Created	191	10,804	90	11,085
Utilized	-145	-11,326	-135	-11,606
Reversed	-	-	-	-
As at 31 December 2017	**741**	**6,603**	**111**	**7,455**

[20] Provisions for employee benefits

Amounts in PLN thousand (PLN '000).

	Holiday pay and other	Annual bonuses	Total
As at 1 January 2017	**1,241**	**275**	**1,516**
Created	656	252	908
Utilized	-556	-275	-831
Reversed	-	-	-
As at 31 December 2017	**1,341**	**252**	**1,593**
short-term	1,317	252	1,569
long-term	24	-	24

[21] Information on business segments

Only one operating segment has been identified. More information in "Business segments" in the section devoted to the accounting principles.

[21a] Information on geographic segments

Amounts in PLN thousand (PLN '000).

	Domestic		Exports		Total	
	2017	2016	2017	2016	2017	2016
Revenue	126,736	139,638	29,873	31,344	156,609	170,982
Cost of sales	87,522	90,984	20,797	21,670	108,319	112,654
Sales result	**39,214**	**48,654**	**9,076**	**9,674**	**48,290**	**58,328**
Unallocated costs					8,025	15,182
Gross profit					**40,265**	**43,146**
	31.12.17	**31.12.16**	**31.12.17**	**31.12.16**	**31.12.17**	**31.12.16**
Assets:						
Trade receivables	15,240	16,814	5,504	5,560	20,744	22,374
Other receivables (unallocated)					3,764	3,299
					24,508	**25,673**

All fixed assets of the companies of the Group are located in Poland. CNG Luxembourg S.à.r.l. subsidiary does not own fixed assets and does not manufacture goods or conduct trade operations. None of the export countries exceeds 10% of the share in consolidated revenue.

[21b] 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 and services.

Amounts in PLN thousand (PLN '000).

	Ceramic products		Other sales		Total	
	2017	2016	2017	2016	2017	2016
Revenue from sales to external customers	156,181	170,761	428	221	156,609	170,982
Purchase of fixed assets	16,245	7,342	-	-	16,245	7,342

[21c] Information on significant customers

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

[22] Transactions with related parties – transactions entered into between the parent company, i.e. Ceramika Nowa Gala SA, and its related parties, which have been completely eliminated in the consolidated financial statements, except for transactions with an associate which was not consolidated in accordance with the materiality principle

[22a] Trade transactions with related parties

Amounts in PLN thousand (PLN '000).

	Sales (net)		Purchases (net)		Receivables from related parties		Liabilities payable to related parties	
	2017	2016	2017	2016	2017	2016	2017	2016
Subsidiaries	15,358	27,148	21,838	37,756	5,517	4,558	3,365	573
Associates	-	-	332	323	-	-	57	30
	15,358	**27,148**	**22,170**	**38,079**	**5,517**	**4,558**	**3,422**	**603**

Trade receivables and liabilities become due no later than 90 days of the date of the transaction. Other transactions with related parties or concluded on their behalf are presented below.

[22b] Other transactions with related parties

Amounts in PLN thousand (PLN '000).

	Parent company		Subsidiaries		Associates		Members of the Management Board, Supervisory Board and the proxy	
	2017	2016	2017	2016	2017	2016	2017	2016
Taking up/purchase of shares in related parties and contributions	-	-	-	4,185*	-	-	-	-
Revaluation write-down of shares in associates**			-29	-32				
Dividends received***	-	-	1,878	952				
Interest paid/accrued with respect to related parties	-	-	17	205	-	-	-	-
Interest paid by related parties	-	-	-	2,047				
Loans repaid by related parties			-	2,000				
Loans granted to related parties	-	-	104	88	-	-	-	-
Revaluation write-down of loans granted to related parties			-129	-224				
Off-balance sheet items								
Sureties granted	-	-	-	-	-	-	-	-
Expiration of granted sureties	-	-	-3,056	-967	-	-	-	-

*Refers to contributions to Ceramika Nowa Gala II Sp. z o.o. subsidiary

**Refers to shares taken up in CNG Luxembourg S.à.r.l. subsidiary

***Dividends from Ceramika Gres SA subsidiary

The figures presented above do not account for trade transactions referred to in [22a].

[22c] Balance of other accounts with related parties

Amounts in PLN thousand (PLN '000).

	Subsidiaries		Associates		Members of the Management Board, Supervisory Board and proxies	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Shares in CNG held by related parties (number of shares)	-	-	-	-	11,170,396	11,170,396
Contributions to related parties	-	4,185				
Loans granted to related parties	-	-	-	-	-	-
Accrued interest on loans granted	-	-	-	-	-	-
Receivables from dividend payment	-	-	-	-	-	-
			Off-balance sheet items			
Performance bonds from related parties	-	3,056	-	-	-	-
Loan guarantees from related parties	21,000	21,000	-	-	-	-

The figures above do not include the accounts arising from trade transactions referred to in [22a]. No provisions for bad debts were created.

[22d] Carrying value of shares held and loans granted

Amounts in PLN thousand (PLN '000).

	Value of shares/capital		Cost of acquisition of shares/accrued interest		Impairment write-down		Carrying value of shares/loans	
	2017	2016	2017	2016	2017	2016	2017	2016
Ceramika Nowa Gala II Sp. z o.o.	15,500	15,500	9	9	-	-	15,509	15,509
Ceramika Gres SA	57,838	57,838	613	613	-	-	58,451	58,451
CNG Luxembourg S.à.r.l.	24,721	24,721	-	-	24,625	24,625	67	96
Contributions to the capital of Ceramika Nowa Gala II Sp. z o.o.	4,185	4,185	-	-	-	-	4,185	4,185
Loan granted to CNG Luxembourg S.à.r.l.	320	199	33	25	353	224	-	-
Subsidiaries (total)	**102,564**	**102,443**	**655**	**647**	**25,007**	**24,849**	**78,212**	**78,241**
Energo-Gaz Sp. z o.o.	30	30	1	1	-	-	31	31
Ceramika Nova Sp. z o.o.	2	2	-	-	2	2	-	-
Associates (total)	**32**	**32**	**1**	**1**	**2**	**2**	**31**	**31**
Budo-Hurt SA	90	90	-	-	-	-	90	90
Other (total)	**90**	**90**	**-**	**-**	**-**	**-**	**90**	**90**

[23] Remuneration of the Management Board and Supervisory Board

Amounts in PLN thousand (PLN '000).

	Management Board and proxies		Supervisory Board	
	2017	2016	2017	2016
Salaries and other current benefits (paid)	1,572	2,236	298	301
Movement in provisions	-	-606	-	-
Charge to profit for the period	**1,572**	**1,630**	**298**	**301**

The remuneration was given in gross amounts, along with fringe benefits paid by the employer.

[24] Investment property and information on the fair value hierarchy

Amounts in PLN thousand (PLN '000).

	Level 1	Level 2	Level 3*	Total
As at 1 January 2017	**-**	**-**	**7,550**	**7,550**
Increase in fair value	-	-	-	-
Decrease in fair value	-	-	-	-
Movements between the levels	-	-	-	-
As at 31 December 2017	**-**	**-**	**7,550**	**7,550**

* In accordance with IFRS 13, classification of fair value measurements at different levels of the fair value hierarchy depends on the extent to which the inputs to measure fair value are observable. As estimated by the Management Board of the Company, the real property owned by it has been assigned level 3 in the hierarchy.

In accordance with the adopted accounting policies, the value of the investment property owned by Ceramika Nowa Gala II Sp. z o.o. is recognized at the fair value determined by a property appraiser. Any expenditure on improvement of such property increases its carrying value, which at the end of the year is adjusted to the current value measured by a certified property appraiser. From December 2010 to June 2017, the investment real property in question was partially leased to third parties. In 2017, revenue from lease of this property amounted to PLN 88.2 thousand. Its maintenance costs in the same year amounted to PLN 444 thousand. To determine its fair value, the income approach was used, in accordance with which the value of the real property was determined taking into account the income generated from it by then and a prudent estimate of the income that could be generated once the lease agreement expired while adopting a market approach, taking into account the sale prices of similar real property, that could be obtained on the local market. Given the current technical condition of the administrative and staff welfare part, the applied cash flow model accounted for expenditure on renovation necessary to make it suitable for lease. Thus lease of this real property was deemed to be the most advantageous way of using it. The measurement was based on observable external data derived from the somewhat depressed real estate market, related to the sale of similar assets, to which adequate price adjustments were applied due to differences in characteristics of assets being sold and the measurement. Furthermore, the measurement of fair value using the income approach with respect to accounted flows on the real estate was based on unobservable data derived from the Company, related to past rental rates applicable to the real estate space, as well as external data concerning market rental rates applicable to warehouse facilities and administrative and staff wellfare space. The basic inputs to the model were as follows:

- the leasable area and the rent per sq. m., separately for the storage space and for the administrative and staff welfare space. The leasable area has been specified in the technical documentation of the buildings, while the rent has been determined based on an analysis of rent rates in the local property rental market, adjusted for the estimated leasable area ratio;
- estimated real property maintenance costs per sq. m., based on the actually incurred costs;
- the cost of renovation of the administrative and staff welfare space, based on the estimated costs of the works required to be performed;
- the discount rate, accounting for the risks related to investing in rental of real property, based on the knowledge and experience of property appraisers. The average rate of 9.3% was adopted.

The fair value determined using the method described as at 31 December 2017 amounted ultimately to PLN 7,618 thousand. Due to the immateriality of the difference between this value and the carrying amount, no adjustment to the consolidated financial statements was made.

[25] Reconciliation of changes in selected balance sheet items with the cash flow statement

[25a] Inventory

Amounts in PLN thousand (PLN '000).

	2017	2016
Balance sheet movement in inventory	**-6,857**	**15,432**
Other adjustments	2	1
Movement in inventory in the cash flow statement	**-6,855**	**15,433**

[25b] Trade receivables and other receivables

Amounts in PLN thousand (PLN '000).

	2017	2016
Balance sheet movement in trade receivables and other receivables	**1,165**	**12,517**
Movement in the advance for fixed assets under construction	-	730
Change in receivables from sale of fixed assets	2	-549
Movement in receivables in the cash flow statement	**1,167**	**12,698**

[25c] Trade and other liabilities

Amounts in PLN thousand (PLN '000).

	2017	2016
Balance sheet movement in trade and other liabilities	**-920**	**-3,709**
Movement in investment liabilities	1,232	-740
Movement in liabilities in the cash flow statement	**312**	**-4,449**

[25d] Reconciliations with respect to loans

Amounts in PLN thousand (PLN '000).

		Cash flows			Non-monetary movements	
	31.12.2016	Inflows	Outflows	Effects of exchange rate differences	Loan reclassification	31.12.2017
long-term loans	848	4,243	-	-80	2,154	7,165
short-term loans	24,052	6,526	-1,166	-56	-2,154	27,202
Subsidiary's factoring liabilities	1,401	-	-550	-	-	851
Liabilities under financial operations	**26,301**	**10,769**	**- 1,716**	**-136**	**-**	**35,218**

[26] Payment of dividend

The amount of the 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.

[27] Declared dividend

As at the date of this Report, no dividend was declared to be paid in 2018.

[28] Payment of a dividend to Ceramika Nowa Gala SA by its subsidiary

On 10 May 2017, the Annual General Meeting of Shareholders of Ceramika Gres SA decided that part of the net profit of that company for 2016, in the amount of PLN 1,878,272.75, would be allocated for the payment of a dividend for the parent company, i.e. Ceramika Nowa Gala SA. The dividend was paid in May 2017.

This financial operation was not accounted for in the consolidated financial statements.

[29] 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 relocation of production from CNG II to the other two factories of the Group (for more information see section 14.2 in the report on the operations of the Group). 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.

[30] Decision to initiate by the Company a review of strategic options related to the further development of its business

On 24 March 2017, the Management Board resolved that the Company would initiate 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.

[31] Events after the balance sheet date

[31a] Annex to the investment loan agreement concluded on 9 February 2017 with Bank Pekao SA

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 (see also section 7.1.1 of the report on the Group's operations).

[31b] Annex to the overdraft facility agreement concluded on 15 December 2004 with mBank SA

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.

[31c] 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.

[32] Capital management

The Group manages its capital to be able to continue its operations, including planned investments. In accordance with market practice, the Group monitors its capital based on, among others, the debt ratio and interest coverage ratio. The debt ratio is calculated as the ratio of net debt arising from loans and borrowings to the value of invested capital. Net debt arising from loans, borrowings and other sources of funding constitutes the total amount of loan and borrowing liabilities, less the cash balance. As regards invested capital, this is the sum of the value of net fixed assets and current assets (current assets less current liabilities). The interest coverage ratio is calculated by dividing EBITDA by the interest shown in the statement of comprehensive income for the reporting period. EBITDA stands for earnings before interest, taxes, depreciation and amortization. In the period covered by the financial statements, these ratios were as follows:

Amounts in PLN thousand (PLN '000).

	31.12.2017	31.12.2016
Non-current assets	128,256	128,758
Net current assets	55,114	59,709
Total capital invested	**183,370**	**188,467**
Total net debt arising from loans and borrowings*	21,595	3,705
Debt ratio	**0.12**	**0.02**
	2017	**2016**
Profit/(loss) from operating activities	-1,850	-7,574
Amortization and depreciation	13,368	13,893
EBITDA	11,518	6,319
Interest	1,086	1,003
EBITDA-to-interest coverage ratio	**10.61**	**6.30**

*The item includes also financial liabilities under factoring.

As a result of mainly the investment in modernization of the production lines, dividend payment and an increase in the inventory value, there was an increase in net debt in 2017 compared to that recorded in 2016. Despite the significant percentage increase in the debt ratio relative to 2016, its absolute value is still at a low level. As a result of increased EBITDA the interest coverage ratio increased from 6.3 in 2016 to 10.61 in 2017, and is still at a safe level. Analyzing the increase in EBITDA one must remember that the 2016 profit was significantly reduced by one-off write-offs related to discontinuation of production in the plant of CNG II. If this write-off had not been taken into account, the 2016 interest coverage ratio and that recorded in 2017 would be as a similar level.

In managing the financing structure, the Management Board takes into account limits of the acceptable debt level specified in loan agreements. As at the balance sheet date, covenants regarding the acceptable level of debt had been met (see Note [16]).

[33] Information on certified auditor's remuneration

The financial statements of the Company were audited by BDO Sp. z o.o. The audit of the financial statements for 2017 was carried out under an agreement concluded on 24 July 2017. The agreement concerns audit of the separate financial statements of the Company for 2017, the consolidated financial statements of the Company for 2017, a review of the separate semi-annual financial statements as at 30 June 2017 and a review of the consolidated semi-annual financial statements as at 30 June 2017. The total net remuneration payable to the audit firm under the aforementioned agreement is PLN 62 thousand. BDO Sp. z o.o. is also entitled to total net remuneration of PLN 36 thousand under agreements concerning audit of the separate annual financial statements and a review of the semi-annual financial statements of the subsidiaries. The audit firm is also entitled to reimbursement of actual audit costs.

In 2017, BDO Sp. z o.o. provided also the following services:

- a validation service involving verification of the accuracy of calculation of the electric power consumption intensity coefficient for 2017 for Ceramika Nowa Gala SA and Ceramika Gres SA subsidiary;
- audit of the regulatory annual financial statements of Ceramika Nowa Gala SA and its subsidiary companies: Ceramika Gres SA, Ceramika Nowa Gala II Sp. z o.o. and Energia Park Trzemoszna Sp. z o.o., drawn up in accordance with the requirements of the Energy Law.

The total remuneration for the aforementioned services amounted to PLN 20.3 thousand.

In 2016, the financial statements of the Group were audited by BDO sp. z o.o. The audit of the financial statements for 2016 was carried out under an agreement concluded on 29 July 2016. The agreement concerned audit of the separate financial statements of the Company for 2016, the consolidated financial statements of the Company for 2016, a review of the separate semi-annual financial statements as at 30 June 2016 and a review of the consolidated semi-annual financial statements as at 30 June 2016. The total net remuneration payable to the audit firm under the aforementioned agreement was PLN 44 thousand. BDO Sp. z o.o. received also total net remuneration of PLN 31 thousand under agreements concerning audit of the separate annual financial statements and a review of the semi-annual financial statements of the subsidiaries. The audit firm was also entitled to reimbursement of actual audit costs.

In 2016, BDO Sp. z o.o. provided also the following services:

- a validation service involving verification of the accuracy of calculation of the electric power consumption intensity coefficient for 2016 for Ceramika Nowa Gala SA and Ceramika Gres SA subsidiary;
- audit of the regulatory annual financial statements of Ceramika Nowa Gala SA and its subsidiary companies: Ceramika Gres SA, Ceramika Nowa Gala II Sp. z o.o. and Energia Park Trzemoszna Sp. z o.o., drawn up in accordance with the requirements of the Energy Law.

The total remuneration for the aforementioned services amounted to PLN 23.8 thousand.

[34] Agreements which may affect the financial position of the Group, not disclosed in the consolidated financial statements

To the best knowledge of the Management Board, there are no agreements that could have a material impact on the financial position of the Group, the effects of which were not disclosed in these consolidated financial statements.

[35] 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 these financial statements, neither the Company nor its subsidiaries entered into transactions with related parties, which would be significant, either individually or collectively, and concluded otherwise than on an arm's length basis.

[36] Goodwill impairment test

The goodwill shown in the consolidated financial statements of the Group accounts for the acquisition of Ceramika Gres SA subsidiary. After adjusting for the effects related to the settlement of the acquisition, the aforementioned company is treated as a cash-generating unit. Goodwill allocated to that unit amounts to PLN 18,851 thousand. In accordance with IAS 36, goodwill is tested annually for impairment. Under this test, the recoverable amount is determined based on the value in use resulting from the discounted cash flows generated by Ceramika Gres SA. The Management Board has developed a five-year cash flow forecast. Cash flows have been determined as EBITDA adjusted for movements in current assets and expenditure required to maintain the assets held. The key assumptions of the forecast are as follows:

- regular increase in the utilization of the Company's production capacity;
- increase in the average price resulting from a change in the product mix included in the product portfolio;
- maintaining turnover ratios relating to current assets at the level of the end of 2017;
- discount rate determined based on the weighted average cost of capital for the Group, calculated using the CAPM model accounting for the following parameters:

risk-free rate of 3.3%, risk premium of 5.04%, beta of 1. The average pre-tax cost of debt is assumed to be 2.62%. In accordance with IAS 36, discounted cash flows are determined as a pre-tax ones, thus the discount rate does not account for the effect of income tax;

- cash flows in the model are determined using prices from the end of 2017, without taking into account inflation, hence the nominal rate should be adjusted to the effective rate using the average annual inflation rate appropriate for the period from which the data for the nominal rate was taken. The effective rate calculated as a nominal rate, adjusted for the inflation rate for 2017 announced by the Central Statistical Office (2% inflation), was 5.72%;
- when calculating the residual amount, no long-term real growth in cash flows was assumed.

The determined value in use exceeded the book value of the cash-generating unit (including goodwill), thus no impairment write-down was made. The value in use is greater than the book value by 117%; if the applied discount rate was greater than the assumed one by 1%, the difference would be 81%.

Risk factors and off-balance sheet liabilities

1. Risk factors related to the Group's business

1.1. Risk associated with increased production costs

The production plants belonging to the Group consume during the production process significant quantities of natural gas, electricity and raw materials. An increase in the prices of gas, electricity or raw materials may adversely affect the performance of the Group, in particular with respect to gas and electricity, in the case of which the Group is dependent on single suppliers with monopolistic positions. The Group attaches great importance to cost control and reduction at various stages of production. In 2017, the downward tendency in prices of raw materials, recorded in recent years, slowed down. The situation on global markets is not stable now, which means that the risk of increase in prices of raw materials, even in the short turn, cannot be ruled out. The Group is able to secure the price of part of gas purchases with commodity futures contracts with the delivery date of up to one year.

1.2. Risks associated with the unavailability of high-quality raw materials used in the production process

The Group uses high-quality raw materials to produce ceramic tiles. In order to obtain high quality ceramics it is necessary to use ingredients with a low level of impurities. For colors to be vivid, a mass which does not darken during firing needs to be used. As part of the raw materials is imported from eastern Ukraine (from an area which has not been covered by war operations yet), there is a risk of a limited availability of raw materials with the required quality parameters, which would force the companies of the Group to modify formulations used by them. The Group hedges against this risk by developing alternative formulations, using substitute ingredients. This risk is of greater significance for the Nowa Gala brand than the Ceramika Gres one.

1.3. Risk associated with changes in consumer preferences

The ceramic tiles market is sensitive to trends, which forces manufacturers to keep up with the varying preferences of consumers. Any mismatch between the offered product range and customers' expectations gives rise to a risk of excessive inventory or being forced to sell products at lower prices. The risk associated with a failure to match the product range with the tastes of buyers increases as the offer is extended with new designs. To reduce this risk the companies of the Group monitor prevailing market trends and adjust their product portfolio to the tastes and requirements of customers. Furthermore, a major modernization of the parent company's machines was carried out in 2017, which enabled introducing new products, in particular technical stoneware tiles and glazed ones on colored mass, including larger tiles - 60x120 cm and similar formats.

2. Risk factors related to the environment in which the Company operates

2.1. Risk associated with the macroeconomic and political situation

Despite the continuing economic recovery, both in Poland and in the most important countries of the European Union, the economic and political environment in which the Group operates continues to be characterized by a high degree of instability. The ever stronger inflationary processes in the global economy and the tightening of the monetary policy by the major central banks lead to a systematic increase in the world's most important interest rates. In the case of the Group, the risk of inflation growth may translate into a faster cost growth rate (increase in prices of raw materials, pressure on wage growth, increase in financing costs, etc.), which cannot be followed by a correspondingly rapid increase in prices (due to the high level of competitiveness in the industry). Furthermore, rising interest rates may significantly weaken the above mentioned continuing economic recovery. The situation in Ukraine is still a major threat which is manifested through:

- decline in sales to Eastern Europe countries;
- the risk of insolvency of customers in this region;
- significant reduction in the price competitiveness of products offered on eastern markets as a result of the depreciation of the currencies used in those countries;
- increased competition on the domestic market as a result of the decline in exports of other manufacturers' products to eastern markets.

2.2. Risk associated with competitors' activities

In the last few years, the level of competition on the domestic market increased in all its segments. Moreover, increased investment activity can be seen in the ceramic tile industry. This activity is due to the need to modernize the existing machines of major competitors, ongoing consolidation processes, the need to modernize the product offering (including the launch of large tile production) and new producers entering the market. This process is further enhanced by historically low financing costs. This situation may weaken the competitiveness of the Company's product offering and, consequently, its market position. A response to this state of affairs was the 2017 modernization (see section 14.2 of the report on the Group's operations). The Group analyzes the aforementioned processes and intends to develop, in coming years, a plan of a more extensive modernization of its production and sales capacities.

2.3. Risk of increased competition from manufacturers of finishes other than ceramic tiles

Ceramic tiles for wall and floor cladding are one of the most popular finishes. The Group competes to some extent with manufacturers of other materials such as natural stone, wood and – since recently – also glass. There is a risk that in the future new or existing finishes will become an attractive substitute for ceramic tiles. This situation could adversely affect the level of sales and the performance of the Group.

2.4. Risk associated with the instability on Eastern European and Asian markets

The Group sells part of its products on Eastern Europe and Eurasian markets. Regardless of the risks described in section 2.1, claim enforcement in these regions can be difficult due to the still vague rules governing the operation of these markets and the conflict between Russia and Ukraine. This risk is mitigated by the lending policy with respect to customers.

2.5. Risk associated with the tax system

The Polish tax system is characterized by frequent changes in laws, many of which have not been defined clearly enough, giving rise to a risk related to their ambiguous interpretation. Interpretations of the tax laws change frequently, and both the activities of tax authorities and case law in the field of taxation remain patchy. The harmonization of tax law in the EU Member States is another factor contributing to reduced stability of the Polish tax law. Due to divergent interpretations of tax regulations the risk that the solutions used by the reporting entity in this area will be considered incompliant with tax regulations is greater in the case of a Polish company than in the case of a company operating in a more stable tax system. One of the aspects of insufficient precision in tax laws is the lack of provisions providing for formal procedures for final verification of the accuracy of tax liabilities for the period. Tax returns and the amount of actual payments on this account can be controlled by the tax authorities for five years from the end of the year in which tax was to be paid. Adoption by the tax authorities of a different interpretation of tax laws than that assumed by a company may have a material adverse effect on this company's operations, its financial condition, performance and prospects for development. The Group does not anticipate any threat of this type, though it cannot be completely ruled out. The same risk exists for mandatory charges related to social and health insurance.

3. Financial risk and the purposes and principles of its management

The main financial instruments used by the Group include bank loans, cash and short-term deposits. The main purpose of these financial instruments is to raise funds for the Group's business. The companies of the Group have also other financial instruments, such as trade receivables and liabilities that arise directly in the course of their business. The Group has also interests in other business entities, but the value of these interests is immaterial. The Group did not enter into any transactions involving derivatives. The principle applied by the Group at present and throughout the period covered by the consolidated financial statements is no trade in financial instruments.

The main risks arising from financial instruments held by the Group include the interest rate risk, currency risk and credit risk. The Management Board reviews and adopts policies for managing each of these risks. These policies are briefly described below. The accounting principles applied by the Group in relation to financial instruments have been discussed in the introduction to the consolidated financial statements.

3.1. Interest rate risk

At present, the assets and liabilities recognized in the consolidated financial statements are not subject to fluctuations caused by changes in interest rates. However, due to the fact that the Group uses funding sources with variable interest rates, an increase (decrease) in base rates (see also section 14.1 in the report on the Group's operations) or an increase (decrease) in margins used by financial institutions may result in an increase (decrease) in financial expenses. The Group does not use cash flow hedges against changes in interest rates.

3.2. Risk associated with foreign exchange rates

The Group carries out import and export transactions in foreign currencies (USD and EUR) on a significant scale. A change in exchange rates against PLN may result in profits lower than expected. Foreign exchange volatility affects the consolidated profit/(loss) by:

- changes in the value of export sales and production costs denominated in PLN, in the part relating to imported raw materials;
- changes in the competitiveness of the Group's offer in export markets;
- changing costs of raw and other materials, as well as energy and services purchased in Poland, whose prices depend, either directly or indirectly, on currency exchange rates;
- realized foreign exchange differences arising between the date of sale or purchase and the date of payment of receivables or liabilities;
- unrealized foreign exchange differences from measurement of accounts and other monetary items as at the balance sheet date;
- varying intensity of competition associated with prices of imported tiles.

The risk of foreign exchange volatility is largely offset, as the Group carries out foreign transactions involving both export and import. Trade transactions in foreign currencies (import and export) are part of the normal course of business pursued by the Group. Therefore, future cash flows from such transactions are subject to the risk of change in their value resulting from foreign exchange volatility, and the available instruments hedging against the foreign exchange risk are limited due to uncertainty prevailing in export markets. In particular, the level of offsetting expenses and income denominated in foreign currencies has become less predictable.

3.3. Credit risk

Receivables from customers entail credit risk. Each year, part of receivables is lost (write-downs for bad debts are made). Credit risk related to receivables from customers is mitigated through:

- limiting exposure to a single entity (credit limits);
- diversification through cooperation with multiple entities, so that none of them has a dominant position;
- insuring the majority of receivables;
- daily control of exposure facilitated by an integrated IT system;
- other security measures (e.g. promissory notes, bank guarantees or letters of credit).

Debt of individual customers is monitored and – in case of problems – action is taken to recover amounts due. In determining credit risk mitigation policies, lost profit arising from decreased sales to a given customer as a result of adopted restrictions is also taken into account.

3.4. Liquidity risk

The Group uses external funding which determines its liquidity. In order to ensure the availability of funding, the Group maintains the proportion of debt in funding at a safe level (see also the comment in Note [16] and in Note [32]).

The table below shows maturity of the different classes of liabilities, beginning from the balance sheet date.

Amounts in PLN thousand (PLN '000).

Class of liabilities	Total	up to 6 months in 2018	from 6 to 12 months in 2018	in 2019	Subsequent years
Trade and other payables	21,731	21,731	-	-	-
Payments under operating leases*	3,650	1,310	794	841	704
Loans eligible for refinancing**	49,500	-	49,000	500	-
Loans to be repaid	9,653	1,245	1,245	4,349	2,814
Total	**84,534**	**24,287**	**51,040**	**5,689**	**3,518**

*Concerns the most significant lease agreements involving office space and warehouse space, as well as car and forklift rental agreements.

**Amounts resulting from the maximum debt limits granted, regardless of the debt amount at the end of 2017; as at 31 December 2017, the actual debt amount in this group of loans was PLN 24,710 thousand. The balance as at the balance sheet date does not account for the prolongation described after the balance sheet date (see section [31c])

In the case of significant agreements classified as operating leases that cannot be terminated or have a defined minimum contractual period of notice, the total amounts that the companies of the Group would have to pay for the period till the expiry of the agreements is PLN 2,562 thousand.

3.5. Analysis of sensitivity of equity instruments to the risks to which these instruments are exposed

Amounts in PLN thousand (PLN '000), except for balances in foreign currencies.

Financial instrument	Currency	Balance in the currency given on the left	Balance in PLN	Risk type	Adopted fluctuation range	Sensitivity level
Foreign currency denominated receivables	EUR	1,000	4,171	foreign exchange	+/-20%	+/-834
Foreign currency denominated receivables	USD	369	1,287	foreign exchange	+/-20%	+/-257
Foreign currency cash	EUR	1,773	7,395	foreign exchange	+/-20%	+/-1,479
Foreign currency cash	USD	127	441	foreign exchange	+/-20%	+/-88
Foreign currency denominated liabilities	EUR	1,180	4,921	foreign exchange	+/-20%	+/-984
Foreign currency denominated liabilities	USD	289	1,005	foreign exchange	+/-20%	+/-201
Loans contracted in foreign currencies	EUR	1,514	6317	foreign exchange	+/-20%	+/-1,263
Variable interest rate loans	EUR	1,514	6,317	interest rate	+/-3.00%	+/-190
Variable interest rate loans	PLN	28,050	28,050	interest rate	+/-3.00%	+/-842

4. Off-balance sheet liabilities

4.1. Non-recourse factoring liabilities

As at the balance sheet date, contingent (off-balance sheet) liabilities under a non-recourse factoring agreement binding on the parent company amounted to PLN 8.351 thousand.

5. Sureties and guarantees

Due to the refinancing of the working capital loan by Ceramika Gres SA subsidiary (see also section 7.2.1 in the consolidated report on the Group's operations), 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, respectively (the event took place after the balance sheet date). 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.