Consolidated annual financial statements of

Ceramika Nowa Gala SA Group

for the period from January 1, 2015 to December 31, 2015

Końskie, March 21, 2016

Introduction

Reporting entity

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

Ceramika Nowa Gala SA in the ultimate parent company in the group and is not controlled by any entity.
The data included in the financial statements has been rounded to the nearest thousand.

Composition of the managing and supervisory bodies

The composition of the managing and supervisory bodies of the Company has remained unchanged since 2014. The Supervisory Board of Ceramika Nowa Gala SA is composed of:

- 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:

- 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 in 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 two factories located in Końskie and in one factory located in the village of Kopaniny in the Końskie district. Part of tiles are polished or semi-polished. The Company produces also supplementary decorative elements sold within one joint offer.

The products are sold primarily via a network of wholesalers cooperating 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 drawn up, signed and published on **March 21, 2016**.

Management Board Chief Accountant

Consolidated statement of profit and loss and other comprehensive income

for the period from January 1, 2015 to December 31, 2015

Amounts in PLN thousand (PLN '000).

	Note	2015	2014
Revenues	[1]	**180,649**	**178,865**
Cost of sales	[1][2]	139,061	135,605
Gross profit on sales		**41,588**	**43,260**
Other income	[3]	1,527	1,309
Selling and administrative expenses	[2]	40,201	39,901
Other expenses	[4]	2,019	2,603
Profit before interest and tax		**895**	**2,065**
Finance income	[5]	214	1,086
Finance cost	[6]	1,472	2,589
Share in profits of associates and joint ventures		-	-
Profit from continued operations before tax		**-363**	**562**
Income tax expense	[7]	-715	-1,680
Profit from continued operations after tax		**352**	**2,242**
Profit from discontinued operations after tax		-	-
Profit for the year		**352**	**2,242**
Other comprehensive income that may not be transferred to the profit in the future			
None		-	-
Other comprehensive income that may be transferred to the profit in the future			
Exchange rate differences from translation	[5b]	-3	2
Total comprehensive income		**349**	**2,244**
Net profit attributable to			
shareholders of the parent company		**352**	**2,242**
non-controlling interests		-	-
		352	**2,242**
Total comprehensive income attributable to			
shareholders of the parent company		349	2,244
non-controlling interests		-	-
		349	**2,244**

	Unit	Note	2015	2014
Annualized profit/(loss)	PLN thousand		352	2,242
Weighted average number of shares	thousand		46,894	46,894
Basic earnings/(loss) per share from continued operations	PLN	[8]	0.007	0.05
Weighted average diluted number of shares	thousand		46,894	46,894
Diluted earnings/(loss) per share from continued operations	PLN	[8]	0.007	0.05

Consolidated statement of financial position

as at December 31, 2015

Amounts in PLN thousand (PLN '000).

Assets	Note	31.12.2015	31.12.2014
Non-current assets			
Goodwill	[9] [39]	18,851	18,851
Other intangible assets	[9]	3,904	4,614
Property, plant and equipment	[10]	101,904	109,595
Investment property	[23]	7,550	7,550
Other financial assets		145	145
Deferred tax assets	[11]	11,081	11,069
Total non-current assets		**143,435**	**151,824**
Current assets			
Inventory	[12]	84,938	86,457
Trade and other receivables	[13]	37,306	36,015
Receivables from current income tax		343	950
Other financial assets		-	-
Cash and cash equivalents	[14]	9,894	13,206
Other current assets		398	596
Total current assets		**132,879**	**137,224**
Assets classified as held for sale in accordance with IFRS 5		-	-
Total assets		**276,314**	**289,048**

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Consolidated statement of financial position (contd.)

Amounts in PLN thousand (PLN '000).

Equity and liabilities	Note	31.12.2015	31.12.2014
Equity			
Share capital	[15a]	46,894	46,894
Reserves	[15b]	125,274	131,770
Revaluation reserve	[15d]	-	-
Exchange rate differences from translation	[15h]	5	8
Other reserves	[15f]	8,719	8,719
Treasury shares	[15g]	-	-
Current portion of retained earnings	[15c]	15,437	13,278
Equity attributable to the shareholders of the parent company		**196,329**	**200,669**
Non-controlling interests	[15e]	-	-
Total equity		**196,329**	**200,669**
Non-current liabilities			
Borrowings	[16]	31,508	49,252
Provision for deferred income tax	[17]	6,090	6,796
Provision for employee benefits	[20]	24	24
Total non-current liabilities		**37,622**	**56,072**
Current liabilities			
Trade and other liabilities	[18]	26,360	18,714
Current tax liability		13	24
Borrowings	[16]	4,245	5,546
Other financial liabilities*	[16]	1,309	-
Provision for employee benefits	[20]	1,889	1,019
Other provisions	[19]	8,547	7,004
Total current liabilities		**42,363**	**32,307**
Liabilities associated with assets classified as held for sale in accordance with IFRS 5		-	-
Total liabilities		**79,985**	**88,379**
Total liabilities and equity		**276,314**	**299,062**
Book value (in PLN thousand)		196,329	200,669
Number of shares (in thousands)		46,894	46,894
Book value per share (in PLN)		4.19	4.28
Diluted number of shares (in thousands)		46,894	46,894
Diluted book value per share (in PLN)		4.19	4.28

*factoring agreement concluded by a subsidiary

Consolidated cash flow statement

for the period from January 1, 2015 to December 31, 2015

Amounts in PLN thousand (PLN '000).

	Note	2015	2014
Operating activities			
Net profit/(loss)		**352**	**2,242**
Amortization and depreciation		13,857	13,255
Interest revenues and expenses		1,126	2,468
Revenues and costs from exchange rate differences		374	-479
Gain on disposal of intangible and tangible non-current assets		261	220
Movement of provisions, write downs, prepayments and accruals		2,611	-137
Income tax expense		-715	-1,680
Other adjustments		4	2
Cash flow from operating activities before movements of working capital		**17,870**	**15,891**
Movement of inventory	[25a]	1,516	9,845
Movement of receivables	[25b]	-1,271	3,419
Movement of liabilities	[25c]	8,697	-10,884
Cash flow from operating activities before tax		**26,812**	**18,271**
Received interest from operating activities		30	1
Interest paid on operating activities		-4	-7
Income tax paid		-424	-142
Net cash flows from operating activities		**26,414**	**18,123**
Investing activities			
Proceeds from disposal of tangible and intangible non-current assets		96	120
Purchase of tangible and intangible non-current assets		-5,862	-7,109
Net cash from investing activities		**-5,766**	**-6,989**

(continued on the next page)

Consolidated cash flow statement (contd.)

Amounts in PLN thousand (PLN '000).

	Note	2015	2014
Financing activities			
Proceeds from borrowings		505	41,546
Inflows from other sources of funding (factoring agreement)		1,309	-
Dividends to shareholders of the parent company		-4,689	-3,751
Repayment of borrowings		-19,559	-34,792
Repayment of other sources of funding (factoring agreement)		-	-4,127
Interest paid pertaining to financing activities		-1,168	-2,463
Net cash flows from financing activities		**-23,602**	**-3,587**
Net cash flows from activity		**-2,954**	**7,547**
Cash and cash equivalents at the beginning of the period		9	5,120
Exchange rate differences		-358	539
Cash and cash equivalents at the end of the period		**9,894**	**13,206**
Structure of cash and cash equivalents:	[14]		
Cash available for use		7,878	13,156
Cash unavailable for use*		2,016	50
		9,894	**13,206**

* PLN 1,999 thousand pertains to cash held by Energia Park Trzemoszna Sp. z o.o.under a loan granted to this company by the Ceramika Nowa Gala II Sp. z o.o. subsidiary company (see section [29]).

Consolidated statement of changes in equity

for the period from January 1, 2015 to December 31, 2015

Amounts in PLN thousand (PLN '000).

	Attributable to the shareholders of the parent company								Non-controlling interests	Total equity
	Share capital	Reserves	Foreign exchange differences from translation	Reserve capital	Revaluation reserve	Treasury shares	Current portion of retained earnings	Total		
As at January 1, 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	-	-	-
Payment of dividends	-	-	-	-	-	-	-3,751	-3,751	,	-3,751
Redemption of treasury shares	-9,220	-15,157	-	-	-	24,377	-	-	-	-
As at December 31, 2014	**46,894**	**131,770**	**8**	**8,719**	**-**	**-**	**13,278**	**200,669**	**-**	**200,669**
As at January 1, 2015	**46,894**	**131,770**	**8**	**8,719**	**-**	**-**	**13,278**	**200,669**	**-**	**200,669**
Total comprehensive income*	-	-	-3	-	-	-	352	349	-	349
Coverage of loss from previous years	-	-2,284	-	-	-	-	2,284	-	-	-
Division of profit from previous years**	-	477	-	-	-	-	-477	-	-	-
Payment of dividends	-	-4,689	-	-	-	-	-	-4,689	-	-4,689
Redemption of treasury shares	-	-	-	-	-	-	-	-	-	-
As at December 31, 2015	**46,894**	**125,274**	**5**	**8,719**	**-**	**-**	**15,437**	**196,329**	**-**	**196,329**

*In 2015, the amounts of comprehensive income were allocated to the following equity items: net profit in the amount of PLN 352 thousand increased the amount of retained earnings, exchange rate differences from translation in the amount of PLN 3 thousand increased the relevant capital item. In 2014, the amounts of comprehensive income were allocated to the following equity items: net profit in the amount of PLN 2,242 thousand increased the amount of retained earnings, exchange rate differences from translation in the amount of PLN 2 thousand increased the relevant capital item.
**including the effects of consolidation

Financial highlights

Euro exchange rates used for translating the items in the following table:

- as regards balance sheet data, the average exchange rates of NBP were used: 4.2623 PLN/EUR as at December 31, 2014 and 4.2615 PLN/EUR as at at December 31, 2015;
- as regards data derived from the statement of comprehensive income and the cash flow statement, the following exchange rates, which constituted the arithmetic average of the NBP rates, prevailing on the last day of each month in the reporting period, were used: 4,1893 PLN/EUR in 2014; 4.1848 PLN/EUR in 2015. The average exchange rates of NBP for USD, used for translating the monetary items were as follows: 3.9011 PLN/USD as at December 31, 2015 and 3,5072 PLN/USD as at December 31, 2014.

Consolidated data	in PLN thousand		in EUR thousand	
	2015	2014	2015	2014
Revenue	180,649	178,865	43,168	42,696
Profit/(loss) from operating activities	895	2,065	214	493
Profit/(loss) before tax	-363	562	-87	134
Net profit/(loss)	352	2,242	84	535
Net cash flows from operating activities	26,414	18,123	6,312	4,326
Net cash flows from investing activities	-5,766	-6,989	-1,378	-1,668
Net cash flows from financing activities	-23,602	-3,587	-5,640	-856
Net cash flows (in total)*	-3,312	8,086	-791	1,930
Total assets	276,314	289,048	64,840	67,815
Liabilities and provisions for liabilities	79,985	88,379	18,769	20,735
Non-current liabilities	37,622	56,072	8,828	13,155
Current liabilities	42,363	32,307	9,941	7,580
Equity	196,329	200,669	46,070	47,080
Share capital	46,894	46,894	11,004	11,002
Number of shares	46,893,621	46,893,621	-	-
Profit/(loss) per share (in PLN/EUR)	0.01	0.05	-	0.01
Diluted profit/(loss) per share (in PLN/EUR)	0.01	0.05	-	0.01
Book value per share (in PLN/EUR)	4.19	4.28	0.98	1.00
Diluted book value per share (in PLN/EUR)	4.19	4.28	0.98	1.00
Declared or paid dividend per share (in PLN/EUR)	0.1	0.08	0.02	0.02

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

Accounting principles

Compliance with International Financial Reporting Standards

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

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

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

IFRS 9 "Financial Instruments"

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

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

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 changes 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 arising from contracts with customers, mandatory for all reporting units. Once effective, IFRS 15 will replace the guidance on revenue recognition defined in IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations. Under the new standard, the entity will recognize 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 specific aspects of revenue recognition. It also requires disclosure of a wide range of information.

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

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

IFRS 14 "Deferred balance of regulated activity"

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

The standard applies to annual periods beginning on January 1, 2016 or after that date. The standard has not been approved yet to be used in the European Union Member States.

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

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

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

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

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

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

The amendments provide guidance on the accounting treatment of acquisitions of interests in joint operations constituting a business as defined in IFRS 3 "Business Combinations".

The amendments apply to annual periods beginning on January 1, 2016 or after that date. They have been approved to be used in the European Union Member States.

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

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

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

The amendments apply to annual periods beginning on January 1, 2016 or after that date. They have been approved to be used in the European Union Member States.

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

Amendments to 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 are accounted for in accordance with IAS 41.

The amendments apply to annual periods beginning on January 1, 2016 or after that date. They have been approved to be used in the European Union Member States.

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

Amendments to IFRS 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 regards exemptions from the preparation of the consolidated financial statements).

The amendments apply to annual periods beginning on January 1, 2016 or after that date. They have not been approved to be used in the European Union Member States.

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

Amendments to 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 apply to annual periods beginning on January 1, 2016 or after that date. They have been approved to be used in the European Union Member States.

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

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

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

The amendments apply to annual periods beginning on January 1, 2016 or after that date. They have been approved to be used in the European Union Member States.

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

Amendments to IFRSs (2012-2014 series)

The series of annual amendments to IFRSs adopted in 2012-2014 includes a number of modifications to: IFRS 5, IFRS 7, IAS 19 and IAS 34.

The amendments apply to annual periods beginning on January 1, 2016 or after that date. They have been approved to be used in the European Union Member States.

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

Functional currency

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

Measurement basis

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

Going concern principle

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

The structure of the Group and consolidation principles

The Ceramika Nowa Gala Group is composed of the following business entities:

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

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

Furthermore, Ceramika Nowa Gala SA has a significant impact on its two associated companies: Energo-Gaz Sp. z o.o. based in Końskie (50% share) and Ceramika Nova Sp. z o.o. based in Końskie (50% share). Shares in the aforementioned associated companies were recognized in these consolidated financial statements at acquisition cost, less a possible write-down for impairment. The carrying amount of the shares in Energo-Gaz Sp. z o.o. is PLN 31 thousand, and the share of Ceramika Nowa Gala SA in its equity amounted, as at December 31, 2015, to PLN 319 thousand. Financial data of this company for 2015, determined in accordance with Polish accounting standards, is as follows: assets: PLN 751 thousand, provisions and liabilities: PLN 113 thousand, revenue: PLN 1,945 thousand, net profit for 2015: PLN 85 thousand. 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 SA and an entity not related to it – joint ownership). The carrying amount of a 50% stake in Ceramica Nova Sp. z o.o., amounting to PLN 2 thousand, is written down in 100% for impairment, and the company has never commenced any operations and holds no assets.

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

Transactions in foreign currencies

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

Borrowing costs

In accordance with IAS 23, borrowing costs attributable directly to the acquisition, construction or production cost of an asset which requires a long time to be made suitable for use, incurred during this period, increase the initial value of this asset. 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 revenue affecting the initial value of assets do not include exchange rate differences.

Segment reporting

The organizational structure of the Group is a functional one. Four key areas can be distinguished: sales, production, finance, administration and logistics. Each of the persons responsible for these areas reports directly to the Management Board. 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 which are sold under two brands: Nowa Gala and Ceramika Gres. The sales policy is determined jointly for the whole Group. In accordance with the requirements of IFRS 8, only one operating segment has been distinguished. The CNG Luxembourg S.à.r.l. subsidiary does not own fixed assets and does not manufacture goods or conduct trade operations. Therefore, there are no significant assets located outside the territory of the country in which the parent company is established.

Property, plant and equipment

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 at the balance sheet date at acquisition or manufacturing cost less accumulated depreciation and impairment write-downs.

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

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

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

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

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

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

- land in perpetual usufruct from 60 to 95 years;
- buildings from 10 to 34 years;
- plant and equipment from 2 to 34 years;
- other tangible fixed assets from 1 to 23 years.

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

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

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

Non-current assets classified as held for sale

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

Intangible assets

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

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

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

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

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

- computer software from 3 to 14 years.

Impairment of tangible non-current assets and intangible assets

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

Goodwill and intangible assets acquired as a result of a takeover

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

Investments in real property

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

Inventory

Inventories of purchased goods are measured as at 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 at 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 acquisition cost was 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 their purchase. The value of the inventory of these materials is not recognized in the balance sheet.

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

Work in progress and finished goods are measured at their standard technical cost including direct costs and a suitable portion of indirect costs, determined under assumption of normal production capacity utilization. The standard cost includes also normal levels of waste and the value of by-products, determined based on a realizable selling price. Deviations from the standard cost (e.g. ones due to non-utilization of production capacity) are posted directly to profit or loss 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 manufacture of finished and semi-finished products do not include selling, general and administrative expenses or borrowing costs. Those expenses are charged directly to profit or loss for the period.

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

Provisions

Provisions are created when the Group has a present obligation (legal or 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 over time has a significant impact on the amount of the provision, its amount is determined by discounting the expected future cash flows to their present value using a gross discount rate that reflects the current market cost of money and the possible risks specific to a given liability. Where the provision was measured taking into account discounting, an adjustment to the provision, associated with the change to the discount, is recognized in the income statement as an adjustment to interest.

Lease

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

Post-employment benefit plan

The companies of the Group do not operate a pension scheme or long-term service awards. In accordance with the 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 Group does not hold nor has issued any derivative financial instruments.

Other financial instruments

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

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

Cash and cash equivalents

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

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

Trade receivables and other receivables

On account of its operating activities, the Group holds trade receivables and other receivables whose maturity period is usually from 60 to 90 days, 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 write-downs 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 relating to two of them is provided in the description of the Group, while the third one is a contractor whose shares have been received upon conversion of debt into shares). These interests are measured at acquisition cost.

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

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

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

Interest-bearing loans and borrowings

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

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

Trade and other liabilities

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

Equity instruments

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

Revenue

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

Revenue from 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 taking into account their progress.

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

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

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

Income tax

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

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

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

- deferred income tax assets arise from the initial recognition of an asset or liability in a transaction other than a business combination, where at the time of its recognition they do not affect gross profit or loss, taxable profit or tax loss or net assets;
- in the case of deductible temporary differences associated with investments in subsidiaries or associates as well as interests in joint ventures, deferred income

tax assets are recognized in the statement of financial position only to the extent that it is probable that the above-mentioned differences will be reversed in the foreseeable future and sufficient taxable income will be generated to deduct from it the deductible temporary differences.

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

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

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

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

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

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

Notes to the consolidated financial statements

[1] The structure of sales revenue and expenses

Amounts in PLN thousand (PLN '000).

	Revenue		Expenses		Sales result before tax	
	2015	2014	2015	2014	2015	2014
Products and semi-products	178,676	176,218	137,356	133,620	41,320	42,598
Goods	1,221	1,388	1,093	828	128	560
Raw materials and other materials	439	261	344	192	95	69
Other sales (services)	313	998	268	965	45	33
	180,649	**178,865**	**139,061**	**135,605**	**41,588**	**43,260**

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

[2] Operating expenses

[2a] Costs by type

Amounts in PLN thousand (PLN '000).

	2015	2014
Raw materials and other materials	66,978	65,046
Gas and electricity	37,732	36,448
Purchased goods and semi-products	953	1,855
Amortization and depreciation	13,857	13,255
Payroll with fringe benefits	31,142	30,055
Third-party services*	16,863	17,408
Representation and advertising	3,411	3,405
Taxes and fees	2,142	2,355
Other	1,598	1,799
	174,676	**171,626**
<u>of which:</u>		
Cost of products and goods sold**	138,717	135,413
Selling and administrative expenses	40,201	39,901
Movement of inventories and prepayments and accruals	-4,242	-3,688
	174,676	**171,626**

*expenses under lease agreements classified as operating leases, included in third-party services, amounted to: PLN 3,637 thousand in 2015 and PLN 3,072 thousand in 2014.
**includes the cost of products and semi-products, goods, as well as other sales expenses. The figure does not, however, include the cost of sold raw materials (Note[1]).

[2b] Payroll along with fringe benefits

Amounts in PLN thousand (PLN '000).

	2015	2014
Current salaries	24,537	24,552
Social security contributions paid by the employer and other employee benefits	5,752	5,614
	30,289	**30,166**
Movement of the provision for holiday pay (Note [20])	197	-28
Movement of the provision for bonuses	656	-83
	31,142	**30,055**

[3] Other operating income

Amounts in PLN thousand (PLN '000).

	2015	2014
Reimbursement of litigation expenses	20	15
Past due liabilities	11	-
Damages received	367	124
Rental income from investment property	1,122	1,123
Other	7	47
	1,527	**1,309**

[4] Other operating expenses

Amounts in PLN thousand (PLN '000).

	2015	2014
Loss on disposal of property, plant and equipment	113	359
Write-downs on receivables	155	378
Donations	3	14
Litigation expenses	16	65
Damages	1	4
Expenses caused by force majeure events	19	115
Discontinuation of products	603	554
Revaluation write-down of inventories	329	130
Expenses due to inventory differences	343	465
Costs of maintenance of investment property	422	474
Other	15	45
	2,019	**2,603**

[5] Financial income

Amounts in PLN thousand (PLN '000).

	2015	2014
Interest received	105	125
Gain on exchange rate differences	109	961
	214	**1,086**

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

Amounts in PLN thousand (PLN '000).

	2015	2014
Exchange rate differences recognized in financial income	109	961
Exchange rate differences recognized in financial expenses	-	-
	109	**961**

[5b] Exchange rate differences recognized in equity

The change in the amount of exchange differences on translation of the financial statements of CNG Luxembourg S.à.rl was PLN -3 thousand.

[6] Financial expenses

Amounts in PLN thousand (PLN '000).

	2015	2014
Interest	1,175	2,194
Other financial expenses	297	395
	1,472	**2,589**

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

Amounts in PLN thousand (PLN '000).

	2015	2014
Direct finance costs increasing the value of assets	78	56

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

[7] Income tax

Amounts in PLN thousand (PLN '000).

	2015	2014
Deferred income tax on:		
- deductible tax losses	-377	-1,013
- difference between book depreciation and tax depreciation	-607	-691
- movements of provisions and write-downs	231	-230
- taxable inter-Group profits	244	-43
- write-downs on current assets	-179	-
- other	-28	28
	-716	**-1,949**
Current income tax	1	269
Tax amount recognized in equity	-	-
	-715	**-1,680**

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

Amounts in PLN thousand (PLN '000).

	2015	2014
Profit before tax	-363	562
Ongoing operating expenses which are permanently non-deductible	2,594	2,213
Tax income carried forward	-321	-
Income exempt from tax (special economic zone)	-10,981	-11,944
Other permanent differences related to carrying out business within a special economic zone	5,633	-
Other permanent differences	-326	328
	-3,763	**-8,841**
Tax rate	19%	19%
Income tax recognized in the income statement	**-715**	**-1,680**

[8] Basic and diluted earnings per share

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

	Unit	2015	2014
Annualized profit/(loss)	PLN thousand	352	2,242
Weighted average number of shares	thousand	46,894	46,894
Basic earnings/(loss) per share from continued operations	PLN	0.01	0.05
Weighted average diluted number of shares	thousand	46,894	46,894
Diluted earnings/(loss) per share from continued operations	PLN	0.01	0.05

[9] Intangible assets

Amounts in PLN thousand (PLN '000).

	Computer software	Other	Goodwill	Total
Net value as at January 1, 2014	**322**	**4,631**	**18,851**	**23,804**
Additions due to acquisition	370	-	-	370
Sale or withdrawal from use	-	-	-	-
Amortization for the period*	-131	-578	-	-709
Net value as at December 31, 2014	**561**	**4,053**	**18,851**	**23,465**
Net value as at January 1, 2015	**561**	**4,053**	**18,851**	**23,465**
Additions due to acquisition	13	-	-	13
Sale or withdrawal from use	-8	-	-	-8
Change in accumulated depreciation due to sale or withdrawal from use	8	-	-	8
Amortization for the period*	-146	-578	-	-724
Net value as at December 31, 2015	**428**	**3,475**	**18,851**	**22,754**
of which:				,
at acquisition/manufacturing cost	428	3,475	18,851	22,754
at a revalued amount	-	-	-	-
As at December 31, 2014				,
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**
As at December 31, 2015				
Gross value	3,279	10,811	18,851	32,941
Accumulated depreciation and impairment	2,851	7,336	-	10,187
Net value	**428**	**3,475**	**18,851**	**22,754**
Amount of pledges and mortgages used as collateral for loans	-	-	-	-
Contractual commitments to acquire intangible assets	-	-	-	-

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

[10] Property, plant and equipment

Amounts in PLN thousand (PLN '000).

	Land and buildings	Plant and equipment	Fixed assets under constructi on	Other	Total
Net value as at January 1, 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	-	-	-

	Land and buildings	Plant and equipment	Fixed assets under constructi on	Other	Total
Net value as at December 31, 2014	**41,904**	**57,619**	**7,613**	**2,459**	**109,595**
of which:					
at acquisition/manufacturing cost	41,904	57,619	7,613	2,459	109,595
at a revalued amount	-	-	-	-	-
Net value as at January 1, 2015	**41,904**	**57,619**	**7,613**	**2,459**	**109,595**
Additions	-	9,078	5,776	785	15,639
Sale or withdrawal from use	-	-2,526	-	-373	-2,899
Change in accumulated depreciation due to sale or withdrawal from use	-	2,178	-	274	2,452
Depreciation for the period	-2,981	-9,270	-	-882	-13,133
Initial measurement of fixed assets	-	-	-9,750	-	-9,750
Other movements (reclassifications)	-	39	-	-39	-
Net value as at December 31, 2015	**38,923**	**57,118**	**3,639**	**2,459**	**101,904**
of which:					
at acquisition/manufacturing cost	38,923	57,118	3,639	2,459	101,904
at a revalued amount	-	-	-	-	-
Gross value and accumulated depreciation					
As at December 31, 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 held for sale	-	-	-	-	-
Other tangible fixed assets	41,904	57,619	7,613	2,459	109,595
As at December 31, 2015					
Gross value	66,046	178,030	3,639	6,838	254,553
Accumulated depreciation and impairment	27,123	120,912	-	4,614	152,649
Net value	**38,923**	**57,118**	**3,639**	**2,224**	**101,904**
of which:					
Fixed assets classified as held for sale	-	-	-	-	-
Other tangible fixed assets	38,923	57,118	3,639	2,459	101,904
Additional information					
Amount of pledges and mortgages used as collateral for loans	88,700	29,752	-	-	118,452
Contractual commitments to acquire fixed assets	-	882	-	-	882

*Preserving the value of part of ongoing investments was conditioned by launching the construction process within three years following the receipt of the building period. This condition was met after the balance sheet date, in February 2016.

[11] Income tax assets

Amounts in PLN thousand (PLN '000).

	31.12.2015	31.12.2014
Income tax assets arising from:		
- deductible tax losses	2,844	2,467
- difference between book depreciation and tax depreciation	672	672
- created provisions and write-offs	5,828	5,899
- taxable intra-group profits	1,104	1,348
- depreciation of plant and equipment	633	683
	11,081	**11,069**

[12] Inventories

[12a] Inventory structure

Amounts in PLN thousand (PLN '000).

	31.12.2015	31.12.2014
Products and semi-products	61,111	64,842
Goods	656	706
Raw materials and other materials	22,585	20,497
Other	586	412
	84,938	**86,457**
Total amount of allowance on inventories	-1,937	-1,650
Value of inventories pledged as collateral for liabilities	29,500	29,500

[12b] Additional information

Amounts in PLN thousand (PLN '000).

	2015	2014
Cost of inventories sold	138,793	134,640
Inventories written off as expenses	637	700
Reversal of write-offs posted to income	-295	-16
	139,135	**135,324**

[13] Trade receivables and other receivables

[13a] Receivables structure

Amounts in PLN thousand (PLN '000).

	31.12.2015	31.12.2014
Trade receivables	35,391	34,300
Other receivables	1,915	1,715
	37,306	**36,015**
Receivables due	3,309	5,279
Receivables with deferred payment	33,997	30,736
	37,306	**36,015**
Receivables in PLN	32,174	29,043
Receivables in EUR	3,409	3,389
Receivables in USD	1,723	3,583
	37,306	**36,015**
Write-down of receivables	8,484	7,895
Receivables used as collateral for loans	3,910	1,799

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

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

Amounts in PLN thousand (PLN '000).

	2015	2014
Opening balance	**7,897**	**8,203**
Write-downs posted to operating expenses	251	339
Reversal of write-downs posted to operating income	-94	-
Write-downs used	-30	-1,145
Change in measurement due to foreign exchange differences	461	498
Closing balance	**8,484**	**7,895**

[13c] Age structure of receivables

Amounts in PLN thousand (PLN '000).

As at	Gross receivables	Write-downs of receivables	Net receivables	Receivables paid on time	Overdue receivables				
					up to 3 months	from 3 to 6 months	from 6 to 12 months	over 12 months	Total
31.12.2015	45,790	8,484	37,306	33,997	3,309	-	-	-	3,309
31.12.2014	43,910	7,895	36,015	30,736	4,760	50	-	469	5,279

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

[15b] 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 under 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 revaluation of real property. The value of the reserves was also affected by a share buyback carried out by the Company. The reserves accounted also 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, gains or losses from previous years that have not been distributed by way of a resolution of the general shareholders' meeting of the companies of the Group. In the consolidated financial statements, retained gains and losses from previous years include also (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 was recognized in the capital reserve.

[15e] Non-controlling interests

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

[15f] Reserve capital

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

[15g] Treasury shares

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

[15h] Exchange rate differences from translation

This item accounts for the effects of translation of the financial statements of the CNG Luxembourg S.à.rl 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 this subsidiary, while the items presented in the consolidated financial statements are denominated in the Polish zloty.

[16] Loans, borrowings and debt instruments

Amounts in PLN thousand (PLN '000).

Financing institution	Currency	Effective interest rate	Deadline for repayment	Debt 31.12.15	Debt 31.12.14	Collaterals	Notes
mBank SA	PLN thousand	WIBOR 1M +0.65%	29.06.2017	4,040	4,360	Registered pledge on finished products, blank promissory note; assignment of rights under the insurance policy; pledge on fixed assets	Working capital loan
mBank SA	PLN thousand	WIBOR O/N + 1.15%	31.12.2016	-	-	Global assignment of receivables, blank promissory note, pledge on two production lines	Overdraft facility
mBank SA	EUR	EURIBOR 1M +1.42%	04.03.2016	112	730	Blank promissory note, registered pledge on purchased plant and equipment	Investment loan
mBank SA	EUR	EURIBOR 1M +1.8%	25.01.2019	2,330	1,811	Blank promissory note, registered pledge on purchased plant and equipment	Investment loan
Bank Pekao SA	PLN thousand	WIBOR 1M +0.7%	30.09.2016	3,376	7,212	Capped mortgage on real property belonging to the Company and on property belonging to its subsidiary, along with the assignment of rights under the insurance policy, representations of Ceramika Nowa Gala SA and Ceramika Nowa Gala II Sp. z o.o. of submission to enforcement, a power of attorney granted to the bank with respect to the bank account	Overdraft facility
Bank Handlowy w Warszawie SA	PLN thousand	WIBOR,3M,+ 0.9%	22.04.2016	-	5,008	Registered pledge on finished products and assignment of rights under the insurance policy	Working capital loan
ING Bank Śląski SA	PLN thousand	WIBOR,1M,+ 0.9%	31.08.2017	25,894	35,677	Surety under civil law: for Ceramika Nowa Gala II Sp. z o.o. of up to PLN 10,000 thousand, Ceramika Nowa Gala SA of up to PLN 21,000 thousand, mortgage of up to PLN 69,000 thousand, assignment of rights under the insurance policy concerning real property, registered pledge on finished products of PLN 15,000 thousand along with the assignment of rights under the insurance policy, registered pledge on fixed assets of PLN 9,500 thousand along with the assignment of rights under the insurance policy	Overdraft facility
Closing balance				**35,752**	**54,798**		
of which:							
short-term loans				4,245	5,546		
long-term loans				31,508	49,252		
factoring of the subsidiary				1,309	-		

Each bank loan can be repaid at an earlier date. The banks have the right to demand earlier repayment of the loans, increase the margins and demand additional collaterals in the event of a breach by a company of the Group of the material terms and 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 at the balance sheet date. Despite the failure to comply with the above-mentioned conditions, the bank, in accordance with the letter of March 25, 2016, does not intend to terminate the loan agreements.

The Company believes that all the loans that need to be renewed in the next 12 months will be renewed, as was the case in earlier periods, but it does not rule out, however, changing the financing bank.

[17] Provision for deferred income tax

Amounts in PLN thousand (PLN '000).

	31.12.2015	31.12.2014
Provision for deferred income tax in respect of:		
- difference between book depreciation and tax depreciation	5,257	5,914
- interest	362	391
- measurement of investment property	294	294
- other	177	197
	6,090	**6,796**

[18] Trade and other liabilities

Amounts in PLN thousand (PLN '000).

	31.12.2015	31.12.2014
Trade liabilities	19,267	12 030
Other liabilities	7,093	6 684
	26,360	**18 714**
Liabilities due	7,519	5 706
Liabilities with deferred payment	18,841	13 008
	26,360	**18 714**
Liabilities in PLN	17,179	14 233
Liabilities in EUR	8,445	3 930
Liabilities in USD	736	551
	26,360	**18 714**

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

[19] Other provisions

Amounts in PLN thousand (PLN '000).

	Costs	Bonuses for customers	Other	Total
As at January 1, 2015	**205**	**6,756**	**43**	**7,004**
Created	419	12,078	263	12,760
Utilized	-74	-11,143	-	-11,217
Reversed	-	-	-	-
As at December 31, 2015	**550**	**6,691**	**306**	**8,547**

[20] Provisions for employee benefits

Amounts in PLN thousand (PLN '000).

	Holiday pay and other	Annual bonuses	Total
As at January 1, 2015	**943**	**100**	**1,043**
Created	524	1,256	1,780
Utilized	-310	-600	-910
Reversed	-	-	-
As at December 31, 2015	**1,157**	**756**	**1,913**
short-term	1,133	756	1,889
long-term	24	-	24

[21] Information on business segments

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

[21a] Information on geographic segments

Amounts in PLN thousand (PLN '000).

	Domestic		Exports		Total	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Revenue	151,735	146,638	28,914	32,227	180,649	178,865
Cost of sales	103,982	99,342	20,564	23,482	124,546	122,824
Sales result	**47,753**	**47,296**	**8,350**	**8,745**	**56,103**	**56,041**
Unallocated costs					14,515	12,781
Sales result before tax					**41,588**	**43,260**
	31.12.15	**31.12.14**	**31.12.15**	**31.12.14**	**31.12.15**	**31.12.14**
Assets:						
Trade receivables	30,325	28,099	5,248	5,923	35,573	34,022
Other receivables (unallocated)					1,733	1,993
					37,306	**36,015**

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

[21b] Information on product segments

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

Amounts in PLN thousand (PLN '000).

	Ceramic products		Other sales		Total	
	2015	2014	2015	2014	2015	2014
Revenue from sales to external customers	179,960	177,673	689	1,192	180,649	178,865
Purchase of fixed assets	9,737	8,048	-	-	9,737	8,048

[21c] Information on significant customers

Within 2015, sales to none of the customers of the Group exceeded 10% of consolidated revenue.

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

[22a] Trade transactions with related parties

Amounts in PLN thousand (PLN '000).

	Sales (net)		Purchases (net)		Receivables from related parties		Liabilities payable to related parties	
	2015	2014	2015	2014	2015	2014	2015	2014
Subsidiaries	32,483	30,823	48,156	54,816	6,255	2,823	5,649	10,386
Associates	-	-	520	603	-	-	29	3
	32,483	**30,823**	**48,676**	**55,419**	**6,255**	**2,823**	**5,678**	**10,389**

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

[22b] Other transactions with related parties

Amounts in PLN thousand (PLN '000).

	Parent company		Subsidiaries		Associates		Members of the Management Board, Supervisory Board and the proxy	
	2015	2014	2015	2014	2015	2014	2015	2014
Acquisition of treasury shares from related parties without compensation (number of shares)			-	8,983,608				
Taking up/purchase of shares in related parties and contributions*	-	-	-	834	-	-	-	-
Revaluation write-down of shares in associates*			-755	-23,839				
Dividends received**	-	-	16,010	11,243				
Interest paid/accrued with respect to related parties	-	-	208	243	-	-	-	-
Interest paid by related parties	-	-	360	-				
Loans repaid by related parties			-	491				
Loans granted to related parties	-	-	-	252	-	-	-	-
Off-balance sheet items								
Sureties granted	-	-	21,000	21,000	-	-	-	-
Expiration of granted sureties	-	-	-21,000	-21,000	-	-	-	-

*refers to shares taken up in the CNG Luxembourg S.à.r.l. subsidiary
**dividends from subsidiary companies: Ceramika Nowa Gala II Sp. z o.o. and Ceramika Gres SA

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	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Shares in CNG held by related parties (number of shares)	-	-	-	-	11,170,396	11,170,396
Loans granted to related parties	2,107	2,107	-	-	-	-
Accrued interest on loans granted	2,018	2,018	-	-	-	-
Receivables from dividend payment	12,870	11,243	-	-	-	-
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 include the accounts arising from trade transactions referred to in [22a]. No provisions for bad debts were 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	
	2015	2014	2015	2014	2015	2014	2015	2014
Ceramika Nowa Gala II Sp. z o.o.	15,500	15,500	9	9	-	-	15,509	15,509
Ceramika Gres SA	57,838	57,838	613	613	-	-	58,451	58,451
CNG Luxembourg S.à.r.l.	24,721	24,721	-	-	24,594	23,839	127	882
Loan granted to Ceramika Nowa Gala II Sp. z o.o.	2,000	2,000	1,857	2,017	-	-	3,857	4,017
Loan granted to CNG Luxembourg S.à.r.l.	107	107	9	-	-	-	116	107
Subsidiaries (total)	**100,166**	**100,166**	**2,488**	**2,639**	**24,594**	**-23,839**	**78,060**	**78,966**
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	
	2015	2014	2015	2014
Salaries and other current benefits (paid)	1,609	1,604	296	258
Future payments in shares	-	-	-	-
Movement of provisions	606	-	-	-
Charge on profit for the period	**2,215**	**1,604**	**296**	**258**

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, 2015	**-**	**-**	**7,550**	**7,550**
Increase in fair value	-	-	-	-
Decrease in fair value	-	-	-	-
Movements between the levels	-	-	-	-
As at December 31, 2015	**-**	**-**	**7,550**	**7,550**

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

In accordance with the adopted accounting principles, the value of the investment real property owned by Ceramika Nowa Gala II Sp. z o.o. is recognized at the fair value determined by a property appraiser. Any expenditure on improvement of such property increases its carrying value, which at the end of the year is adjusted to the current value measured by a certified property appraiser. Since December 2010 to December 2015, the investment real property in question was partially leased to a third party. In 2015, revenue from lease of this property amounted to PLN 1,122 thousand. Its maintenance costs in the same year amounted to PLN 422 thousand. To determine its fair value, the income approach was used, in accordance with which the value of the real property was determined taking into account the income generated from it by then and a prudent estimate of the income that could be generated once the lease agreement expired while adopting a market approach, taking into account the sale prices of similar real property, that could be obtained on the local market. Given the current technical condition of the administrative and staff welfare part, the applied cash flow model accounted for expenditure on renovation necessary to make it suitable for lease. Thus lease of this real property was deemed to be the most advantageous way of using it. The basic inputs to the model were as follows:

- the leasable area and the rent per sq. m., separately for the storage space and for the administrative and staff welfare space. The leasable area has been specified in the technical documentation of the buildings, while the rent has been determined based on an analysis of rent rates in the local property rental market, adjusted for the estimated leasable area ratio;
- estimated real property maintenance costs per sq. m., based on the actually incurred costs;
- the cost of renovation of the administrative and staff welfare space, based on the estimated costs of the works required to be performed;
- the discount rate, accounting for the risks related to investing in rental of real property, based on the knowledge and experience of property appraisers. The average rate of 8.8% was adopted.

The fair value determined using the method described as at December 32, 2015 amounted finally to PLN 7,510 thousand. Due to the immateriality of the difference between this value and the carrying amount, no adjustment to the consolidated financial statements was made.

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

[25a] Inventory

Amounts in PLN thousand (PLN '000).

	2015	2014
Balance sheet movement of inventories	**1,519**	**9,845**
Other adjustments	-3	-
Movement of inventories in the cash flow statement	**1,516**	**9,845**

[25b] Trade receivables and other receivables

Amounts in PLN thousand (PLN '000).

	2015	2014
Balance sheet movement of trade receivables and other receivables	**-1,291**	**3,429**
Movement of receivables from sale of fixed assets	20	-10
Movement of receivables in the cash flow statement	**-1,271**	**3,419**

[25c] Trade and other liabilities

Amounts in PLN thousand (PLN '000).

	2015	2014
Balance sheet movement of trade and other liabilities	**7,646**	**-10,279**
Tax offset	1,020	-
Movement of investment liabilities	31	-605
Movement of liabilities in the cash flow statement	**8,697**	**-10,884**

[26] Payment of dividend

In accordance with a resolution adopted by the General Shareholders' Meeting on June 17, 2015, on September 11, 2015, the Company paid a dividend in the amount of PLN 4,689,362.10. The dividend was paid from the reserves (accumulated profits from the previous years). One share was equal to PLN 0.10 of the dividend.

[27] Declared dividend

As at the date of publication of this report, no dividend to be paid from the profit for 2015 was declared. The Group's development strategy for 2014-2016 assumes that at least 30% of the consolidated net profit of the Group will be allocated annually for dividend, but no more, however, than PLN 0.1 per share.

[28] Conclusion of agreements on purchase of fuel gas between the companies of the Group and PGNiG Obrót Detaliczny Sp. z o.o.

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

- the agreement was concluded by the Ceramika Gres SA subsidiary;
- the price to be paid by the subsidiary for received fuel gas depended on the prevailing tariff;
- the debtor's consent for voluntary submission to enforcement of up PLN 2,500 thousand was used as a performance bond;
- should the actual annual purchase of fuel gas be lower than the minimum amount specified in the agreement, the subsidiary would be required to pay the

seller liquidated damages in the amount of 75% of the price for uncollected fuel gas;
- the agreement was concluded for an indefinite time;
- the Polish zloty was the currency of the agreement;
- the value of purchases made under the agreement within 5 years was estimated at approx. PLN 58,137 thousand.

In August, a decision to change the gas supplier was made and all the companies of the Group signed new comprehensive agreements on the purchase and distribution of gas. The new supplier was authorized to terminate the agreements concluded with PGNiG (for details see section 13). As a result, the Group did not purchase gas from PGNiG for the estimated amounts. No company of the Group has been – and will not be in the future – charged with liquidated damages for termination of these agreements.

[29] Loan granted to a subsidiary company

On May 7, 2015, the Ceramika Nowa Gala II Sp. z o.o. subsidiary granted a loan in the amount of PLN 2,000 thousand to Energia Park Trzemoszna Sp. z o.o. The loan is intended to finance the business activity, among others, to ensure funds in connection with applying to the President of the ERO for a licence to trade in gas.

[30] Licence to trade in fuel gas granted to a subsidiary

On August 7, 2015, by way of a decision of the President of the ERO, Energia Park Trzemoszna Sp. z o.o. was granted a licence to trade in fuel gas valid for the period from August 2, 2015 to December 31, 2030. The Group intends to use this licence to purchase gas in the future for the own use of the companies of the Group. In order to begin actual activity under the above-mentioned licence, it was required to obtain a tariff for trade in gaseous fuel approved by the President of the ERO and sign agreements with a Distribution System Operator and a Transmission System Operator. These requirements were met after the balance sheet date in Q1 2016.

[31] Change of the gas supplier for the companies of the Group

On August 26, 2015, Ceramika Nowa Gala SA and its subsidiaries: Ceramika Gres SA and Ceramika Nowa Gala II Sp. z o.o., signed agreements with RWE Polska SA based in Warsaw, which govern the purchase terms and conditions to fully satisfy the demand for natural gas of the companies mentioned above.

All the above-mentioned agreements were concluded for a fixed term until December 31, 2016, and their total value until their expiry has been estimated at PLN 30,100 thousand.

The most important details concerning the agreement of the highest value, concluded by the parent company, i.e. Ceramika Nowa Gala SA, are as follows:
- the price to be paid for gaseous fuel will be calculated based on GAS_BASE contracts traded on the Commodity Derivatives Market and the POLPX-gas price index used on the Polish Power Exchange (TGE) and will be increased by the seller's margin. In case of significant discrepancies between the actual gas consumption and the projected one, the actual purchase price may be further adjusted;
- besides the gas fuel price the Company is required to pay to the seller charges for distribution according to the current tariff of the Distribution System Operator;
- under the agreements, the seller has received the Company's authorization to carry out the process of changing the existing supplier and notify this change in accordance with the terms of the "Instruction on the Distribution Network Operation and Use" developed by the Distribution System Operator;
- each party to the agreement has the right to terminate it in writing with a 3-month notice period, but should it be the case, the party which has terminated the agreement shall be obliged to pay liquidated damages. Liquidated damages will be calculated based on the difference between the ordered quantity of gas and that actually purchased during the agreement period, multiplied by the difference

between the actual price of gas purchased during the agreement period and the weighted average daily price of the purchase or sale of gas fuel specified by the GAZ-SYSTEM Transmission System Operator on the effective date of termination of the agreement, adjusted for a factor specified therein;
- the estimated value of the agreement over its duration is PLN 13,300 thousand.

[32] Events after the balance sheet date

[32a] Annex to the agreement providing for a loan to a subsidiary company

On February 8, 2016, Ceramika Nowa Gala SA signed an annex under which the loan granted to the CNG Luxembourg S.à.r.l. subsidiary was increased by EUR 20 thousand. On December 30, 2015, the deadline for its repayment was postponed till December 31, 2016. The amount of the loan granted to the subsidiary (without accrued interest) is currently EUR 45 thousand.

[32b] Gas trading tariff

Under the Decision of the President of the ERO of January 29, 2016, Energia Park Trzemoszna Sp. z o.o. of the Group was assigned an approved tariff for trading in gas. The tariff procedure was carried out at the request of this company. On August 7, 2015, the President of the ERO granted a license for trading in fuel gas valid from August 2, 2015 to December 31, 2030 (for more details see section 30). The company also signed agreements with the Distribution System Operator (in February 2016) and the Transmission System Operator (in March 2016).

[33] Capital management

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

Amounts in PLN thousand (PLN '000).

	31.12.2015	31.12.2014
Non-current assets	143,435	151,824
Net current assets	90,516	104,917
Total capital invested	**233,951**	**256,741**
Total net debt arising from loans and borrowings*	27,168	41,592
Debt ratio	**0,12**	**0,16**
	2015	**2014**
Profit from operating activities	895	2,065
Depreciation and amortization	13,857	13,255
EBITDA	14,752	15,320
Interest	1,175	2,194
EBITDA-to-interest coverage ratio	**12,55**	**6,98**

*The item includes also financial liabilities under factoring.

By controlling the level of the current assets and limited investment in non-current assets it was possible, in spite of the payment of dividends in 2015, to significantly reduce the net debt, which has a positive effect on the debt ratio. Despite a decrease in EBITDA (which was largely due to lower operating profit), a decreased debt and a decrease in interest rates resulted in a significantly higher interest coverage ratio. The values of both ratios remain at a safe level.

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

[34] Offsetting the dividend from Ceramika Nowa Gala II Sp. z o.o. (a subsidiary)

In accordance with the resolution of the general meeting of shareholders of Ceramika Nowa Gala II Sp. z o.o., the profit of this subsidiary for 2013 in the amount of PLN 11,242,827.77 was allocated in 2014 in full for the payment of a dividend to its sole shareholder, Ceramika Nowa Gala SA. The dividend was offset with other accounts in February 2015.

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

[35] Resolutions adopted by the subsidiaries as regards the payment of dividend to Ceramika Nowa Gala SA

On June 17, 2015, the annual meeting of shareholders of Ceramika Nowa Gala II Sp. z o.o. subsidiary resolved that the net profit of that company for 2014 in the amount of PLN 10,516,237.60 would be allocated for the payment of a dividend to the parent company, i.e. Ceramika Nowa Gala SA. The dividend was paid on the dates specified in the resolution (part of it was used to offset mutual accounts).

Furthermore, on June 16, 2015, the annual meeting of shareholders of Ceramika Gres SA resolved that part of the net profit of this company for 2014 in the amount of PLN 5,493,982.98 would be allocated for the payment of a dividend to the parent company, i.e. Ceramika Nowa Gala SA. The dividend was paid on the dates specified in the resolution (part of it was used to offset mutual accounts).

[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 2015 was carried out under an agreement concluded on July 1, 2015. The agreement concerns audit of the separate financial statements of the Company for 2015, the consolidated financial statements of the Company for 2015, a review of the interim separate financial statements as at June 30, 2015, and a review of the interim consolidated financial statements as at June 30, 2015. 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 total net remuneration of PLN 29.1 thousand under agreements concerning audit of annual separate financial statements and a review of semi-annual financial statements of the subsidiaries. The audit firm is also entitled to reimbursement of actual audit costs.

In 2015, TPA Horwath Horodko Audit Sp. z o.o. carried out for Ceramika Nowa Gala SA and its subsidiaries: Ceramika Nowa Gala II Sp. z.o.o. and Ceramika Gres SA also a validation service involving verification of the accuracy of calculation of the electric power consumption intensity coefficient for 2015 and for 2012-2014. The total remuneration for this rendition amounted to PLN 19 thousand.

In 2014, 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 of the Group under agreements of July 10, 2014, providing for:

- 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 at June 30, 2014;
- 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 at December 31, 2014.

TPA Horwath Horodko Audit Sp. z o.o. received under the agreements concluded in 2014 remuneration in the amount of PLN 74 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 otherwise than on an arm's length basis

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

[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 tested annually for impairment. Under this test, the recoverable amount is determined based on the value in use resulting from the discounted cash flows generated by Ceramika Gres SA. The Management Board has developed a five-year cash flow forecast. Cash flows have been determined as EBITDA adjusted for movements of 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 2015;
- discount rate determined based on the weighted average cost of capital for the group of analytical data, calculated using the CAPM model accounting for the following parameters: risk-free rate of 2.94%, risk premium of 5%, beta of 1. The average pre-tax cost of debt is assumed to be 2.5%. In accordance with IAS 36, discounted cash flows are determined as a pre-tax ones, thus the discount rate does not account for the effect of income tax;
- cash flows in the model are determined using prices from the end of 2015, without taking into account 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 calculated as a nominal rate, adjusted for the inflation rate for 2015 announced by the Central Statistical Office less 0.9% (deflation), was 9.02%;
- 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 related to the Group's activity

1.1. Risk associated with increased production costs

The production plants belonging to the Group consume during the production process significant quantities of natural gas, electricity and raw materials. An increase in the prices of gas, electricity or raw materials may adversely affect the performance of the Group, in particular with respect to gas and electricity, in the case of which the Company is dependent on single suppliers with monopolistic positions. The companies of the Group attach great importance to cost control and reduction at various stages of production. In 2015, the Group managed to take advantage of significant decreases in the prices of gas on international markets. The previous gas provider was changed (for more information see Note [28]and Note [31]), which gave the Group an opportunity to pay prices very close to prevailing stock market prices. Significant financial benefits were therefore recorded in the last quarter of 2015, which will be reflected in the consolidated profit for the whole 2016. The situation on global markets is not stable now, which means that the risk of increased prices of this raw material in the medium turn cannot be ruled out. The Group is able to secure the price of part of gas purchases with stock exchange prices and commodity futures contracts with delivery dates of up to one year. At the same time, one of the companies of the Group obtained a license to trade in gas, which should enable future gas purchases directly on the market (see Note [30]).

1.2. Risk associated with incomplete utilization of the Company's production capacity

Following a quantitative increase in sales in 2015, a slight increase in terms of value is expected in 2016 due to putting on the market new products sold at higher prices. As quantities are concerned, sales volumes should not differ significantly from those in 2015. The Group intends to reduce the inventory of finished products. To this end, it will be necessary to reduce production to adjust it to sales volumes which are possible to be generated and to the planned inventory levels. This would enable the Group to maintain a safe level of financial liquidity, which also means that some of fixed costs of production will continue to have a direct effect on the consolidated financial profit/(loss) of the Company. The Group believes that a reduced level of utilization of its production capacity will not result in impairment of its fixed assets.

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

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

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

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

2.1. Risk associated with the macroeconomic and political situation

The economic and political environment in which the Group operates continues to be characterized by a high degree of instability. Forecasts as regards the economic situation of Poland and the European Union are characterized by uncertainty. The beginning of 2016 on financial markets turned out to be highly volatile and drops unseen for several years were recorded. Indices relating to economic activity of important world economies (including China) are going down significantly. The area of the European Union is of strategic importance as regards reconstituting the Group's exports, as the Group does not sell its products in eastern markets any longer. The situation in Ukraine is still a major threat which is manifested through:

- decline in sales to Eastern Europe countries;
- the risk of insolvency of customers in this region;
- significant reduction in the price competitiveness of products offered 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 – not materialized yet – arising from the situation described above. These are:

- 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 competitors' activities

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 efforts to maintain its position as a leading manufacturer of ceramic stoneware floor tiles. In order to maintain its competitive edge, the Group continuously improves and expands its product porfolio. It also seeks new opportunities for enhancing and expanding its capacities.

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

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

2.4. Risk associated with the instability 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 still vague rules governing the operation of these markets and the conflict between Russia and Ukraine. This risk is mitigated by the lending policy with respect to customers.

2.5. Risk associated with the tax system

The Polish tax system is characterized by frequent changes in laws, many of which are not defined clearly enough, 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 providing for formal procedures for final verification of the accuracy of tax liabilities for the period. Tax returns and the amount of actual payments on this account can be controlled by the tax authorities for five years from the end of the year in which tax was to be paid. Adoption by the tax authorities of a different interpretation of tax laws than that assumed by the company may have a material adverse effect on the company's operations, its financial condition, performance and prospects for development. The Group does not anticipate any threat of this type, though it cannot be completely ruled out. The same risk exists for mandatory burden due to social and health insurance.

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

The main financial instruments used by the Group include bank loans, cash and short-term deposits. The main purpose of these financial instruments is to raise funds for the Group's business activities. The companies of the Group have also other financial instruments, such as trade receivables and liabilities that arise directly in the course of their business. The Group has also interests in other business entities, but the value of these interests is immaterial. The companies of the Group did 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 for managing each of these risks. These policies are briefly described below. The magnitude of these risks 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 the consolidated financial statements.

3.1. Interest rate risk

At present, the assets and liabilities recognized in the consolidated financial statements are not subject to fluctuations caused by changes in interest rates. However, due to the fact that the Group uses 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 the Euro) on a significant scale. A change in exchange rates against the Polish zloty may result in profits lower than expected. Foreign exchange volatility affects the consolidated profit by:

- 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 liabilities;
- unrealized foreign exchange differences from measurement of accounts and other monetary items as at the balance sheet date;
- varying intensity of competition associated with prices of imported tiles.

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

3.3. Credit risk

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

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

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

3.4. Liquidity risk

The Group uses external financing which determines its liquidity. In order to ensure the availability of funding, the Group maintains the proportion of debt in financing at a safe level (see also the comment in Note [16] and in Note [33]).

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

Amounts in PLN thousand (PLN '000).

Class of liabilities	Total	up to 6 months 2016	6-12 months of 2016	in 2017	2018-2019
Trade and other liabilities	26,360	26,360	-	-	-
Payments under operating leases*	5,082	1,474	1,215	1,404	990
Loans eligible for refinancing**	63,640	6,500	13,500	43,640	-
Loans to be repaid	2,842	650	538	837	817
Total	97,924	34,984	15,253	45,881	1,806

*concerns the most significant lease agreements involving office space and warehouse space, as well as car and forklift rental agreements
**figures given according to granted maximum credit limits, irrespective of the debt amount at the end of 2015; as at December 31, 2015, the actual debt amount in this group of loans was PLN 32,912 thousand.

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 3,717 thousand.

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

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

Financial instrument	Currency	Balance in the currency given on the left	Balance in PLN	Risk type	Adopted fluctuation range	Sensitivity level
Foreign currency denominated receivables	EUR	799	3,409	foreign exchange	+/-20%	+/-682
Foreign currency denominated receivables	USD	439	1,723	foreign exchange	+/-20%	+/-345
Foreign currency cash	EUR	1,025	4,368	foreign exchange	+/-20%	+/-874
Foreign currency cash	USD	200	780	foreign exchange	+/-20%	+/-156
Foreign currency denominated liabilities	EUR	1,981	8,445	foreign exchange	+/-20%	+/-1689
Foreign currency denominated liabilities	USD	189	736	foreign exchange	+/-20%	+/-147
Loans contracted in foreign currencies	EUR	573	2,442	foreign exchange	+/-20%	+/-488
Variable interest rate loans	EUR	573	2,442	interest rate	+/-3.00%	+/-73
Variable interest rate loans	PLN thousand	33,311	33,311	interest rate	+/-3.00%	+/-999

4. Off-balance sheet liabilities

Due to the planned automation of the process of product packaging, a contract with an Italian supplier has been signed. The future obligation to purchase plant and equipment under this contract is EUR 207 thousand (see also Note [10]).

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

Due to the refinancing of the working capital credit performed by Ceramika Gres SA subsidiary (see also section 1 in the consolidated report on the operations), Ceramika Nowa Gala SA and Ceramika Nowa Gala II Sp. z o.o. maintained surety bonds granted to ING Bank Śląski SA on behalf of Ceramika Gres SA up to the amounts of: PLN 21,000 thousand and PLN 10,000, respectively.

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