Consolidated annual financial statements

Ceramika Nowa Gala SA Group

for the period of 1 January–31 December 2014

Końskie, 19 March 2015

Introduction

Reporting Entity

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

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

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

Composition of the managing and supervisory bodies

The composition of the managing and supervisory bodies of the Company has remained unchanged since 2013. The Supervisory Board of Ceramika Nowa Gala SA is composed of the following:

- 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. Jacek Tomasik: Member of the Supervisory Board

The Management Board of the Company is composed of the following:

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

Business description

The core business of the Group consists of the production and sale of ceramic stoneware tiles. The tiles are made of mineral raw materials (minerals) in an automated continuous process. Production takes place in three factories: two in Końskie and one in Kopaniny village in the Końskie district. Some of the tiles are polished or semi-polished. The Company also produces supplementary decorative elements sold as a part of a joint offer.

The products are primarily sold via a network of wholesalers who cooperate with the companies of the Group, both in Poland and in foreign markets, as well as 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 prepared and signed on **19 March 2015** and will be published on 23 March 2015.

Management Board	Chief Accountant

Consolidated statement of profit and loss and other comprehensive incomes

for the period of 1 January–31 December 2014

Amounts in PLN thousand (PLN '000).

	Note	2014	2013
Revenues	[1]	**178,865**	**198,451**
Cost of sales	[1][2]	135,605	153,212
Gross profit		**43,260**	**45,239**
Other income	[3]	1,309	1,766
Selling and administrative expenses	[2]	39,901	41,557
Other expenses	[4]	2,603	4,302
Profit before interest and tax		**2,065**	**1,146**
Finance income	[5]	1,086	23
Finance expenses	[6]	2,589	5,151
Share in profits of associated and joint ventures		-	-
Profit before tax		**562**	**-3,982**
Income tax expense	[7]	-1,680	-2,343
Profit from continued operations		**2,242**	**-1,639**
Profit from discontinued operations		-	-
Profit for the year		**2,242**	**-1,639**
Other comprehensive income that may not be transferred to profit in the future			
Costs of the buyback of shares		-	-2
Other comprehensive income that may be transferred to profit in the future			
Exchange rate differences from translation	[5b]	2	-
Total comprehensive income		**2,244**	**-1 641**
Profit attributable to			
shareholders of the parent company		**2,242**	**-1,639**
non-controlling interests		-	-
		2,242	**-1,639**
Total comprehensive income attributable to			
shareholders of the parent company		2,244	-1,641
non-controlling interests		-	-
		2,244	**-1,641**

	Entity	Note	2014	2013
Annualized profit (loss)	PLN thousand		2,242	-1,639
Weighted average number of shares*	thousand pcs		46,894	46,941
Basic earnings (loss) per share from continued operations	PLN	[8]	0.05	-0.03
Weighted average diluting number of shares*	thousand pcs		46,894	46,941
Diluted earnings (loss) per share from continued operations	PLN	[8]	0.05	-0.03

*without treasury shares held by the Company or its subsidiary

Consolidated statement of financial position
as of 31 December 2014

Amounts in PLN thousand (PLN '000).

Assets	Note	31.12.2014	31.12.2013
Non-current assets			
Goodwill	[9][39]	18,851	18,851
Other intangible assets	[9]	4,614	4,953
Property, plant and equipment	[10]	109,595	114,730
Investment property	[23]	7,550	7,550
Other financial assets		145	145
Deferred tax assets	[11]	11,069	9,847
Total non-current assets		**151,824**	**156,076**
Current assets			
Inventory	[12]	86,457	96,302
Trade and other receivables	[13]	36,015	39,444
Receivables from current income tax		950	1,487
Other financial assets		-	-
Cash and cash equivalents	[14]	13,206	5,120
Other current assets		596	633
Total current assets		**137,224**	**142,986**
Assets classified as available for sale in accordance with IFRS 5		-	-
Total assets		**289,048**	**299,062**

(continued on the next page)

Consolidated statement of financial position (contd.)

Amounts in PLN thousand (PLN '000).

Equity and liabilities	Note	31.12.2014	31.12.2013
Equity			
Share capital	[15a][35]	46,894	56,114
Reserves	[15b]	131,770	150,907
Revaluation reserve	[15d]	-	-
Exchange rate differences from translation	[15h]	8	6
Other reserves	[15f]	8,719	8,719
Treasury shares	[15g][32][34]	-	-24,377
Current portion of retained earnings	[15c]	13,278	10,807
Equity attributable to the shareholders of the parent company		**200,669**	**202,176**
Non-controlling interests	[15e]	-	-
Total equity		**200,669**	**202,176**
Non-current liabilities			
Borrowings	[16]	49,252	5,070
Provision for deferred income tax	[17]	6,796	7,522
Provision for employee benefits		24	24
Total non-current liabilities		**56,072**	**12,616**
Current liabilities			
Trade and other payables	[18]	18,714	28,993
Current tax liability		24	30
Borrowings	[16]	5,546	42,918
Other financial liabilities*	[16]	-	4,127
Provision for employee benefits	[20]	1,019	1,174
Other provisions	[19]	7,004	7,028
Total current liabilities		**32,307**	**84,270**
Liabilities associated with assets classified as held for sale in accordance with IFRS 5		-	-
Total liabilities		**88,379**	**96,886**
Total liabilities and equity		**289,048**	**299 062**
Book value (in PLN thousand)		200,669	202,176
Number of shares (in thousand pcs)**		46,894	46,894
Book value per share (in PLN)		4.28	4.31
Diluted number of shares (in thousand pcs)**		46,894	46,894
Diluted book value per share (in PLN)		4.28	4.31

*factoring agreement concluded by a subsidiary
**without treasury shares held by the Company or its subsidiary

Consolidated cash flow statement
for the period of 1 January– 31 December 2014

Amounts in PLN thousand (PLN '000).

	Note	2014	2013
Operating activities			
Net profit (loss)		**2,242**	**-1,639**
Amortization and depreciation		13,255	13,828
Interest revenues and costs		2,468	3,516
Revenues and costs from exchange rate differences		-479	89
Gain (loss) on disposal of intangible and tangible non-current assets		220	-46
Movement of provisions, write downs, prepayments and accruals		-137	3,617
Income tax expense		-1,680	-2,343
Other adjustments		2	454*
Cash flow from operations before movements in working capital		**15,891**	**17,476**
Movement of inventory	[25a]	9,845	-1,780
Movement of receivables	[25b]	3,419	11,842
Movement of payables	[25c]	-10 884	3 200
Gross cash flow from operations		**18,271**	**30,738**
Received interest from operating activities		1	24
Interest paid from operating activities		-7	-24
Income tax paid		-142	-1,432
Net cash flows from operating activities		**18,123**	**29,306**
Investing activities			
Proceeds from disposal of tangible and intangible non-current assets		120	44
Purchase of tangible and intangible non-current assets		-7,109	-6,218
Net cash from operating activities		**-6,989**	**-6,174**

*amount of a write down on a loan granted

(continued on the next page)

Consolidated cash flow statement (contd.)

Amounts in PLN thousand (PLN '000).

	Note	2014	2013
Financing activities			
Proceeds from borrowings		41,546	41,108
Proceeds from other sources of financing*		-	300
Dividends to shareholders of the parent company		-3,751	-
Purchase of treasury shares		-	-632
Repayment of borrowings		-34,792	-60,280
Repayment of other sources of financing*		-4,127	-
Interest paid pertaining to financing activities		-2,463	-3,535
Net cash flows from financing activities		**-3,587**	**-23,039**
Net cash flows from activity		**7,547**	**93**
Cash and cash equivalents at the beginning of the period		5,120	5,076
Exchange rate differences		539	-49
Cash and cash equivalents at the end of the period		**13,206**	**5,120**
Structure of cash and cash equivalents	[14]		
Cash available for use		13,156	5,067
Cash unavailable for use		50	53
		13,206	**5,120**

*factoring agreement concluded by a subsidiary

Consolidated statement of changes in equity

for the period of 1 January–31 December 2014

Amounts in PLN thousand (PLN '000).

	Attributable to the shareholders of the parent company									
	Share capital	Reserves	Exchange rate differences from translation	Reserve capital	Revaluation reserve	Treasury shares	Current portion of retained earnings	Total	Non-controlling interests	Total equity
As of 1 January 2013	**57,038**	**150,230**	**6**	**14,773**	**-**	**-25,527**	**7,927**	**204,447**	**-**	**204,447**
Total comprehensive income*	-	-	-	-	-	-2	-1,639	-1,641	-	-1,641
Coverage of loss from previous years	-	-5,473	-	-604	-	-	6,077	-	-	-
Division of profit from previous years	-	1,558	-	-	-	-	-1,558	-	-	-
Adopted dividend	-	-	-	-	-	-	-	-	-	-
Redemption of treasury shares	-924	-858	-	-	-	1,782	-	-	-	-
Purchase of shares	-	5,450	-	-5,450	-	-630	-	-630	-	-630
As of 31 December 2013	**56,114**	**150,907**	**6**	**8,719**	**-**	**-24,377**	**10,807**	**202,176**	**-**	**202,176**
As of 31 December 2014	**56,114**	**150,907**	**6**	**8,719**	**-**	**-24,377**	**10,807**	**202,176**	**-**	**202,176**
Total comprehensive income*	-	-	2	-	-	-	2,242	2,244	-	2,244
Coverage of loss from previous years	-	-	-	-	-	-	-	-	-	-
Division of profit from previous years**	-	-3,980	-	-	-	-	3,980	-	-	-
Adopted dividend	-	-	-	-	-	-	-3,751	-3,751	,	-3,751
Redemption of treasury shares	-9,220	-15,157	-	-	-	24,377	-	-	-	-
Purchase of shares	-	-	-	-	-	-	-	-	-	-
As of 31 December 2014	**46,894**	**131,770**	**8**	**8,719**	**-**	**-**	**13,278**	**200,669**	**-**	**200,669**

*In 2014, the amounts of comprehensive income were attributed to the following equity items: net profit in the amount of PLN 2,242 thousand increased the value of retained earnings and exchange rate differences from translation in the amount of PLN 2 thousand increased the relevant capital item. In 2013, the amounts of comprehensive income were attributed to the following equity items: net loss in the amount of PLN 1,639 thousand decreased the amount of retained earnings, the costs of purchase of treasury shares in the amount of PLN 2 thousand were included (in minus) in the treasury shares item and there were no exchange rate differences from translation.
**includes consolidation effects

Financial highlights

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

- As for balance sheet data, the average exchange rates of NBP were used: 4.1472 PLN/EUR as of 31 December 2013 and 4.2623 PLN/EUR as of 31 December 2014.
- As for 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: 4.211 PLN/EUR in 2013 and 4.1893 PLN/EUR in 2014.

The average exchange rates of NBP for USD used to translate the currency items are as follows: 33.012 PLN/USD as of 31 December 2013 and 5072 PLN/USD as of 31 December 2014.

Consolidated data	PLN thousand		EUR thousand	
	2014	2013	2014	2013
Revenue	178,865	198,451	42,696	47,127
Profit (loss) before interests and tax	2,065	1,146	493	272
Profit (loss) before tax	562	-3,982	134	-946
Net profit (loss)	2,242	-1,639	535	-389
Net cash flows from operating activities	18,123	29,306	4,326	6,959
Net cash flows from investing activities	-6,989	-6,174	-1,668	-1,466
Net cash flows from financing activities	-3,587	-23,039	-856	-5,471
Net cash flows (total)*	8,086	44	1,930	10
Total assets	289,048	299,062	67,815	72,112
Liabilities and provisions for liabilities	88,379	96,886	20,735	23,362
Non-current liabilities	56,072	12,616	13,155	3,042
Current liabilities	32,307	84,270	7,580	20,320
Equity	200,669	202,176	47,080	48,750
Share capital	46,894	56,114	11,002	13,531
Number of shares	46,893,621	56,114,378	-	-
Basic profit (loss) per share (PLN/EUR)	0.05	-0.03	0.01	-0.01
Diluted profit (loss) per share (PLN/EUR)	0.05	-0.03	0.01	-0.01
Book value per share (PLN/EUR)	4.28	4.31	1.00	1.04
Diluted book value per share (PLN/EUR)	4.28	4.31	1.00	1.04
Declared or paid dividend per share (PLN/EUR)	0.08	-	0.02	-

*balance sheet movement of cash, account for the movement of revaluation from exchange rate differences

Accounting principles

Compliance with International Financial Reporting Standards

Ceramika Nowa Gala SA's consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS).

Standards, interpretations or amendments thereto, which were entered into force and adopted for the first time during the reporting period, impacted 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 published standards and interpretations before their effective date was not exercised. As for the balance sheet date, the following standards and interpretations issued by the IAS Board were not yet entered into force or adopted by the European Union.

IFRS 9 'Financial Instruments'

IFRS 9 is a new standard for financial instruments. The standard introduces new requirements for the classification and measurement of financial assets and liabilities. In terms of hedge accounting, changes were made to simplify and increase the flexibility of the basic model previously defined in IAS 39. Furthermore, the requirements for the recognition of the impairment of financial assets have been significantly changed such 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 1 January 2018 or date thereafter.

Application of the standard may have an impact on the 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). The detailed scope of any change will be specified at the first-time adoption of the standard.

IFRS 15 'Revenue from Contracts with Customers'

The standard establishes a single model of accounting treatment of all revenue from contracts with customers, mandatory for all reporting units. IFRS 15 replaces the guidance on revenue recognition defined in IAS 18 'Revenue', IAS 11 'Construction Contracts' and related interpretations. Under the new standard, the entity recognizes revenue when (or as) it satisfies a performance obligation, i.e. when the customer obtains control over the goods or services covered by this commitment. IFRS 15 also includes a much more restrictive guidance on the specific aspects of revenue recognition. In addition, it requires the disclosure of a wide range of information.

The standard will be applicable to annual periods beginning on 1 January 2017 or a date thereafter.

Application of the standard may have an impact on the consolidated financial statements, but the detailed scope of any change will be specified at the first-time adoption of the standard.

IFRS 14 'Regulatory Deferral Accounts'

The standard allows the first-time adopter of the IFRS to continue using the previously adopted accounting principles on regulated activity, accounting for some minor changes. The standard requires the separate presentation of deferred balances from regulated activities in the statement of financial position and changes in these balances in the statement of profit or loss and other comprehensive incomes. This applies to both the first financial statements after the transition to IFRS and subsequent financial statements. Specific disclosures will also be required.

The standard will be applicable to annual periods beginning on 1 January 2016 or a date thereafter.

Application of the standard will 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 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 business.

The amendments will be applicable to annual periods beginning on 1 January 2016 or a date thereafter.

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

Amendments to IFRS 11 'Accounting for Acquisitions of Interests in Joint Operations'

The amendment provides guidance on the accounting treatment of the acquisitions of interests in joint operations constituting a business as defined in IFRS 3 'Business Combinations'.

The amendments will be applicable to annual periods beginning on 1 January 2016 or a date thereafter.

Application of the amendments to the standard will have no impact on the consolidated financial statements of the Company.

Amendments to IAS 16 and IAS 38 'Clarification on the Acceptable Methods of Depreciation and Amortization'

The amendments prohibit the use of depreciations based on income with respect to tangible fixed assets. In the case of intangible assets, this method can only be used in the two specified cases.

The amendments will be applicable to annual periods beginning on 1 January 2016 or a date thereafter.

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

Amendments to IAS 16 and IAS 41 'Agriculture: Bearer Plants'

The amendments introduce a definition of crops and require accounting biological assets that meet this definition as tangible fixed assets in accordance with IAS 16. Yields obtained from crops will continue to be accounted for in accordance with IAS 41.

The amendments will be applicable to annual periods beginning on 1 January 2016 or a date thereafter.

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

Amendments to IFRS 10, IFRS 12 and IFRS 28 'Investment Entities: Applying the Consolidation Exceptions'

The amendments clarify the requirements for investment entities and introduce certain simplifications in the preparation of their consolidated financial statements (in particular, as for exemptions from the preparation of the consolidated financial statements).

The amendments will be applicable to annual periods beginning on 1 January 2016 or a date thereafter.

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

Amendments to IAS 1 in the framework of the Disclosure Initiative

The purpose of the amendment is to clarify the use in disclosures to financial statements of one's own judgments, including the impact of the concept of materiality on the number of presented disclosures.

The amendments will be applicable to annual periods beginning on 1 January 2016 or a date thereafter.

Application of the amendments to the standard will have no impact on the consolidated financial statements of the Company.

Amendments to IAS 27 'Equity Method in Separate Financial Statements'

The amendments restore the possibility of applying the equity method to measure investments in affiliated companies in separate financial statements.

The amendments will be applicable to annual periods beginning on 1 January 2016 or a date thereafter.

Application of the amendments to the standard would have no impact on the consolidated financial statements of the Company. The Company intends to continue using the historical cost method in its separate financial statements.

Amendments to IFRSs (2012–2014 series)

Amendments to IFRSs adopted in 2012–2014 include a number of modifications to IFRS 5, IFRS 7, IAS 19 and IAS 34.

These amendments will be applicable to annual periods beginning on 1 January 2016 or a date thereafter.

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

Functional currency

The Polish zloty is the primary currency used in the economic environment in which the Group operates. In the case of the subsidiary CNG Luxembourg S.à.r.l, the Euro is used. The books of the companies in the Group are maintained in the Polish zloty, except for CNG Luxembourg S.à.r.l, whose books are maintained in the Euro. Prior to the consolidation, the financial statements of CNG Luxembourg S.à.r.l. were converted from EUR into PLN.

Measurement basis

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

Going concern principle

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

Structure of the Group and consolidation principles

The Ceramika Nowa Gala Group consists of its parent company, Ceramika Nowa Gala SA, and the following subsidiaries: Ceramika Nowa Gala II Sp. z o.o. (Poland), Ceramika Gres SA (Poland) and CNG Luxembourg S.à.r.l. (Luxembourg). Ceramika Nowa Gala II was established in the first half of 2004. Ceramika Nowa Gala SA holds all shares in this company (100% capital). All shares were directly taken up within a number of share placements. Ceramika Nowa Gala SA took over Ceramika Gres SA on 24 August 2007 by purchasing 100% shares of this company. CNG Luxembourg S.à.r.l. was established on 17 September 2010 and operates under the laws of Luxembourg. Ceramika Nowa Gala is its sole founder and shareholder. In 2013, the subsidiaries Ceramika Nowa Gala II sp. z o.o. and Ceramika Gres SA acquired shares in a newly established company, Energia Park Trzemoszna Sp. z o.o. The company was registered in the National Court Register in August 2013. Its share capital amounts to PLN 6 thousand and was fully paid in cash by the two abovementioned shareholders. Besides the paid-up capital, the company has no other assets and does not conduct active operations. The statements of the subsidiaries are consolidated on a line-by-line basis, accounting for any applicable exclusion and conversion to the presentation currency, i.e. the Polish zloty.

Ceramika Nowa Gala SA has a significant impact on its two associated companies: Energo-Gaz, a limited liability company based in Końskie (50% share) and Ceramika Nova, a limited liability company based in Końskie (50% share). Shares in the aforementioned associated companies were recognized in the presented financial statements at a cost less possible impairment losses. The carrying amount of the shares in Energo-Gaz is PLN 31 thousand and the share of Ceramika Nowa Gala SA in its equity, as on 31 December 2014, amounted to PLN 276 thousand. Financial data of this company for 2014, determined in accordance with Polish accounting standards, are as follows: assets are PLN 642 thousand, provisions and liabilities amount to PLN 89 thousand, revenue is PLN 2,226 thousand and PLN 34 thousand is the net profit for 2014. Transactions concluded with this company are shown in Note [22] and relate mainly to the handling of a siding (the siding is owned by Ceramika Nowa Gala and is an entity not related to it, i.e. joint ownership). The carrying amount of a 50% stake in Ceramica Nova, amounting to PLN 2 thousand, is written down in 100% for impairment, and the company has never commenced any operation and holds no asset.

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

Transactions in foreign currencies

Transactions in foreign currencies recognized in the financial statements of the companies in the Group are translated into the Polish zloty at the average rate of NBP on the transaction date. As of 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 NBP on that date. The resulting foreign exchange differences are recognized in income or expenses. Non-monetary assets denominated in foreign currencies are shown as of 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. Exchange differences from translation of the financial statements of CNG Luxembourg S.à.r.l. into PLN are recognized in other comprehensive incomes and posted directly to equity.

Borrowing costs

In accordance with IAS 23, borrowing costs directly attributable 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. 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.

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

Segment reporting

The organizational structure of the Group is a functional one in which four key areas can be distinguished: sales, production, finance and administration and logistics. Each of the persons responsible for these areas reports directly to the Management Board. The essential 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 sold under two brands—Ceramika Nowa Gala and Ceramika Gres—though the sales policy is jointly determined for the whole Group. In accordance with the requirements of IFRS 8, only one operating segment has been distinguished. CNG Luxembourg 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

Tangible non-current assets—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 of the balance sheet at cost or manufacturing cost less accumulated depreciation and impairment losses.

The acquisition price includes the purchase price, 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 a take-over of the Ceramika Gres subsidiary, the acquisition cost was determined on the basis of the fair value as of the acquisition date. This value is obtained from a measurement performed by a certified appraiser.

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

As of the date of transition to IFRS reporting, real property (land and buildings) was measured at deemed cost, as determined by the appraiser and adjusted by the amount of depreciation accumulated between the date of measurement and date of transition, 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, account for 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 accounting for the right to extend this period provided for in law.

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

- land in perpetual usufruct 60–86 years
- buildings 1–34 years
- plant and equipment 1–32 years
- other non-current assets 1–21 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 non-current 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 the non-current asset should be reduced by the non-depreciated value of the replaced component and increased, at the same time, by the purchase price of the new part (such items are accounted for as separate components). The costs of improvements that increase the value of a given non-current asset, as compared to its initial value, increase assets and are depreciated. This also applies to renovation and adaptation of buildings whose condition at the time of acquisition necessitated such costs to be incurred.

Advertising displays to promote 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 of them being handed over to a counter party.

Non-current assets classified as available for sale

When the Group expects that the sale of a given asset 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 available 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 in a given company have resolved to sell such assets, and their sale will take place within 12 months from the balance sheet date. As of the date of reclassification of assets to this group, the book value of these assets is compared to their fair value less their selling costs, and—when it is greater—the difference is written off by a charge to profit or loss of a given period.

Intangible assets

Intangible assets acquired from an external business entity within a separate transaction are capitalized at purchase 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
- 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 assets are as follows:

computer software 3–14 years.

Impairment of property, plant and equipment and intangible assets

When there is evidence indicating the possibility of the impairment of property, plant and equipment and intangible assets held, an impairment test is performed. The amounts of impairment losses 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 takeover

In accordance with IFRS 3, due to the acquisition of control over a subsidiary, the 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 losses 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 at the level of the separate financial statements of the acquired company: the brand and 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 property

Real property held by the Group 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 from the date of expenditures, it is assumed that the fair value of a 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 in terms of the condition of the real property or economic conditions. After this period, the fair value of real property is determined while account for expert reports of independent appraisers, whereby this procedure should be carried out at least once in 12 months (see Note [24]).

Inventory

Inventories of purchased goods are measured as of the balance sheet date at, depending on which one is lower, acquisition cost or realizable net selling price less costs of sale.

Inventories of raw materials intended for production are measured as of the balance sheet date at acquisition cost, unless they cannot be used in production or their 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 purchase price is lower. The standard cost method is used for the purpose of costing inventories of raw materials and production materials.

Inventories of technical materials (parts, consumables) are recognized at acquisition cost. Their value is reduced if they are no longer useful or have been damaged.

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

The acquisition price 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 the assumption of normal production capacity utilization. The standard cost also includes normal levels of waste and the value of by-products determined on the basis of a realizable selling price. Deviations from the standard cost (e.g. ones due to the non-utilization of production capacity) are directly posted to profit or loss of 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 inventories of finished products and goods.

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

Where the acquisition price or the technical cost of the production of inventories is higher than the anticipated selling price, the group makes write-offs which are recognized in other operating expenses. The selling price mentioned in the previous sentence should be understood as the price of sale offered in the ordinary course of business, less the estimated costs of the completion of production and the expenses incurred to complete the sales transaction.

Provisions

Provisions are created when the Group has a present obligation (legal or constructive) 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 has a significant impact on the amount of the provision over time, 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. When the provision was measured account for discounting, an adjustment to the provision, associated with the change to the discount, is recognized in the income statement as an adjustment to interest.

Leases

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

Post-employment benefit plan

The companies in the Group do not operate a pension scheme or long-term benefits plans. In accordance with the existing 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 in the Group neither hold nor have issued 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 60–90 days and 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 losses of receivables are recognized in other operating expenses.

Interests or shares in other economic operators

The Group has interests of negligible value in three business operators (basic data of the two of them are 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 measuring financial assets of the companies in the Group, these assets can be grouped into the following categories:

- assets measured at fair value throughout 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 available 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 has only financial assets of the last two categories. Their amounts are presented in the statement of financial position and notes to the financial statements.

Interest-bearing loans and borrowings

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

Upon initial recognition, bank loans, borrowings and debt instruments are initially recognized at a 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 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 the effects of applying the amortized cost as well as the effects of the removal of a given liability from the statement of financial position or recognition of its impairment. When there are no significant differences between the measurement at the nominal value and that at the amortized cost, or if the effective interest rate cannot be reliably determined, such financial liabilities are measured at their nominal value. These also include recourse factoring liabilities.

Trade and other payables

On account of its operating activities, the Group has trade and other payable which mature usually within 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 ones.

Equity instruments

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

Revenues

Revenues are 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 revenues can be reliably measured.

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

Interest income is recognized on an accrual basis, gradually as it accrues, and accounts for the effective yield of a given asset.

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

Government grants, 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 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 the 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 abovementioned differences to be used, except in the following cases:

- 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, a deferred income tax asset is recognized in the statement of financial position only to the extent that it is probable that the abovementioned 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 impaired, 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 will be utilized or the liability will be settled on the basis of tax rates enacted or substantively enacted as of the balance sheet date.

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

The companies in the Group do not generate tax assets with respect to exemptions granted as a result of performing business activities in a special economic zone. For the purpose of the calculation of deferred income tax, an exempt activity is non-taxable until the limit of state aid is exhausted.

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

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

Estimates of the Group mainly concern the established provisions; write-downs of assets, including trade receivables; assumptions applied in the impairment test for goodwill; measurement of investment property and inventories; and applied depreciation rates. Detailed rules concerning the estimates of the abovementioned items were discussed above in the presentation of the accounting principles for the various components of the financial statements. Each estimate is subject to review at least at each balance sheet date.

Notes to the consolidated financial statements

[1] Structure of revenues and cost of sales

Amounts in PLN thousand (PLN '000).

	Revenues		Cost of sales		Gross profit (loss) on sales	
	2014	2013	2014	2013	2014	2013
Products and semi-products	176,218	195,562	133,620	151,213	42,598	44,349
Goods	1,388	1,546	828	995	560	551
Raw materials and other materials	261	119	192	60	69	59
Other sales (services)	998	1,224	965	944	33	280
	178,865	**Attach-ment, 198,451**	**135,605**	**Attach-ment, 153,212**	**43,260**	**45,239**

For information about sales to related entities not covered by these consolidated financial statements, see Note [22].

[2] Operating expenses

[2a] Costs by their nature

Amounts in PLN thousand (PLN '000).

	2014	2013
Raw materials and other materials	60,957	71,904
Gas and electricity	36,448	40,964
Purchased goods and semi-products	1,855	2,098
Depreciation	13,255	13,828
Payroll with fringe benefits	30,055	33,486
Third-party services*	17,408	18,810
Representation and advertising	3,405	3,594
Taxes and fees	2,355	2,002
Other	1,799	2,488
	167,537	**189,174**
of which		
Cost of products and goods sold**	135,413	153,152
Selling and administrative expenses	39,901	41,557
Movement of inventories and prepayments and accruals	-7,777	-5,535
	167,537	**189,174**

*expenses under lease agreements classified as operating leases, included in third-party services, amounted to PLN 1,515 thousand in 2014 and PLN 1,367 thousand in 2013.
**includes the costs of products and semi-products, goods as well as other sales expenses. It does not, however, include the cost of sold raw materials (Note [1]).

[2b] Payroll with fringe benefits

Amounts in PLN thousand (PLN '000).

	2014	2013
Current salaries	24,552	27,424
Social security contributions paid by the employer and other employee benefits	5,614	6,142
	30,166	**33,566**
Change in provision for holiday pay (Note [20])	-28	-113
Movement of provision for bonuses	-83	33
	30,055	**33,486**

[3] Other operating income

Amounts in PLN thousand (PLN '000).

	2014	2013
Reimbursement of litigation expenses	15	3
Past due liabilities	-	20
Damages received	124	87
Change in value of investment property	-	-
Reversal of write-downs on inventories	-	520
Rental income from investment property	1,123	1,120
Other	47	16
	1,309	**1,766**

[4] Other operating expenses

Amounts in PLN thousand (PLN '000).

	2014	2013
Loss on disposal of non-financial fixed assets	359	53
Write-downs on receivables	378	2,013
Write-downs on loans granted		434
Donations	14	24
Litigation expenses	65	51
Damages	4	49
Expenses caused by Force Majeure events	115	95
Liquidation of products	554	487
Write-down on inventories	130	-
Due to inventory differences	465	89
Costs of maintenance of investment property	474	444
Costs of withheld investment undertaking	-	521
Other	45	42
	2,603	**4,302**

[5] Finance income

Amounts in PLN thousand (PLN '000).

	2014	2013
Interest received	125	23
Gain on exchange rate differences	961	-
	1,086	**23**

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

Amounts in PLN thousand (PLN '000).

	2014	2013
Exchange rate differences recognized in finance income	961	-
Exchange rate differences recognized in finance expenses	-	482
	961	**-482**

[5b] Exchange rate differences recognized in equity

The change in the amount of exchange differences from the translation of the financial statements of CNG Luxembourg S.à.r.l. was PLN 2 thousand.

[6] Finance expenses

Amounts in PLN thousand (PLN '000).

	2014	2013
Interest	2 194	3 402
Loss on exchange rate differences	-	482
Costs of withheld investment undertaking	-	874
Other financial expenses	395	393
	2,589	**5,151**

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

Amounts in PLN thousand (PLN '000).

	2014	2013
Direct finance costs increasing the value of assets	56	-

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

[7] Income tax

Amounts in PLN thousand (PLN '000).

	2014	2013
Deferred income tax on		
- deductible tax losses	-1,013	779
- difference between book depreciation and tax depreciation	-691	-519
- movements in provisions and write-downs	-230	-2,480
- taxable inter-group profits	-43	-504
- change in value of investment property	-	-1
- adjustment of inventories of finished goods	-	-49
- other	28	44
	-1,949	**-2,730**
Current income tax	269	387
Tax amount recognized in equity	-	-
	-1,680	**-2,343**

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

Amounts in PLN thousand (PLN '000).

	2014	2013
Profit before tax	562	-3,982
Ongoing operating expenses which are permanently non-deductible	2,213	1,781
Income exempt from tax (special economic zone)	-11,944	-10,421
Other permanent differences	328	290
	-8,841	**-12,332**
Tax rate	19%	19%
Income tax recognized in the income statement	**-1,680**	**-2,343**

[8] Basic and diluted earnings per share

Earnings per share is calculated by dividing income by the weighted average number of shares in the last 12 months. When calculating the weighted average number of shares, treasury shares held by the Company or a subsidiary thereof are deducted. To calculate diluted earnings per share, potential dilutive shares (if any) are taken into account.

	Entity	2014	2013
Annualized profit (loss)	PLN thousand	2,242	-1 639
Weighted average number of shares*	thousand pcs	46,894	46 941
Basic earnings (loss) per share from continued operations	PLN	0.05	-0.03
Weighted average diluted number of shares*	thousand pcs	46,894	46 941
Diluted earnings (loss) per share from continued operations	PLN	0.05	-0.03

*without treasury shares held by the Company or its subsidiary

[9] Intangible assets

Amounts in PLN thousand (PLN '000).

	Computer software	Other	Goodwill	Total
Net value as of 1 January 2013	**528**	**5,209**	**18,851**	**24,588**
Increase due to acquisition	80	-	-	80
Sale or winding up	-28	-	-	-28
Amortization for the period*	-258	-578	-	-836
Net value as of 31 December 2013	**322**	**4,631**	**18,851**	**23,804**
Net value as of 1 January 2014	**322**	**4,631**	**18,851**	**23,804**
Increase due to acquisition	370	-	-	370
Amortization for the period*	-131	-578	-	-709
Net value as of 31 December 2014	**561**	**4,053**	**18,851**	**23,465**
of which				
cost/manufacturing cost	561	4,053	18,851	23,465
revalued amount	-	-	-	-
As of 31 December 2012				
Gross value	2,904	10,811	18,851	32,566
Accumulated depreciation and impairment	2,582	6,180	-	8,762
Net value	**322**	**4,631**	**18,851**	**23,804**
As of 31 December 2013				
Gross value	3,274	10,811	18,851	32,936
Accumulated depreciation and impairment	2,713	6,758	-	9,471
Net value	**561**	**4,053**	**18,851**	**23,465**
Amount of pledges and mortgages used as collateral for loans	-	-	-	-
Contractual commitments to acquire intangible assets	-	-	-	-

*Total amount of amortization of intangible assets is recognized in the statement of comprehensive income in 'Administrative and selling expenses'.

[10] Tangible non-current assets

Amounts in PLN thousand (PLN '000).

	Land and buildings	Plant and equipment	Fixed assets under construction	Other	Total
Net value as of 1 January 2013	**44,015**	**65,654**	**5,460**	**2,923**	**118,052**
Additions	3,500	2,757	6,034	1,210	13,501
Sale or withdrawal from use	-1	-5,236	-	-2,651	-7,888
Change in accumulated depreciation due to sale or withdrawal from use	1	5,088	-	2,433	7,522
Depreciation for the period	-2,958	-8,580	-	-1,454	-12,992
Initial measurement of fixed assets	-	-	-7,467	-	-7,467
Other movements (reclassifications)	-	4,352	-310	-40	4,002
Net value as of 31 December 2013	**44,557**	**64,035**	**3,717**	**2,421**	**114,730**
of which					
cost/manufacturing cost	44,557	64,035	3,717	2,421	114,730
revalued amount	-	-	-	-	-
Net value as of 1 January 2014	**44,557**	**64,035**	**3,717**	**2,421**	**114,730**
Additions	402	2,961	8,454	1,195	13,012
Sale or withdrawal from use	-211	-4,039	-	-3,078	-7,328
Change in accumulated depreciation due to sale or withdrawal from use	34	3,408	-	2,843	6,285
Depreciation for the period	-3,004	-8,620	-	-922	-12,546
Initial measurement of fixed assets	-	-	-4,558	-	-4,558
Other movements (reclassifications)	126	-126	-	-	-
Net value as of 31 December 2014	**41,904**	**57,619**	**7,613**	**2,459**	**109,595**
of which	-	-	-	-	-
cost/manufacturing cost	41,904	57,619	7,613	2,459	109,595
revalued amount	-	-	-	-	-
Gross value and accumulated depreciation					
As of 31 December 2013					
Gross value	65,729	172 643	3 717	8 348	250 437
Accumulated depreciation and impairment	21,172	108 608	-	5 927	135 707
Net value	**44,557**	**64,035**	**3,717**	**2,421**	**114,730**
of which					
Fixed assets classified as available for sale	-	-	-	-	-
Other tangible fixed assets	44,557	64,035	3,717	2,421	114,730
As of 31 December 2014					
Gross value	66,046	171,439	7,613	6,465	251,563
Accumulated depreciation and impairment	24,142	113,820	-	4,006	141,968
Net value	**41,904**	**57,619**	**7,613**	**2,459**	**109,595**
of which					
Fixed assets classified as available for sale	-	-	-	-	-
Other tangible fixed assets	41,904	57,619	7,613	2,459	109,595
Additional information					
Amount of pledges and mortgages used as collateral for loans	88,700	29,958	-	-	118,623
Contractual commitments to acquire fixed assets	-	959	-	-	2,820

[11] Deferred tax assets

Amounts in PLN thousand (PLN '000).

	31.12.2014	31.12.2013
Deferred tax assets arising from		
- deductible tax losses	2,467	1,452
- difference between book depreciation and tax depreciation	672	672
- created provisions and write-offs	5,899	5,686
- taxable inter-group profits	1,348	1,306
- depreciation of plant and equipment	683	731
	11,069	**9,847**

[12] Inventories

[12a] Inventory structure

Amounts in PLN thousand (PLN '000).

	31.12.2014	31.12.2013
Products and semi-products	64,842	69,476
Goods	706	705
Raw materials and other materials	20,497	25,783
Other	412	338
	86,457	**96,302**
Value of inventories measured at fair value less selling costs	-	-
Total amount of allowance on inventory	-1,650	-1,542
Value of inventories pledged as collateral for liabilities	29,500	29,500

[12b] Additional information

Amounts in PLN thousand (PLN '000).

	2014	2013
Cost of inventories sold	134,640	152,268
Inventories written off as expenses	700	487
Reversal of write-offs posted to income	-16	-520
	135,324	**152,235**

[13] Trade receivables and other receivables

[13a] Receivables structure

Amounts in PLN thousand (PLN '000).

	31.12.2014	31.12.2013
Trade receivables	34,300	36,204
Other receivables	1,715	3,240
	36,015	**39,444**
Receivables due	5,279	5,750
Receivables with deferred payment	30,736	33,694
	36,015	**39,444**
Receivables in PLN	29,043	32,898
Receivables in EUR	3,389	2,798
Receivables in USD	3,583	3,748
	36,015	**39,444**
Write-down on receivables	7,895	8,203
Receivables used as collateral for loans	1,799	6,946

Trade receivables are non-interest bearing receivables which mature usually within 60 or 90 days. Part of receivables is insured.

[13b] Additional information—change in the balance of write-downs on receivables

Amounts in PLN thousand (PLN '000).

	2014	2013
Opening balance	**8,203**	**6,451**
Write-downs recognized in operating expenses	339	1,977
Reversal of write-downs recognized in operating income	-	-5
Write-downs used	-1,145	-141
Change in measurement due to foreign exchange differences	498	-79
Closing balance	**7,895**	**8,203**

[13c] Age structure of receivables

Amounts in PLN thousand (PLN '000).

As of	Gross receiva-bles	Write-downs on receiva-bles	Net receiva-bles	Receiva-bles paid on time	Overdue receivables				
					up to 3 months	3–6 months	6–12 months	over 12 months	Total
31.12.2014	43,910	7,895	36,015	30,736	4,760	50	-	469	5,279
31.12.2013	47,647	8,203	39,444	33,694	5,217	328	205	-	5,750

[14] Cash

Cash consists only of cash in hand and at bank. The amount of restricted cash includes PLN 50 thousand allocated to the Company's social benefit fund.

[15] Equity components

[15a] Share capital

The share capital consists of all issued and subscribed ordinary 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. 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 Companies. The reserves consist of the excess of the issue price of shares over their nominal price, 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 reserves was also affected by a share buyback carried out by the Company. The reserves also accounted for the effects of the incentive scheme measurement. Reserves are established e.g. to cover future losses.

[15c] Retained earnings

Retained earnings include profit or loss for the current period, i.e. gains or losses from previous years that have not been distributed by way of a resolution of the General Shareholders Meeting of the companies in the Group. In the consolidated financial statements, undistributed gains and losses from previous years also include (cumulative) 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] Minority interests

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

[15f] Other reserves

Reserves are created in accordance with a resolution of the General Shareholders Meeting. Currently, these account for a part of distributed gains or losses from previous years.

[15g] Treasury shares

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

[15h] Foreign exchange differences on translation

This item accounts for the effects of translation of the financial statements of the CNG Luxembourg S.à.r.l. subsidiary company and incorporating them in the consolidated financial statements of the parent company. The Euro is the functional currency for the financial statements of the subsidiary, while the items presented in the consolidated financial statements are denominated in the Polish zloty. When translating the items in the financial statements of this company to PLN, in the case of treasury shares of the parent company held by it, the exchange rate prevailing on the date of in-kind contributions was used instead of the average exchange rate of NBP prevailing on the balance sheet date. This means that the value of those shares was not influenced by any foreign exchange difference from translation.

[16] Loans, borrowings and debt instruments

Amounts in PLN thousand (PLN '000).

Financing institution	Currency	Effective interest rate	Deadline for repayment	Debt		Collaterals	Notes
				31.12.14	31.12.13		
mBank SA	PLN	WIBOR 1M + 0.65%	30.06.2015	4,360	4,680	Registered pledge on finished products and blank promissory note; assignment of rights under insurance policy; pledge on fixed assets	Working capital loan
mBank SA	PLN	WIBOR O/N + 1.15%	27.11.2015	-	2,090	Global assignment of receivables, blank promissory note, pledge on two production lines	Overdraft facility
mBank SA	EUR	EURIBOR 1M + 1.42%	04.03.2016	730	1,311	Blank promissory note; registered pledge on purchased plant and equipment	Investment loan
mBank SA	EUR	EURIBOR 1M + 1.8%	25.01.2019	1,811	-	Blank promissory note; registered pledge on purchased plant and equipment	Investment loan
Bank Pekao SA	PLN	WIBOR 1M + 0.7%	30.09.2016	7,212	6,355	Capped mortgage on property belonging to the Company and property belonging to its subsidiary, along with the assignment of rights under insurance policy, declarations of Ceramika Nowa Gala SA and Ceramika Nowa Gala II Sp. z o.o. of submission to enforcement, power of attorney granted to the bank with respect to the bank account	Overdraft facility
Bank Handlowy w Warszawie SA	PLN	WIBOR 3M + 0.9%	22.04.2016	5,008	1,799	Registered pledge on finished products and assignment of rights under insurance policy	Working capital loan
ING bank Śląski SA	PLN	WIBOR 1M + 0.9%	23.06.2016	35,677	-	Surety under civil law of Ceramika Nowa Gala II Sp. z o.o. up to PLN 10,000 thousand, Ceramika Nowa Gala SA up to PLN 21,000 thousand, mortgage up to PLN 69,000 thousand, transfer of rights under insurance policy on property, registered pledge on finished products in the amount of PLN 15,000 thousand along with transfer of rights under insurance policy, registered pledge of fixed assets in the amount of PLN 14,011 thousand along with transfer of rights under insurance policy	Overdraft facility (for repayment of the loan contracted at Alior Bank SA)
Alior Bank SA	PLN	WIBOR 1M + 1.7%	24.06.2014	-	31,753	Surety under civil law of Ceramika Nowa Gala II Sp. z o.o. up to PLN 10,000 thousand, Ceramika Nowa Gala SA up to PLN 21,000 thousand, mortgage up to PLN 69,000 thousand, transfer of rights under insurance policy on property, registered pledge on finished products in the amount of PLN	Working capital loan

Financing institution	Currency	Effective interest rate	Deadline for repayment	Debt 31.12.14	Debt 31.12.13	Collaterals	Notes
						15,000 thousand along with transfer of rights under insurance policy, registered pledge of fixed assets in the amount of PLN 14,000 thousand along with transfer of rights under insurance policy, power of attorney granted to the bank with respect to the bank account.	
Alior Bank SA	PLN		26.11.2014	-	4,127	Surety under civil law of Ceramika Nowa Gala II Sp. z o.o. up to PLN 10,000 thousand, Ceramika Nowa Gala SA up to PLN 21,000 thousand, mortgage up to PLN 69,000 thousand, transfer of rights under insurance policy on property, registered pledge on finished products in the amount of PLN 15,000 thousand along with transfer of rights under insurance policy, registered pledge of fixed assets with the amount of PLN 14,000 thousand along with transfer of rights under insurance policy, power of attorney granted to the bank with respect to the bank account	
Closing balance				**54,798**	**52,115**		
of which							
short-term loans				5,546	42,918		
long-term loans				49,252	5,070		
factoring of the subsidiary				-	4,127		

Each of the loans can be repaid at an earlier date. The banks have the right to demand an earlier repayment of the loans and increase the margins and demand additional collaterals in the event of a breach by a company of the Group under the material conditions of the loan agreements or deterioration in the company's standing putting loan repayment at risk.

In the case of the loans granted to Ceramika Nowa Gala SA by mBank SA, the condition to achieve the level of the profit margin on sales and the net profit margin specified by the bank was not met as of the balance sheet date. Despite the failure to comply with the abovementioned condition, the bank, in accordance with the letter of 4 March 2015, does not intend to terminate the loan agreements.

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

[17] Provision for deferred income tax

Amounts in PLN thousand (PLN '000).

	31.12.2014	31.12.2013
Provision for deferred income tax with respect to		
- difference between book depreciation and tax depreciation	5,914	6,654
- interest	391	363
- measurement of investment property	294	294
- other	197	211
	6,796	**7,522**

[18] Trade and other payables

Amounts in PLN thousand (PLN '000).

	31.12.2014	31.12.2013
Trade payables	12,030	20,584
Other payables	6,684	8,409
	18,714	**28,993**
Payables due	5,706	7,007
Payables with deferred payment	13,008	21,986
	18,714	**28,993**
Payables in PLN	14,233	21,843
Payables in EUR	3,930	6,655
Payables in USD	551	495
	18,714	**28,993**

Payables with deferred payment generally mature 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 of 1 January 2014	**402**	**6,529**	**97**	**7,028**
Created	99	12,808	865	13,772
Utilized	-296	-12,581	-919	-13,796
Reversed	-	-	-	-
As of 31 December 2014	**205**	**6,756**	**43**	**7,004**

[20] Provisions for employee benefits

Amounts in PLN thousand (PLN '000).

	Holiday pay and other	Annual bonuses	Total
As of 1 January 2014	**1,015**	**183**	**1,198**
Created	406	454	860
Utilized	-478	-537	-1,015
Reversed	-	-	-
As of 31 December 2014	**943**	**100**	**1,043**
Short term	919	100	1,019
Long term	24	-	24

[21] Information on business segments

Only one operating segment has been distinguished. More information on 'Business segments' is available in the section devoted to accounting principles.

[21a] Information on geographical segments

Amounts in PLN thousand (PLN '000).

	Domestic		Export		Total	
	2014	2013	2014	2013	2014	2013
Revenues	146,638	159,505	32,227	38,946	178,865	198,451
Cost of sales	99,342	113,212	23,482	28,556	122,824	141,768
Sales result	**47,296**	**46,293**	**8,745**	**10,390**	**56,041**	**56,683**
Unallocated costs					12,781	11,444
Gross profit on sales					**43,260**	**45,239**
	31.12.14	**31.12.13**	**31.12.14**	**31.12.13**	**31.12.14**	**31.12.13**
Assets:						
Trade receivables	28,099	29,803	5,923	6,262	34,022	36,065
Other receivables (unallocated)					1,993	3,379
					36,015	**39,444**

All fixed assets of the companies in the Group are located in Poland. CNG Luxembourg 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 revenues.

[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	
	2014	2013	2014	2013	2014	2013
Revenues from sales to external customers	177,673	197,134	1,192	1,317	178,865	198,451
Purchase of fixed assets	8,048	6,170	-	-	8,048	6,170

[21c] Information on significant customers

In 2014, no customer share of the Group in the consolidated sales revenues was in excess of 10%.

[22] Transactions with related parties—transactions entered into between the parent company, i.e. Ceramika Nowa Gala SA, and related parties which have been completely eliminated from the consolidated financial statements, except for transactions with the 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		Payables to related parties	
	2014	2013	2014	2013	2014	2013	2014	2013
Subsidiaries	30,823	33,197	54,816	58,118	2,823	20,639	10,386	14,650
Associates	-	-	603	424	-	-	3	44
	30,823	**33,197**	**55,419**	**58,542**	**2,823**	**20,639**	**10,389**	**14,694**

Trade receivables and payables become due no later than 90 days from the date of the transaction. Other transactions with related parties or 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	
	2014	2013	2014	2013	2014	2013	2014	2013
Acquisition of treasury shares from related parties without compensation (pcs)			8,983,608					
Taking up/purchase of shares in related parties and contributions*	-	-	834	-	-	-	-	-
Write-down on shares in associates*			-23,839					
Refund of contributions	-	-		-3,000	-	-	-	-
Dividends received**	-	-	11,243	45,470				
Interest paid/accrued with respect to related parties	-	-	243	228	-	-	-	-
Loans repaid by related parties			491	-				
Loans granted to related parties	-	-	252	106	-	-	-	-
Off-balance sheet items								
Sureties granted	-	-	21,000	21,000	-	-	-	-
Termination of granted sureties	-	-	-21,000	-25,160	-	-	-	-

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

**dividend from Ceramika Nowa Gala II Sp. z o.o. 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	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Shares in CNG held by related parties (pcs)	-	8,983,608	-	-	11,170,396	11,170,396
Loans granted to related parties	2,107	2,352	-	-	-	-
Accrued interest of loans granted	2,018	1,870	-	-	-	-
Off-balance sheet items						
Performance bonds from related parties	4,160	4,160	-	-	-	-
Loan guarantees from related parties	21,000	21,000	-	-	-	-

The figures above do not account for the accounts arising from trade transactions referred to in [22a]. No provisions for bad debts have been 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	
	2014	2013	2014	2013	2014	2013	2014	2013
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	23,887	-	-	-23,839	-	882	23,887
Loan granted to Ceramika Nowa Gala II Sp. z o.o.	2,000	2,000	2,017	1,817	-	-	4,017	3,817
Loan granted to CNG Luxembourg S.à.r.l.	107	352	-	54	-	-	107	406
Subsidiaries (total)	**100,166**	**99,577**	**2,639**	**2,493**	**-23,839**	**-**	**78,966**	**102,070**
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	
	2014	2013	2014	2013
Salaries and other current benefits (paid)	1,604	1,563	258	230
Future payments in shares	-	-	-	-
Movement in provisions	-	84	-	-
Charge on profit for the period	**1,604**	**1,647**	**258**	**230**

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 January 1, 2014	**-**	**-**	**7,550**	**7,550**
Increase in fair value	-	-	-	-
Decrease in fair value	-	-	-	-
Transfer between the levels	-	-	-	-
As at December 31, 2014	**-**	**-**	**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.

In accordance with the adopted accounting policy, the value of the investment property owned by Ceramika Nowa Gala II 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. Since December 2010, the investment property in question has been partially leased to a third party. In 2014, revenues from the lease of this property amounted to PLN 1,122 thousand. Its maintenance costs in the same year amounted to PLN 474 thousand. To determine its fair value, the appraiser used the income approach, in accordance with which the measurement was based on realizable income from the lease of space in warehouses (currently leased) and income from the lease of administrative and staff welfare space (not leased at the moment). 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, the current use of the property in question was deemed to be the most advantageous. The basic inputs to the model were as follows:

- leasable area and the rent per sq. m., separate 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 on the basis of an analysis of rent rates in the local property rental market, adjusted by the estimated leasable area ratio
- estimated property maintenance costs per sq. m. based on actual incurred costs
- cost of renovation of the administrative and staff welfare space based on the estimated costs of the range of works to be performed
- discount rate, accounting for the risks related to investing in rental properties and based on the knowledge and experience of property appraisers; the average rate of 8.8% was adopted

The fair value determined using the method described as of 31 December 2014 finally amounted to PLN 7,610 thousand. Due to the immateriality of the difference between this value and the value given in the accounts of the subsidiary, no adjustment to the financial statements was made.

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

[25a] Inventories

Amounts in PLN thousand (PLN '000).

	2014	2013
Balance sheet change in inventories	**9,845**	**2,214**
Reclassification of spare parts warehouse	-	-3,994
Change in inventories in the cash flow statement	**9,845**	**-1,780**

[25b] Trade receivables and other receivables

	2014	2013
Balance sheet change in trade receivables and other receivables	**3,429**	**11,532**
Change in receivables from sale of fixed assets	-10	-
Reclassification of receivables from property tax	-	310
Change in receivables in the cash flow statement	**3,419**	**11,842**

[25c] Trade and other payables

Amounts in PLN thousand (PLN '000).

	2014	2013
Balance sheet change in trade and other payables	**-10,279**	**2,785**
Tax offset	-	240
Change in investment liabilities	-605	175
Change in payables in the cash flow statement	**-10,884**	**3,200**

[26] Payment of dividend

In accordance with Resolution No. 7 adopted by the General Meeting of Shareholders of Ceramika Nowa Gala SA on 30 June 2014, on 15 October 2014, the Company paid a dividend amounting to PLN 3,751,489.68. This amount was part of the profit for 2013. One share was equal to PLN 0.08 of the dividend.

[27] Declared dividend

As of the date of these consolidated financial statements, no dividend to be paid from the profit for 2014 was declared. The Group's development strategy for 2014–2016 assumes that a minimum of 30% of the consolidated net profit of the Group will be annually allocated for dividend, but no more, however, than PLN 0.1 per share.

[28] Events after the balance sheet date

On 23 January 2015, Ceramika Nowa Gala SA and its subsidiaries, Ceramika Gres SA and Ceramika Nowa Gala II Sp. z o.o., entered into agreements on the purchase of fuel gas with PGNiG Obrót Detaliczny Sp. z o.o. All agreements have been concluded for an indefinite period. The estimated total value of purchases under these agreements for the period of 5 years will be approx. PLN 130,482 thousand. The most important details concerning the agreement of the highest value are as follows:

- the agreement was concluded by Ceramika Gres SA subsidiary
- the price to be paid by the subsidiary for received fuel gas will depend on the current tariff
- the debtor's consent for voluntary submission to enforcement up PLN 2,500 thousand will be used as a performance bond;
- when the actual annual purchase of fuel gas is lower than the minimum amount specified in the agreement, the subsidiary will be required to pay the seller liquidated damages in the amount of 75% of the price for uncollected fuel gas
- the agreement has been concluded for an indefinite period
- the Polish zloty is the currency of the agreement
- the value of purchases made under the agreement within 5 years is estimated at approx. PLN 58,137 thousand

[29] 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 on the basis of, 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 means the total amount of loan and borrowing liabilities less cash balance. Invested capital is the sum of the value of non-current assets and net current assets. Interest coverage ratio is calculated by dividing EBITDA by the interest shown in the income statement for the 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).

	31.12.2014	31.12.2013
Non-current assets	151,824	156,076
Net current assets	104,917	58,716
Total capital invested	**256,741**	**214,792**
Total net debt arising from loans and borrowings*	41,592	46,995
Debt ratio	**0.16**	**0.22**
	2014	**2013**
Profit from operating activities	2,065	1,146
Depreciation and amortization	13,255	13,828
EBITDA	15,320	14,974
Interest	2,194	3,402
EBITDA-to-interest-coverage ratio	**6.98**	**4.40**

*also includes financial liabilities under factoring

By controlling the level of the current assets, it was possible to decrease the net debt. As a result, the debt ratio has improved. At the same time, there was an increase in EBITDA for 2014 because of increased operating profit. Debt reduction and a decrease in interest rates resulted in decreased interest payments. As a result, the interest coverage ratio significantly increased. The values of both ratios remain at a safe level.

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

[30] Offsetting the remaining part of the dividend from the subsidiary

On 26 June 2013, the Annual Shareholders Meeting of Ceramika Nowa Gala II Sp. z o.o. subsidiary resolved that the net profit of the company for 2012 with the amounts of PLN 12,678,303.72 and the amount of PLN 32,791,458.09, which comes from the reserve capital for the payment of dividend, would be allocated for the payment of the dividend for Ceramika Nowa Gala SA. The dividend was paid in instalments in the following manner:

- PLN 32,791,458.09 by 30 June 2013
- PLN 12,678,303.72 was offset against other accounts on 31 January 2014

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

[31] Publication of the new development strategy of the Ceramika Nowa Gala Group for 2014–2016

On 12 March 2014, the Management Board announced a new development strategy for the Ceramika Nowa Gala Group for 2014–2016. Its key assumptions are as follows:

- sales growth at the annual rate of 5% within the period covered
- EBITDA margin increase by the end of 2016 by 7 percentage points until it reaches approx. 17% as a result of carrying out strategic initiatives in three main areas:
    a. increasing utilization of production capacity (margin increase of 4–5 percentage points)
    b. new technologies (investments in production of unglazed tiles and digital printing should result in a margin increase of 1–2 percentage points)
    c. process optimization (a number of activities, including product offer simplification, purchase consolidation, redundancies and process simplification, should result in a margin increase of 3 percentage points);
- shortened supply chain for ceramic tiles distribution
- allocation of PLN 45 million for total capital expenditures in the period of 2014–2016, including PLN 10 million for replacements maintenance, PLN 15 million for modernization and new technologies and PLN 20 million for the development of logistics and warehouses
- maintaining the average level of working capital and the average interest debt at the levels from the end of 2013;
- redemption of treasury shares held by the Group (9,220,757 shares representing 16.43% of share capital) in 2014 (see also: [32])
- proposal to introduce a dividend policy assuming an annual allocation of at least 30% of the Group's net consolidated profit for dividend payment, no more, however, than PLN 0.1 per share (see also [27]).

[32] Adoption by the General Shareholders' Meeting of a resolution on redemption of treasury shares without compensation and decrease in the Company's share capital

On 30 June 2014, the General Shareholders' Meeting resolved to decrease the Company's share capital from PLN 56,114,378 to PLN 46,893,621 by the redemption of 9,220,757 shares. The redemption of 8,983,608 shares held by CNG Luxembourg S.à.r.l. subsidiary did not include compensation, which was agreed to by the shareholder in the agreement on the transfer of the ownership of shares, concluded outside the regulated market between the shareholder and the Company (for more information, see [34]). The objective of the redemption of 8,983,608 shares held by the subsidiary and 237,149 shares held by the Company was to organize the Company's shareholding structure and ensure its transparency and stability with regard to the shareholding structure in the future.

[33] Increase in the capital of Luxembourg S.à.r.l. subsidiary

On 6 August 2014, the share capital of CNG Luxembourg S.à.r.l. was increased by EUR 200 thousand. The increase in the capital was paid entirely in cash by the parent company, Ceramika Nowa Gala SA.

[34] Purchase of treasury shares from a subsidiary without compensation

On 19 September 2014, Ceramika Nowa Gala SA acquired 8,983,608 treasury shares from the CNG Luxembourg S.à.r.l. subsidiary without compensation. The transaction was made under the resolutions adopted at the General Shareholders' Meeting on 30 June 2014.

Although the aforementioned shares were the only significant assets of the subsidiary, their disposal did not result in winding up the company, which still operates.

As a result of the aforementioned transaction, the separate financial statements of Ceramika Nowa Gala SA include shares in CNG Luxembourg S.à.r.l. as deducted by reason of impairment in the amount of PLN 23,838 thousand. At the same time, the treasury shares acquired without compensation have been recognized in equities (as negative values) in the amount resulting from their measurement at the time of their contribution in kind to CNG Luxembourg S.à.r.l. This amount was equal to the book value of the shares in the subsidiary, obtained in return for the contribution in kind. This means that it is equal to the value of the aforementioned write-down.

The results of both of these transactions have been mutually compensated, directly at the level of the parent company's equities, and they have not affected the total profit presented in the separate financial statements.

The transactions influence only the separate financial statements and they were completely eliminated from the consolidated financial statements.

[35] Decrease in the Issuer's authorized share capital

On 16 October 2014, the District Court in Kielce, Commercial Division of the National Court Register, registered a decrease in the Company's authorized share capital. After the registration, the share capital amounts to PLN 46,893,621 and consists of 46,893,621 series A shares.

[36] Information on certified auditor's remuneration

The financial statements of the Company were audited by TPA Horwath Horodko Audit Sp. z o.o. The audit of the financial statements for 2014 was carried out under an agreement concluded on 10 July 2014. The agreement concerns the audit of the separate financial statements of the Company for 2014, the consolidated financial statements of the Company for 2014, review of the interim separate financial statements as of 30 June 2014 and review of the interim consolidated financial statements as of 30 June 2014. The total net remuneration of the audit firm under the aforementioned agreement is PLN 44.9 thousand. TPA Horwath Horodko Audit Sp. z o.o. is also entitled to the net remuneration of PLN 29.1 thousand under agreements concerning the audit of annual separate financial statements and a review of semi-annual financial statements of the subsidiaries. The audit firm is also entitled to the reimbursement of actual audit costs.

In 2013, the financial statements of the Group were audited by TPA Horwath Horodko Audit Sp. z o.o. as well. The audit firm rendered services to the companies in the Group under the agreements of 1 July 2013. The services included the following:

- review of the interim separate financial statements of the Company, the separate financial statements of the subsidiaries and the consolidated financial statements of the Company as of 30 June 2013
- audit of the annual separate financial statements of the Company, the separate financial statements of the subsidiaries and the consolidated financial statements of the Company as of 31 December 2013

TPA Horwath Horodko Audit Sp. z o.o. received under the agreements concluded in 2013 remuneration in the amount of PLN 69 thousand plus VAT and reimbursement of the actual costs of the audit.

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

To the 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.

[38] Information on entering by the Company or its subsidiary into one or more transactions with related parties, where such transactions are significant, either individually or collectively, and were concluded on terms other than on the 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 on terms other than on the arm's length basis.

[39] Goodwill impairment test

The goodwill shown in the consolidated financial statements of the Group accounts for the acquisition of the 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 annually tested for impairment. Under this test, the recoverable amount is determined on the basis of 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 changes 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 2014
- discount rate determined on the basis of the weighted average cost of capital for the group of analytical data, calculated using the CAPM model with the following parameters: risk-free rate of 4%, risk premium of 5% and beta of 1. The average pre-tax cost of debt is assumed to be 3%. In accordance with IAS 36, discounted cash flows are determined as pre-tax ones; 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 2014, without accounting for inflation, hence the nominal rate should be adjusted to the real rate using the average annual inflation rate appropriate for the period from which the data for the nominal rate was taken; the real rate does not differ from the nominal one and eventually, it was 8.49%, as the average annual inflation in 2014 announced by the Central Statistical Office was 0.0%
- 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.

Risk factors and off-balance sheet liabilities

1. Risk factors associated with the activities of the Group

1.1. Risk associated with increased production costs

The production plants belonging to the Group consume significant quantities of natural gas, electricity and raw materials during the production process. An increase in the prices of gas, electricity or raw materials may adversely affect the performance of the Group, particularly with respect to gas and electricity, in the case of which the Group is dependent on single suppliers with monopolistic positions. The companies in the Group attach great importance to cost control and reduction at various stages of production. In 2014, the positive tendency of electricity prices to fall was stopped and reversed. It follows from talks and negotiations that in 2015, electricity prices will be higher than those in previous years. The Group has taken active steps to diversify gas suppliers, hoping that such actions will lead to a reduction in the costs of the purchase of raw material.

1.2. Risk associated with incomplete use of the Group's production capacity

After a decline in sales in 2014, no upturn in the domestic market is expected in 2015. The situation in the eastern markets is deteriorating, while that in the European Union is becoming increasingly uncertain (see Section 1.3.). Given the above and in the absence of sales growth, it will be necessary to reduce production to adapt it to the level of sales. This approach is considered advantageous, as liquidity can be maintained at a safe level. However, this means that some of the fixed costs of production will continue to have a direct effect on the consolidated financial profit (loss) of the Company.

1.3. Risks associated with the availability of high-quality raw materials used in the production process

The Group uses high-quality raw materials to produce ceramic tiles. To obtain high-quality homogeneous ceramics, it is necessary to use ingredients with low levels of impurities. For colours to be vivid, a mass which does not darken after firing needs to be applied. There is a risk of limited availability of raw materials with the required quality (part of the raw materials is imported from eastern Ukraine, in an area which is not, however, covered by the war), and the companies in the Group may be forced 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.

1.4. 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 buyers' tastes increases as the offer is extended with new designs. To reduce this risk, the companies in the Group observe prevailing market trends and adjust their product portfolio to the tastes and requirements of customers.

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

2.1. Risk associated with the macroeconomic and political situation

Despite optimistic forecasts, the economic and political environment in which the Group operates continues to be characterized by a very high degree of instability. Economic forecasts for Poland and the European Union account for a high degree of uncertainty. The situation in Greece after the parliamentary elections and the risk of another recession observed in numerous EU countries make this uncertainty even greater. Currently, the situation in Ukraine is the most severe threat to the Group. The adverse effects of this situation experienced by the Group are as follows:

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

There are also potential risks (which have not materialized yet), arising from the situation described above:

- increase in prices of natural gas or reduction in its supplies
- increase in prices of raw materials essential for the production of tiles (clay) or reduction in their supplies

2.2. Risk associated with the activities of competitors

The Group positions its products in the higher end of the market, traditionally dominated by Italian and Spanish companies. As for cost-effective products, the domestic competition is of greatest significance. As a result of the economic downturn recorded in recent years, and a sharp decline in exports to eastern markets (the conflict in Ukraine), increased competition has been observed in relation to all segments. The Group makes every effort to maintain its position as the leading manufacturer of ceramic stoneware floor tiles by actively seeking new opportunities for the expansion of its capacities to strengthen the Group. Furthermore, to maintain its competitive edge, the Group continuously improves and expands its product portfolio.

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 and wood. There is a risk that in the future, new or existing finishes will become an attractive substitute for ceramic tiles. Such a situation could adversely affect the level of sales and the performance of the Group.

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

The Group sells part of its products in 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 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 are not sufficiently clear, leaving room for 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 under more stable tax systems. One of the aspects of insufficient precision in tax laws is the lack of provisions for formal procedures for the 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 the Company may have a material adverse effect on the Company's operations and its financial condition, performance and prospects for development. The Group does not anticipate any threat of this type, although it cannot be completely ruled out. The same risk exists for mandatory burden owing to social and health insurance.

3. Financial risk as well as 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 activities. The companies in the Group also have other financial instruments, such as trade receivables and payables that directly arise in the course of their business. In addition, the Group has interests in other business entities, but the value of these interests in immaterial. The companies in the Group do not enter into any transactions involving derivatives. The principle applied by the Group at present and throughout the period covered by these 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 to manage each of these risks. These policies are briefly described below. The magnitude of this risk in the period concerned is shown below as well. The accounting principles applied by the Group in relation to financial instruments have been discussed in the introduction to these consolidated financial statements.

3.1. Interest rate risk

At present, the assets and liabilities recognized in the consolidated statement of financial position are not subject to fluctuations from changes in interest rates. However, because the Group uses financing sources with variable interest rates, an increase (decrease) in base rates 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 (the US Dollar and Euro) on a significant scale. Change in exchange rates against the Polish zloty may result in profits lower than expected. Foreign exchange volatility affects the consolidated profit (loss) by the following:

- changes in the value of export sales denominated in PLN 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 payables
- unrealized foreign exchange differences on measurement of accounts and other monetary items as of 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 companies in 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 foreign exchange risk are limited 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 are associated with credit risk. Each year, a part of the receivables is lost (write-downs are made). Credit risk related to receivables from customers is limited by the following:

- 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 profits arising from decreased sales to a given customer as a result of adopted restrictions are also taken into account.

3.4. Liquidity risk

The Group uses external financing which determines its liquidity. To ensure the availability of funding the Group maintains the proportion of debt in financing at a safe level (see also the comment in Notes [16] and [29]).

The table below shows the 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 2015	from 6 to 12 months 2015	2016	Subsequent years
Trade and other payables	18,714	18,714	-	-	-
Payments under operating leases*	6,496	1,374	1,416	2,057	1,649
Loans eligible for refinancing**	64,360	4,360	4,500	55,500	-
Loans to be repaid	3,628	189	378	1,486	1,575
Total	93,198	24,637	6,294	59,043	3,224

Class of liabilities	Total	up to 6 months 2015	from 6 to 12 months 2015	2016	Subsequent years

*the most significant lease agreements concerning 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 as of the end of 2014

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 Company would have to pay for the period till the dates of expiry of the agreements is PLN 4,703 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 instruments	Currency	Balance in the currency given on the left	Balance in PLN	Risk type	Adopted fluctuation range	Sensitivity level
Foreign currency denominated receivables	EUR	795	3,389	foreign exchange	+/-20%	+/-678
Foreign currency denominated receivables	USD	1,022	3,583	foreign exchange	+/-20%	+/-717
Foreign currency cash	EUR	1,023	4,359	foreign exchange	+/-20%	+/-872
Foreign currency cash	USD	1,409	4,941	foreign exchange	+/-20%	+/-988
Foreign currency denominated liabilities	EUR	921	3,930	foreign exchange	+/-20%	+/-786
Foreign currency denominated liabilities	USD	158	551	foreign exchange	+/-20%	+/-110
Loans contracted in foreign currencies	EUR	596	2,541	foreign exchange	+/-20%	+/-508
Variable interest rate loans	EUR	596	2,541	interest rate	+/-3.00%	+/-76
Variable interest rate loans	PLN	52,257	52,257	interest rate	+/-3.00%	+/-1,568

4. Off-balance sheet liabilities

In connection with the modernization of the production line at the factory belonging to a subsidiary (development of the digital printing technology), a contract with an Italian supplier has been signed, under which future obligation to the purchase plant and equipment amounts to EUR 225 thousand as of the balance sheet date (see also Note [10]).

5. Sureties and guaranties (changes within the reporting period)

Due to the refinancing of the working capital loan by Ceramika Gres SA subsidiary (for details see section 7.2.1 in the consolidated report on the activities), Ceramika Nowa Gala SA and Ceramika Nowa Gala II Sp. z o.o. provided ING Bank Śląski SA with guarantees on behalf of Ceramika Gres SA up to the amount of PLN 21,000 thousand and PLN 10,000 thousand. At the same time, the analogous guarantees provided to Alior Bank SA expired.

No other guaranties concerning the companies in the Group were provided.