Consolidated annual financial statements of

Ceramika Nowa Gala SA Group

for the period from 1 January 2016 to 31 December 2016

Końskie, 23 March 2017

Introduction

Reporting Entity

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

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

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

Composition of the managing and supervisory bodies

On 22 June 2016, the General Meeting of the Company's shareholders appointed the Supervisory Board of the Issuer for the next term of office. The new Supervisory Board is composed of the following members:

- 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.

All those persons served the same functions during the previous term of office.

On 22 June 2016, the Issuer's Supervisory Board appointed also the Issuer's Management Board for the next term of office. The two-person Management Board is composed of the following members:

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

Both Waldemar Piotrowski and Paweł Górnicki served the same functions during the previous term of office.

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. Until the end of 2016, production took place in two factories located in Końskie and in one factory located in the village of Kopaniny in the Końskie district. In Q1 2017, the production plant of Ceramika Nowa Gala II Sp. z o.o. subsidiary was closed and the production carried out there until then was moved to the other two factories of the Group. Part of tiles are polished or semi-polished. The Company manufactures 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 on 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 and signed on **23 March 2017** and will be published on 24 March 2017.

Management Board	Chief Accountant

Consolidated statement of profit and loss and other comprehensive income

for the period from 1 January 2016 to 31 December 2016

Amounts in PLN thousand (PLN '000)

	Note	2016	2015
Revenues	[1]	**170,982**	**180,649**
Cost of sales	[1][2]	127,836	139,061
Gross profit		**43,146**	**41,588**
Other income	[3]	187	1,527
Selling and administrative expenses	[2]	41,840	40,201
Other expenses	[4]	9,067	2,019
Profit before interest and tax		**-7,574**	**895**
Finance income	[5]	23	214
Finance expenses	[6]	1,518	1,472
Share in profits of associates and joint ventures		-	-
Profit from continued operations before tax		**-9,069**	**-363**
Income tax expense	[7]	-119	-715
Profit from continued operations after tax		**-8,950**	**352**
Profit from discontinued operations after tax		-	-
Net profit/(loss)		**-8,950**	**352**
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	-3
Total comprehensive income		**-8,953**	**349**
Net profit attributable to			
shareholders of the parent company		**-8,950**	**352**
non-controlling interests		-	-
		-8,950	**352**
Total comprehensive income attributable to			
shareholders of the parent company		-8,953	349
non-controlling interests		-	-
		- 8,953	**349**

	Unit	Note	2016	2015
Annualized profit/(loss)	PLN thousand		-8,950	352
Weighted average number of shares	thousand shares		46,894	46,894
Basic earnings/(loss) per share from continued operations	PLN	[8]	-0.191	0.007
Weighted average diluted number of shares	thousand shares		46,894	46,894
Diluted earnings/(loss) per share from continued operations	PLN	[8]	-0.191	0.007

Consolidated statement of financial position

as at 31 December 2016

Amounts in PLN thousand (PLN '000)

Assets	Note	31.12.2016	31.12.2015
Non-current assets			
Goodwill	[9] [35]	18,851	18,851
Intangible assets	[9]	3,243	3,904
Property, plant and equipment	[10]	88,408	101,607
Investment property	[23]	7,550	7,550
Other financial assets		145	145
Deferred tax assets	[11]	10,561	11,081
Total non-current assets		**128,758**	**143,138**
Current assets			
Inventory	[12]	68,919	84,351
Trade and other receivables	[13]	25,673	38,190
Receivables from current income tax		2	343
Other financial assets		-	-
Cash and cash equivalents	[14]	22,596	9,894
Other current assets		421	398
Total current assets		**117,611**	**133,176**
Fixed assets classified as held for sale in accordance with IFRS 5		-	-
Total assets		**246,369**	**276,314**

(continued on the next page)

Consolidated statement of financial position (contd.)

Amounts in PLN thousand (PLN '000)

Equity and liabilities	Note	31.12.2016	31.12.2015
Equity			
Share capital	[15a]	46,894	46,894
Capital reserves	[15b]	136,034	125,274
Revaluation reserve	[15d]	-	-
Exchange rate differences from translation	[15h]	2	5
Reserve capital	[15f]	8,719	8,719
Treasury shares	[15g]	-	-
Retained earnings	[15c]	-8,963	15,437
Equity attributable to shareholders of the parent company		**182,686**	**196,329**
Non-controlling interests	[15e]	-	-
Total equity		**182,686**	**196,329**
Non-current liabilities			
Borrowings	[16]	848	31,508
Provision for deferred income tax	[17]	4,909	6,090
Provision for employee benefits	[20]	24	24
Total non-current liabilities		**5,781**	**37,622**
Current liabilities			
Trade and other payables	[18]	22,651	26,360
Current tax liability		331	13
Borrowings	[16]	24,052	4,245
Other financial liabilities*	[16]	1,401	1,309
Provision for employee benefits	[20]	1,492	1,889
Other provisions	[19]	7,975	8,547
Total current liabilities		**57,902**	**42,363**
Liabilities associated with assets classified as held for sale in accordance with IFRS 5		-	-
Total liabilities		**63,683**	**79,985**
Total equity and liabilities		**246,369**	**276,314**
Book value (in PLN thousand)		182 686	196,329
Number of shares (in thousand shares)		46 894	46,894
Book value per share (in PLN)		3.90	4.19
Diluted number of shares (in thousand shares)		46 894	46,894
Diluted book value per share (in PLN)		3.90	4.19

*Factoring agreement concluded by a subsidiary

Consolidated cash flow statement

for the period from 1 January 2016 to 31 December 2016

Amounts in PLN thousand (PLN '000)

	Note	2016	2015
Operating activities			
Net profit/(loss)		**-8,950**	**352**
Amortization and depreciation		13,893	13,857
Interest revenue and expenses		1,207	1,126
Exchange rate gains/(losses)		-2	374
Gain/(loss) on disposal of intangible and tangible non-current assets		95	261
Movement in provisions, write-downs, prepayments and accruals		-992	2,611
Income tax expense		-119	-715
Other adjustments		6,122	4
Cash flow from operations before movements in working capital		**11,254**	**17,870**
Movement in inventory	[25a]	15,433	1,690
Movement in receivables	[25b]	12,698	-1,445
Movement in liabilities	[25c]	-4,448	8,697
Cash flow from operations before tax		**34,937**	**26,812**
Interest received from operating activities		1	30
Interest paid on operating activities		-3	-4
Income tax paid		-176	-424
Net cash flows from operating activities		**34,759**	**26,414**
Investing activities			
Proceeds from disposal of tangible and intangible non-current assets		59	96
Purchase of tangible and intangible non-current assets		-5,459	-5,862
Net cash from investing activities		**-5,400**	**-5,766**

(continued on the next page)

Consolidated cash flow statement (contd.)

Amounts in PLN thousand (PLN '000)

	Note	2016	2015
Financing activities			
Proceeds from borrowings		-	505
Inflows from other sources of funding (factoring agreement)		91	1,309
Dividends to shareholders of the parent company		-4,689	-4,689
Repayment of borrowings		-10,918	-19,559
Interest paid pertaining to financing activities		-1,205	-1,168
Net cash from financing activities		**-16,721**	**-23,602**
Net cash from financing activities		**12,638**	**-2,954**
Cash and cash equivalents at the beginning of the period		9,894	13,206
Exchange rate differences		64	-358
Cash and cash equivalents at the end of the period		**22,596**	**9,894**
Structure of cash and cash equivalents:	[14]		
Unrestricted cash		22,578	7,878
Restricted cash		18	2,016*
		22,596	**9,894**

*Including PLN 1,999 thousand owned by Energia Park Trzemoszna (a subsidiary company) kept on a restricted account.

Consolidated statement of changes in equity

for the period from 1 January 2016 to 31 December 2016

Amounts in PLN thousand (PLN '000)

	Attributable to the shareholders of the parent company								Non-controlling interests	Total equity
	Share capital	Capital reserves	Foreign exchange differences from translation	Reserve capital	Revaluation reserve	Treasury shares	Retained earnings	Total		
As at 1 January 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	-	-	-
Distribution of profit from previous years**	-	477	-	-	-	-	-477	-	-	-
Payment of dividend	-	-4,689	-	-	-	-	-	-4,689	-	-4,689
As at 31 December 2015	**46,894**	**125,274**	**5**	**8,719**	**-**	**-**	**15,437**	**196,329**	**-**	**196,329**
As at 1 January 2016	**46,894**	**125,274**	**5**	**8,719**	**-**	**-**	**15,437**	**196,329**	**-**	**196,329**
Total comprehensive income*	-	-	-3	-	-	-	-8,950	-8,953	-	-8,953
Coverage of loss from previous years	-	-	-	-	-	-	-	-	-	-
Distribution of profit from previous years**	-	10,760	-	-	-	-	-10,760	-	-	-
Payment of dividend	-	-	-	-	-	-	-4,690	-4,690	-	-4,690
As at 31 December 2016	**46,894**	**136,034**	**2**	**8,719**	**-**	**-**	**-8,963**	**182,686**	**-**	**182,686**

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

Financial highlights

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

- as for balance sheet data, the average exchange rates of the NBP were used: 4.2615 PLN/EUR as at 31 December 2015 and 4.424 PLN/EUR as at 31 December 2016;
- as regards data derived from the statement of comprehensive income and the cash flow statement, the following exchange rates, which constituted the arithmetic average of the NBP rates, prevailing on the last day of each month in the reporting period, were used: 4.1848 PLN/EUR in 2015; 4.3757 PLN/EUR in 2016.

The average exchange rates of the NBP for USD, used for translating the monetary items, were as follows: 4.1793 PLN/USD as at 31 December 2016 and 3.9011 PLN/USD as at 31 December 2015.

Consolidated data	in PLN thousand		in EUR thousand	
	2016	2015	2016	2015
Net sales	170,982	180,649	39,075	43,168
Profit/(loss) from operating activities	-7,574	895	-1,731	214
Profit/(loss) before tax	-9,069	-363	-2,073	-87
Net profit/(loss)	-8,950	352	-2,045	84
Net cash flows from operating activities	34,759	26,414	7,944	6,312
Net cash flows from investing activities	-5,400	-5,766	-1,234	-1,378
Net cash flows from financing activities	-16,721	-23,602	-3,821	-5,640
Net cash flows (in total)*	12,701	-3,312	2,903	-791
Total assets	246,369	276,314	55,689	64,840
Liabilities and provisions for liabilities	63,683	79,985	14,395	18,769
Non-current liabilities	5,781	37,622	1,307	8,828
Current liabilities	57,902	42,363	13,088	9,941
Equity	182,686	196,329	41,294	46,070
Share capital	46,894	46,894	10,600	11,004
Number of shares	46,893,621	46,893,621	-	-
Profit/(loss) per share (in PLN/EUR)	-0.19	0.01	-0.04	0.00
Diluted profit/(loss) per share (in PLN/EUR)	-0.19	0.01	-0.04	0.00
Book value per share (in PLN/EUR)	3.90	4.19	0.88	0.98
Diluted book value per share (in PLN/EUR)	3.90	4.19	0.88	0.98
Declared or paid dividend per share (in PLN/EUR)	0.1	0.1	0.02	0.02

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

Accounting principles

Compliance with International Financial Reporting Standards

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

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

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

IFRS 15 "Revenue from Contracts with Customers"

The standard establishes a single model of accounting treatment of all revenue arising from contracts with customers, mandatory for all reporting units. Once effective, IFRS 15 will replace the guidance on revenue recognition defined in IAS 18 "Revenue", IAS 11 "Construction Contracts" and the guidance provided for in related Interpretations. Under the new standard, the entity shall 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 will be applicable to annual periods beginning on 1 January 2018 or after that date. The standard has been approved to be used in the European Union Member States.

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

IFRS 9 "Financial Instruments"

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

The standard will be applicable to annual periods beginning on 1 January 2018 or after that date. The standard has 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 16 "Leases"

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

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

The companies of the Group are now parties to a number of short-term lease contracts that meet the definition of operating lease. The following can be expected in the statement of comprehensive income as a result of applying the new standard: a decrease in the cost of third-party services, an increase in depreciation costs and an increase in finance costs. As regards the statement of financial position, application of the standard will increase the value of intangible assets and contractual debt. Changes in numbers will be determined in the future, at the time of the first application of the standard.

IFRS 14 "Deferred balance of regulated activity"

The standard allows a 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 IFRS and subsequent financial statements. Specific disclosures are also required.

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

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

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

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

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

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

Amendments to IFRS 2 "Share-based Payment"

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

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

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

Amendments to IAS 7: Disclosure Initiative

The amendments extend disclosures regarding changes in an entity's liabilities arising from financial activities and availability of cash and cash equivalents recognized in the cash flow statement. The amendments aim at providing users of financial statements with more complete information on changes in a given entity's debt.

The amendments have been approved to be applied to annual periods beginning on 1 January 2017 or after that date. The amendments have not been approved yet to be applied in the European Union Member States.

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

Amendments to IAS 12: Recognition of deferred tax assets for unrealized losses

The amendments clarify the method od recognizing deferred income tax assets with respect to losses on debt instruments measured at fair value.

The amendments have been approved to be applied to annual periods beginning on 1 January 2017 or after that date. The amendments have not been approved yet to be applied in the European Union Member States.

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

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

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

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

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

Amendments to IAS 40: Transfers of Investment Property

The amendments clarify the conditions of transfers to, or from, investment property.

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

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

Amendments arising from a review of IFRSs (2014-2016 cycle)

The amendments concern, in particular, the removal of exemptions from IFRSs and specify whether an entity is allowed to apply measurement at fair value separately for each investment in associates and joint ventures.

The amendments have been approved to be applied in part to annual periods beginning on 1 January 2017 or after that date, and in part to annual periods beginning on 1 January 2018 or after that date. The amendments have not been approved yet to be applied in the European Union Member States.

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

IFRIC Interpretation 22—Foreign Currency Transactions and Advance Consideration

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

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

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

Changes to the accounting policies

In the previous years, advances for fixed assets under construction were recognized as property, pland and equipment assets, while advances for the supply of raw materials and materials were recognized as inventory items. Having re-examined the regulations provided for in IFRS 1, the Management Board resolved to change this method of presentation and recognize both items in other receivables. The following table shows the amounts reclassified in 2016 and in comparable data for 2015.

Amounts in PLN thousand (PLN '000)

	Property, plant and equipment		Inventory		Trade and other receivables	
	31.12.16	31.12.15	31.12.16	31.12.15	31.12.16	31.12.15
Amount reclassified in the consolidated financial statements	-1,027	-297	-821	-587	1,848	884

Functional currency

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

Measurement basis

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

Going concern principle

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

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

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

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 cost less a possible write-down for impairment. The carrying amount of the shares in Energo-Gaz Sp. z o.o. is PLN 31 thousand, and the share of Ceramika Nowa Gala SA in its equity amounted, as at 31 December 2016, to PLN 359 thousand. Financial data of this company for 2016, determined in accordance with Polish accounting standards, is as follows: assets: PLN 812 thousand, provisions and liabilities: PLN 93 thousand, revenue: PLN 1,811 thousand, net profit for 2016: PLN 80 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 PLN at the average rate of the NBP, prevailing on the transaction date. As at the balance sheet date, monetary assets and liabilities denominated in foreign currencies (interpreted in accordance with IAS 21) are translated at the average exchange rate of the NBP, prevailing at that date. The resulting foreign exchange differences are recognized in income or expenses. Non-monetary assets denominated in foreign currencies are shown as at the balance sheet date at the exchange rate prevailing on the transaction date. The measurement of payments in foreign currencies made from bank accounts is made using the FIFO method, and those from exchange offices – in accordance with the weighted average method. Foreign exchange differences from translation of the financial statements of CNG Luxembourg S.à.rl into PLN are recognized in other comprehensive income and are posted directly to equity.

Borrowing costs

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

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

Segment reporting

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

Property, plant and equipment

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

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

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

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

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

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

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

- land in perpetual usufruct from 60 to 95 years;
- buildings from 7 to 34 years;
- plant and equipment from 1 to 32 years;
- other non-current assets from 1 to 23 years.

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

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

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

Non-current assets classified as held for sale

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

Intangible assets

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

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

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

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

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

- computer software from 3 to 14 years.

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

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

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

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

Investments in real property

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

Inventory

Inventories of purchased goods are measured as at the balance sheet date at 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 for the period, adjusting the cost of sold products. The standard cost can change, e.g. in the case of a change in production costs or the manufacturing process. The FIFO method is used for the disposal of 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 entity makes write-offs which are recognized in other operating expenses. The selling price should be understood as the price of sale carried out in the ordinary course of business, less the estimated costs of the completion of production and the expenses that need to be incurred to complete the sales transaction.

Provisions

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

Lease

The companies of the Group do not use assets under finance lease agreements. They are bound, however, by rental agreements for office and storage space, as well as other rental agreements 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 applicable labour laws, retiring employees are entitled to severance pay equal to their monthly salaries whose expected discounted value is negligible (IAS 19: "Post-employment benefits").

Derivative financial instruments and hedging instruments

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

Other financial instruments

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

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

Cash and cash equivalents

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

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

Trade receivables and other receivables

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

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

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

Interests or shares in other economic operators

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

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

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

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

Interest-bearing loans and borrowings

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

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

Trade and other liabilities

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

Equity instruments

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

Revenues

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.

Revenues from sale of goods, products, semi-finished products, materials and services are recognized when the significant risks and rewards of ownership of the goods and products have passed to the buyer and the amount of 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 in provisions for deferred income tax or deferred income tax assets. Current tax liabilities are determined in accordance with applicable tax law and based on taxable income.

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

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

- deferred income tax assets arise from the initial recognition of an asset or liability in a transaction other than a business combination, where at the time of its recognition they do not affect gross profit or loss, taxable profit or tax loss or net assets;

- in the case of deductible temporary differences associated with investments in subsidiaries or associates as well as interests in joint ventures, deferred income tax assets are recognized in the statement of financial position only to the extent that it is probable that the above-mentioned differences will be reversed in the foreseeable future and sufficient taxable income will be generated to deduct from it the deductible temporary differences.

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

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

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

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

A motion with respect to the termination of the permit to operate in the Starachowice Special Economic Zone is described in Note [30a]

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 created provisions, write-downs of assets, including trade receivables and property, plant and equipment, 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. Estimation is also applied to the assessment of the possibility of obtaining compensation from the insurance company in case of receivables covered by non-recourse factoring. Where the estimated risk of lack of possibility of compensation payment is minimal, it is possible to remove receivebles covered by such factoring from the balance sheet. 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 revenues and expenses

Amounts in PLN thousand (PLN '000)

	Revenues		Costs		Sales result before tax	
	2016	2015	2016	2015	2016	2015
Products and semi-products	169,701	178,676	126,743	137,356	42,958	41,320
Goods	996	1,221	853	1,093	143	128
Raw materials and other materials	150	439	123	344	27	95
Other sales (services)	135	313	117	268	18	45
	170,982	**180,649**	**127,836**	**139,061**	**43,146**	**41,588**

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)

	2016	2015
Raw materials and other materials	56,577	66,978
Gas and electricity	27,082	37,732
Purchased goods and semi-products	1,558	953
Amortization and depreciation	13,893	13,857
Payroll with fringe benefits	31,687	31,142
Third-party services*	16,487	16,863
Representation and advertising	4,030	3,411
Taxes and fees	2,383	2,142
Other	1,613	1,598
	155,310	**174,676**
of which:		
Cost of products and goods sold**	127,713	138,717
Selling and administrative expenses	41,840	40,201
Movement in inventories and prepayments and accruals	-14,243	-4,242
	155,310	**174,676**

*Expenses under lease agreements classified as operating leases, included in third-party services, amounted to: PLN 3,616 thousand in 2016 and PLN 3,637 thousand in 2015.
**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)

	2016	2015
Current salaries	26,176	24,537
Social security contributions paid by the employer and other employee benefits	5,910	5,752
	32,086	**30,289**
Movement in the provision for holiday pay (Note [20])	82	197
Movement in the provision for bonuses	-481	656
	31,687	**31,142**

[3] Other operating income

Amounts in PLN thousand (PLN '000)

	2016	2015
Reimbursement of litigation expenses	3	20
Due to inventory differences	65	-
Past due liabilities	-	11
Damages received	88	367
Write-downs of inventories	4	-
Rental income from investment property	18	1,122
Other	9	7
	187	**1,527**

[4] Other operating expenses

	2016	2015
Loss on disposal of property, plant and equipment	99	113
Write-downs of receivables	149	155
Donations	8	3
Litigation expenses	2	16
Damages	63	1
Expenses caused by Force Majeure events	17	19
Discontinuation of products	361	603
Write-down of inventories	1,592	329
Expenses due to inventory differences	-	343
Write-downs of property, plant and equipment	6,174	-
Costs of maintenance of investment property	485	422
Write-down of non-refundable advances	100	-
Other	17	15
	9,067	**2,019**

[5] Financial income

Amounts in PLN thousand (PLN '000)

	2016	2015
Interest received	23	105
Gain on exchange rate differences	-	109
	23	**214**

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

Amounts in PLN thousand (PLN '000)

	2016	2015
Exchange rate differences recognized in financial income	-	109
Exchange rate differences recognized in financial expenses	66	-
	66	**109**

[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)

	2016	2015
Interest	1,003	1,175
Loss on exchange rate differences	66	-
Other financial expenses	449	297
	1,518	**1,472**

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

Amounts in PLN thousand (PLN '000)

	2016	2015
Direct finance costs increasing the value of assets	2	78

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

[7] Income tax

Amounts in PLN thousand (PLN '000)

	2016	2015
Deferred income tax on:		
- deductible tax losses	-72	-377
- difference between book depreciation and tax depreciation	-762	-607
- movements in provisions and write-downs	514	231
- taxable intra-Group profits	-19	244
- write-downs of current assets	12	-179
- other	-348	-28
	-675	**-716**
Current income tax	556	1
Tax amount recognized in equity	-	-
	-119	**-715**

[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)

	2016	2015
Profit before tax	-9,069	-363
Ongoing operating expenses which are permanently non-deductible	4,166	2 594
Tax income carried forward	-	-321
Income exempt from taxation (special economic zone)	1,441	-10 981
Other permanent differences related to carrying out business within a special economic zone	2,666	5 633
Other permanent differences	169	-326
	-626	**-3 763**
Tax rate	19%	19%
Income tax recognized in the income statement	**-119**	**-715**

[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	2016	2015
Annualized profit/(loss)	PLN thousand	-8,950	352
Weighted average number of shares	thousand shares	46,894	46,894
Basic earnings/(loss) per share from continued operations	PLN	-0.191	0.01
Weighted average diluted number of shares	thousand shares	46,894	46,894
Diluted earnings/(loss) per share from continued operations	PLN	-0.191	0.01

[9] Intangible assets

	Computer software	Other	Goodwill	Total
Net value as at 1 January 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 31 December 2015	**428**	**3,475**	**18,851**	**22,754**
Net value as at 1 January 2016	**428**	**3,475**	**18,851**	**22,754**
Additions due to acquisition	-1	-	-	-1
Sale or withdrawal from use	-	-	-	-
Change in accumulated depreciation due to sale or withdrawal from use	-	-	-	-
Amortization for the period*	-82	-578	-	-660
Net value as at 31 December 2016	**345**	**2,897**	**18,851**	**22,093**
of which:				
at acquisition/manufacturing cost	345	2,897	18,851	22,093
at a revalued amount	-	-	-	-
As at 31 December 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**
As at 31 December 2016				
Gross value	3,278	10,811	18,851	32,940
Accumulated depreciation and impairment	2,933	7,914	-	10,847
Net value	**345**	**2,897**	**18,851**	**22,093**
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

	Land and buildings	Plant and equipment	Fixed assets under constructio n	Other	Total
Net value as at 1 January 2015	**41,904**	**57,619**	**7,425**	**2,459**	**109,407**
Additions	-	9,078	5,667	785	15,530
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 31 December 2015	**38,923**	**57,118**	**3,342**	**2,224**	**101,607**
<u>of which:</u>					
at acquisition/manufacturing cost	38,923	57,118	3,342	2,224	101,607
at a revalued amount	-	-	-	-	-
Net value as at 1 January 2016	**38,923**	**57,118**	**3,342**	**2,224**	**101,607**
Additions	605	4,349	6,612	1,073	12,639
Impairment loss charged to profit or loss	-10	-4,978	-1,133	-3	-6,124
Sale or withdrawal from use	-	-2,265	-	-403	-2,668
Change in accumulated depreciation due to sale or withdrawal from use	-	1,767	-	345	2,112
Depreciation for the period	-2,390	-9,900	-	-944	-13,234
Initial measurement of fixed assets	-	0	-5,924	-	-5,924
Other movements (reclassifications)	17	-17	-	-	-
Net value as at 31 December 2016	**37,145**	**46,074**	**2,897**	**2,292**	**88,408**
<u>of which:</u>					
at acquisition/manufacturing cost	37,145	46,047	2,897	2,292	88,408
at a revalued amount	-	-	-	-	-
<u>Gross value and accumulated depreciation</u>					
As at 31 December 2015					
Gross value	66,046	178,030	3,342	6,838	254,256
Accumulated depreciation and impairment	27,123	120,912	-	4,614	152,649
Net value	**38,923**	**57,118**	**3,342**	**2,224**	**101,607**
<u>of which:</u>					
Non-current assets classified as held for sale	-	-	-	-	-
Other property, plant and equipment	38,923	57,118	3,342	2,224	101,607
As at 31 December 2016					
Gross value	66,658	175,119	4,030	7,505	253,312
Accumulated depreciation and impairment	29,513	129,045	1,133	5,213	164,904
Net value	**37,145**	**46,074**	**2,897**	**2,292**	**88,408**
<u>of which:</u>					
Non-current assets classified as held for sale	-	-	-	-	-
Other property, plant and equipment	37,145	46,074	2,897	2,292	88,408
<u>Additional information</u>					
Amount of pledges and mortgages used as collateral for loans	88,700	25,867	-	-	114,567
Contractual commitments to acquire fixed assets	-	5,849	-	-	5,849

[11] Income tax assets

Amounts in PLN thousand (PLN '000)

	31.12.2016	31.12.2015
Income tax assets arising from:		
- deductible tax losses	2,915	2,844
- difference between book depreciation and tax depreciation	672	672
- created provisions and write-offs	5,270	5,828
- taxable intra-Group profits	1,123	1,104
- depreciation of plant and equipment	581	633
	10,561	**11,081**

[12] Inventory

[12a] Inventory structure

Amounts in PLN thousand (PLN '000)

	31.12.2016	31.12.2015
Products and semi-products	47,629	61,111
Goods	606	656
Raw materials and other materials	20,684	22,584
Other	-	-
	68,919	**84,351**
Total amount of allowance on inventories	-2,950	-1,937
Value of inventories pledged as collateral for liabilities	22,000	29,500

[12b] Additional information

Amounts in PLN thousand (PLN '000)

	2016	2015
Cost of inventories sold	127,719	138,793
Inventories written off as expenses	2,208	637
Reversal of write-offs posted to income	-432	-295
	129,495	**139,135**

[13] Trade receivables and other receivables

[13a] Receivables structure

Amounts in PLN thousand (PLN '000)

	31.12.2016	31.12.2015
Trade receivables	22,375	35,391
Other receivables	3,298	2,799
	25,673	**38,190**
Receivables due	4,991	3,309
Receivables with deferred payment	20,682	34,881
	25,673	**38,190**
Receivables in PLN	20,132	33,058
Receivables in EUR	3,929	3,409
Receivables in USD	1,612	1,723
	25,673	**38,190**
Write-down of receivables	8,899	8,484
Receivables used as collateral for loans	2,401	3,910

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

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

Amounts in PLN thousand (PLN '000)

	2016	2015
Opening balance	**8,484**	**7,897**
Write-downs posted to operating expenses	73	251
Reversal of write-downs posted to operating income	-4	-94
Write-downs used	-2	-30
Change in measurement due to foreign exchange differences	348	461
Closing balance	**8,899**	**8,484**

[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
31.12.2016	34,572	8,899	25,673	20,682	4,702	233	47	9	4,991
31.12.2015	46,674	8,484	38,190	34,881	3,309	-	-	-	3,309

[14] Cash

Cash consists only of cash in hand and at bank. The amount of restricted cash includes PLN 18 thousand allocated to the Company's social benefit fund and cash deposited on a brokerage account at BOŚ brokerage house.

[15] Equity components

[15a] Share capital

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

[15b] Capital reserves

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

[15c] Retained earnings

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

[15d] Revaluation reserve

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

[15e] Non-controlling interests

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

[15f] Reserve capital

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

[15g] Treasury shares

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

[15h] Exchange rate differences from translation

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

[16] Loans, borrowings and debt instruments

Amounts in PLN thousand (PLN '000)

Financing institution	Currency	Effective interest rate	Deadline for repayment	Debt 31.12.16	Debt 31.12.15	Collaterals	Notes
mBank SA	PLN	WIBOR 1M +0.65%	29.06.2017	3,720	4,040	Registered pledge on finished products, blank promissory note; assignment of rights under the insurance policy; pledge on fixed assets	Working capital loan
mBank SA	PLN	WIBOR O/N + 0.95%	27.02.2018	-	-	Global assignment of receivables, blank promissory note, pledge on two production lines	Overdraft facility, an unused but available funding limit of PLN 500 thousand
mBank SA	EUR	EURIBOR 1M +1.42%	04.03.2016	-	112	Blank promissory note, registered pledge on purchased plant and equipment	Investment loan. The loan was repaid in 2016
mBank SA	EUR	EURIBOR 1M +1.8%	25.01.2019	1,634	2,330	Blank promissory note, registered pledge on purchased plant and equipment	Investment loan
Bank Pekao SA	PLN	WIBOR 1M +1.0%	30.09.2018	-	3,376	Capped mortgage on real property belonging to the Company and on property belonging to its subsidiary, along with the assignment of rights under the insurance policy, representations of Ceramika Nowa Gala SA and Ceramika Nowa Gala II Sp. z o.o. of submission to enforcement, a power of attorney granted to the bank with respect to the bank account	Overdraft facility, an unused but available funding limit of PLN 9,000 thousand
Bank Handlowy w Warszawie SA	PLN	WIBOR 3M +0.9%	22.04.2016	-	-	Registered pledge on finished products and assignment of rights under the insurance policy	Working capital loan repaid in total in 2016
ING bank Śląski SA	PLN	WIBOR 1M +0.9%	31.08.2017	19,546	25,894	Surety under civil law: for Ceramika Nowa Gala II Sp. z o.o. of up to PLN 10,000 thousand, Ceramika Nowa Gala SA of up to PLN 21,000 thousand, mortgage of up to PLN 69,000 thousand, assignment of rights under the insurance policy concerning real property, registered pledge on finished products of PLN 15,000 thousand along with the assignment of rights under the insurance policy, registered pledge on fixed assets of PLN 9,500 thousand along with the assignment of rights under the insurance policy	Overdraft facility with an available funding limit of PLN 40,000
Closing balance of loans				**24,900**	**35,752**		
of which:							
short-term loans				24,052	4,245		
long-term loans				848	31,508		
Recourse factoring of a subsidiary				**1,401**	**1,309**		

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

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.

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)

	31.12.2016	31.12.2015
Provision for deferred income tax in respect of:		
- difference between book depreciation and tax depreciation	4,442	5,257
- interest	11	362
- measurement of investment property	294	294
- other	162	177
	4,909	**6,090**

[18] Trade and other payables

	31.12.2016	31.12.2015
Trade liabilities	15,242	19,267
Other liabilities	7,409	7,093
	22,651	**26,360**
Liabilities due	4,788	7,519
Liabilities with deferred payment	17,863	18,841
	22,651	**26,360**
Liabilities in PLN	13,835	17,179
Liabilities in EUR	7,214	8,445
Liabilities in USD	1,602	736
	22,651	**26,360**

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

[19] Other provisions

Amounts in PLN thousand (PLN '000)

	Costs	Bonuses for customers	Other	Total
As at 1 January 2016	**550**	**7,691**	**306**	**8,547**
Created	302	12,399	117	12,818
Utilized	-157	-12,965	-268	-13,390
Reversed	-	-	-	-
As at 31 December 2016	**695**	**7,125**	**155**	**7,975**

[20] Provisions for employee benefits

Amounts in PLN thousand (PLN '000)

	Holiday pay and other	Annual bonuses	Total
As at 1 January 2016	**1,157**	**756**	**1,913**
Created	406	475	881
Utilized	-322	-956	-1,278
Reversed	-	-	-
As at 31 December 2016	**1,241**	**275**	**1,516**
short-term	1,217	275	1,492
long-term	24	-	24

[21] Information on business segments

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

[21a] Information on geographic segments

Amounts in PLN thousand (PLN '000)

	Domestic		Exports		Total	
	2016	2015	2016	2015	2016	2015
Revenues	139,638	151,735	31,344	28,914	170,982	180,649
Cost of sales	90,984	103,982	21,670	20,564	112,654	124,546
Sales result	**48,654**	**47,753**	**9,674**	**8,350**	**58,328**	**56,103**
Unallocated costs					15,182	14,515
Gross profit					**43,146**	**41,588**
	31.12.16	**31.12.15**	**31.12.16**	**31.12.15**	**31.12.16**	**31.12.15**
Assets:						
Trade receivables	16,814	30,325	5,560	5,248	22,374	35,573
Other receivables (unallocated)					3,299	2,617
					25,673	**38,190**

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	
	2016	2015	2016	2015	2016	2015
Revenue from sales to external customers	170,761	179,960	221	689	170,982	180,649
Purchase of fixed assets	7,342	9,737	-	-	7,342	9,737

[21c] Information on significant customers

In 2016, sales to none of the customers of the Group exceeded 10% of consolidated revenue.

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

[22a] Trade transactions with related parties

Amounts in PLN thousand (PLN '000)

	Sales (net)		Purchases (net)		Receivables from related parties		Liabilities payable to related parties	
	2016	2015	2016	2015	2016	2015	2016	2015
Subsidiaries	27,148	32,483	37,756	48,156	4,558	6,255	573	5,649
Associates	-	-	323	520	-	-	30	29
	27,148	**32,483**	**38,079**	**48,676**	**4,558**	**6,255**	**603**	**5,678**

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	
	2016	2015	2016	2015	2016	2015	2016	2015
Taking up/purchase of shares in related parties and contributions	-	-	4,185*	-	-	-	-	-
Revaluation write-down of shares in associates**			-32	-755				
Dividends received***	-	-	952	16,010				
Interest paid/accrued with respect to related parties	-	-	205	208	-	-	-	-
Interest paid by related parties	-	-	2,047	360				
Loans repaid by related parties			2,000	-				
Loans granted to related parties	-	-	88	-	-	-	-	-
Revaluation write-down of loans granted to related parties			-224					
Off-balance sheet items								
Sureties granted	-	-	-	21,000	-	-	-	-
Expiration of granted sureties	-	-	-967	-21,000	-	-	-	-

*Refers to contributions to Ceramika Nowa Gala II Sp. z o.o. subsidiary
**Refers to shares taken up in CNG Luxembourg S.à.r.l. subsidiary
***Dividends from 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	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Shares in CNG held by related parties (number of shares)	-	-	-	-	11,170,396	11,170,396
Contributions to related parties	4,185					
Loans granted to related parties	-	2,107	-	-	-	-
Accrued interest on loans granted	-	2,018	-	-	-	-
Receivables from dividend payment	-	12,870	-	-	-	-
Off-balance sheet items						
Performance bonds from related parties	3,056	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 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	
	2016	2015	2016	2015	2016	2015	2016	2015
Ceramika Nowa Gala II Sp. z o.o.	15,500	15,500	9	9	-	-	15,509	15,509
Ceramika Gres SA	57,838	57,838	613	613	-	-	58,451	58,451
CNG Luxembourg S.à.r.l.	24,721	24,721	-	-	24,625	24,594	96	127
Contributions to the capital of Ceramika Nowa Gala II Sp. z o.o.	4,185	-	-	-	-	-	4,185	-
Loan granted to Ceramika Nowa Gala II Sp. z o.o.	-	2,000	-	1,857	-	-	-	3,857
Loan granted to CNG Luxembourg S.à.r.l.	199	107	25	9	224	-	-	116
Subsidiaries (total)	**102,443**	**100,166**	**647**	**2,488**	**24,849**	**24,594**	**78,241**	**78,060**
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	
	2016	2015	2016	2015
Salaries and other current benefits (paid)	2,236	1,609	301	296
Future payments in shares	-	-	-	-
Movement in provisions	-606	606	-	-
Charge to profit for the period	**1,630**	**2,215**	**301**	**296**

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

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

Amounts in PLN thousand (PLN '000)

	Level 1	Level 2	Level 3*	Total
As at 1 January 2016	**-**	**-**	**7,550**	**7,550**
Increase in fair value	-	-	-	-
Decrease in fair value	-	-	-	-
Movements between the levels	-	-	-	-
As at 31 December 2016	**-**	**-**	**7,550**	**7,550**

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

In accordance with the adopted accounting policies, the value of the investment property owned by Ceramika Nowa Gala II Sp. z o.o. is recognized at the fair value determined by a property appraiser. Any expenditure on improvement of such property increases its carrying value, which at the end of the year is adjusted to the current value measured by a certified property appraiser. From December 2010 to December 2016, the investment real property in question was partially leased to third parties. In 2016, revenues from lease of this property amounted to PLN 17.5 thousand. Its maintenance costs in the same year amounted to PLN 485 thousand. To determine its fair value, the income approach was used, in accordance with which the value of the real property was determined taking into account the income generated from it by then and a prudent estimate of the income that could be generated once the lease agreement expired while adopting a market approach, taking into account the sale prices of similar real property, that could be obtained on the local market. Given the current technical condition of the administrative and staff welfare part, the applied cash flow model accounted for expenditure on renovation necessary to make it suitable for lease. Thus lease of this real property was deemed to be the most advantageous way of using it. The measurement was based on observable external data derived from the somewhat depressed real estate market, related to the sale of similar assets, to which adequate price adjustments were applied due to differences in characteristics of assets being sold and the measurement. Furthermore, the measurement of fair value using the income approach with respect to accounted flows on the real estate was based on unobservable data derived from the company, related to past rental rates applicable to the real estate space, as well as external data concerning market rental rates applicable to warehouse facilities and administrative and staff wellfare space. The basic inputs to the model were as follows:

- the leasable area and the rent per sq. m., separately for the storage space and for the administrative and staff welfare space. The leasable area has been specified in the technical documentation of the buildings, while the rent has been determined based on an analysis of rent rates in the local property rental market, adjusted for the estimated leasable area ratio;
- estimated real property maintenance costs per sq. m., based on the actually incurred costs;
- the cost of renovation of the administrative and staff welfare space, based on the estimated costs of the works required to be performed;
- the discount rate, accounting for the risks related to investing in rental of real property, based on the knowledge and experience of property appraisers. The average rate of 9.1% was adopted.

The fair value determined using the method described as at 31 December 2016 amounted ultimately to PLN 7,540 thousand. Due to the immateriality of the difference between this value and the carrying amount, no adjustment to the consolidated financial statements was made.

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

[25a] Inventory

Amounts in PLN thousand (PLN '000)

	2016	2015
Balance sheet movement in inventories	**15,432**	**1,693**
Other adjustments	1	-3
Movement in inventories in the cash flow statement	**15,433**	**1,690**

[25b] Trade receivables and other receivables

Amounts in PLN thousand (PLN '000)

	2016	2015
Balance sheet movement in trade receivables and other receivables	**12,517**	**-1,575**
Movement in the advance for fixed assets under construction	730	110
Change in receivables from sale of fixed assets	-549	20
Movement in receivables in the cash flow statement	**12,698**	**-1,445**

[25c] Trade and other liabilities

Amounts in PLN thousand (PLN '000)

	2016	2015
Balance sheet movement in trade and other liabilities	**-3,709**	**7,646**
Tax offset	-	1,020
Movement in investment liabilities	-740	31
Movement in liabilities in the cash flow statement	**-4,449**	**8,697**

[26] Payment of dividend

On 22 June 2016, the General Meeting of Shareholders resolved to allocate PLN 4,689,362.10 – part of the profit generated in 2015 – for dividend payment. The dividend amount per share was PLN 0.10. The record date was set for 12 August 2016, while the payment of the dividend was effected on 30 August 2016.

[27] Declared dividend

As at the date of publication of these statements, no dividend to be paid in 2017 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] Offsetting the remaining part of the dividend from the subsidiary

On 17 June 2015, the Annual General 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 remaining part of the dividend (PLN 7,378,205.60) was offset with other accounts in February 2016.

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

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

On 22 June 2016, the Annual General Meeting of Shareholders of Ceramika Gres SA decided that part of the net profit of that company for 2015, in the amount of PLN 951,810.43, would be allocated for the payment of a dividend for the parent company, i.e. Ceramika Nowa Gala SA. The dividend was paid in September 2016.

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

[30] Events after the balance sheet date

[30a] Termination of the permit to operate by Ceramika Nowa Gala II subsidiary in the Starachowice Special Economic Zone

On 18 January 2017, the Management Board of Ceramika Nowa Gala II ("CNG II") signed a motion addressed to the Minister of Development and Finance, requesting him to terminate the permit to operate by CNG II in the Starachowice Special Economic Zone, the Końskie subzone, due to reorganization of the production processes and a planned relocation of production from CNG II to the other two factories of the Group. Consolidation of production will simplify the production processes and reduce costs by approx. PLN 3,000 thousand per annum (for more information see Current Report 2/2017 published on 18 January 2017). By his decision of 13 February 2017, the Minister of Development and Finance declared the expiry of the permit to carry out business activity by CNG II in the Starachowice Special Economic Zone.

[30b] Annex to the loan agreement concluded with ING Bank Śląski SA on 23 June 2014

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

[30c] Loan agreement with Bank Pekao SA concluded on 9 February 2017

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

[31] Capital management

The Group manages its capital to be able to continue its operations, including planned investments. In accordance with market practice, the Group monitors its capital based on, among others, the debt ratio and interest coverage ratio. The debt ratio is calculated as the ratio of net debt arising from loans and borrowings to the value of invested capital. Net debt arising from loans, borrowings and other sources of funding constitutes the total amount of loan and borrowing liabilities, less the cash balance. As regards invested capital, this is the sum of the value of net fixed assets and current assets. 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)

	31.12.2016	31.12.2015
Non-current assets	128,758	143,138
Net current assets	59,709	90,813
Total capital invested	**188,467**	**233,951**
Total net debt arising from loans and borrowings*	3,705	27,168
Debt ratio	**0.02**	**0.12**
	2016	**2015**
Profit/(loss) from operating activities	-7,574	895
Amortization and depreciation	13,893	13,857
EBITDA	6,319	14,752
Interest	1,003	1,175
EBITDA-to-interest coverage ratio	**6.30**	**12.55**

*The item includes also financial liabilities under factoring.

In spite of dividend payment in 2016, the net debt was significantly reduced by controlling the level of the current assets (reduction in the level of inventories and disposal of part of receivables under a non-recourse factoring agreement) and owing to limited investment in non-current assets. As a result, the net debt is close to zero. Due to a decrease in EBITDA (a loss on operating activities related to the level of one-off write-offs of non-current assets), the interest coverage ratio declined, but it is still 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]).

[32] Information on certified auditor's remuneration

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

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

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

The total remuneration for the aforementioned services amounted to PLN 238 thousand.

In 2015, the financial statements of the Group were audited by TPA Horwath Horodko Audit Sp. z o.o. which rendered services to the companies of the Group under agreements of 1 July 2015, providing for:

- a review of the separate semi-annual financial statements of the Company, the separate semi-annual financial statements of the subsidiaries and the consolidated semi-annual financial statements of the Company as at 30 June 2015;
- audit of the separate annual financial statements of the Company, the separate annual financial statements of the subsidiaries and the consolidated annual financial statements of the Company as at 31 December 2015.

TPA Horwath Horodko Audit Sp. z o.o. received under the agreements concluded in 2015 remuneration in the amount of PLN 74 thousand plus VAT and reimbursement of the actual costs of the audit. In 2015, TPA Horwath Horodko Audit Sp. z o.o. rendered 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.

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

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

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

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

[35] Goodwill impairment test

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

- regular increase in the utilization of the Company's production capacity;
- increase in the average price resulting from a change in the product mix included in the product portfolio;
- maintaining turnover ratios relating to current assets at the level of the end of 2016;
- 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 3.63%, risk premium of 4.34%, 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 2016, without taking into account inflation, hence the nominal rate should be adjusted to the effective rate using the average annual inflation rate appropriate for the period from which the data for the nominal rate was taken. The effective rate calculated as a nominal rate, adjusted for the inflation rate for 2016 announced by the Central Statistical Office less 0.6% (deflation), was 9%;
- 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 business

1.1. Risk associated with increased production costs

The production plants belonging to the Group consume during the production process significant quantities of natural gas, electricity and raw materials. An increase in the prices of gas, electricity or raw materials may adversely affect the performance of the Group, in particular with respect to gas and electricity, in the case of which the Group is dependent on single suppliers with monopolistic positions. The Group attaches great importance to cost control and reduction at various stages of production. In 2016, the Group managed to take advantage of significant drops in the prices of gas on international markets. An annex to the agreement on gas supply concluded with the existing gas supplier, providing for a change in the margin rate (described in section 36 of the Report on the operations of the Group), enabled the Group to continue to obtain prices very similar to current stock exchange prices. 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 the delivery date of up to one year. At the same time, one of the companies of the Group commenced trading in gas, which enables the Group to purchase gas directly from the market (for more information see section 37 of the Report on the operations of the Group).

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

In 2016, the Group recorded a decrease in sales compared to previous years. Furthermore, as previously announced, in order to improve the management of current assets, the quantities of inventories kept in the warehouses of the companies of the Group were reduced. To this end, it was necessary to reduce production to adjust it to sales volumes which were possible to be generated and to the planned inventory levels. This enabled the Group to maintain a safe level of financial liquidity and a further reduction in the debt. As the production capacities of the companies of the Group had not been utilized for a few years, it was resolved to discontinue production in one of the production plants (for more information see section [30a]). As a result, the levels of amounts reducing profit in subsequent years will be significantly lower.

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

1.4. 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 Group 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. Indices relating to economic activity of important world economies (including China) remain at unsatisfactory levels. 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 on eastern markets as a result of the depreciation of the currencies used in those countries;
- increased competition on the domestic market as a result of the decline in exports of other manufacturers' products to eastern markets.

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 of a leading manufacturer of ceramic stoneware floor tiles. Furthermore, to maintain its competitive edge the Group continuously improves and expands its product portfolio and consolidates its own capacities.

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

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

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

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

2.5. Risk associated with the tax system

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

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

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

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

3.1. Interest rate risk

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

- changes in the value of export sales and production costs denominated in PLN, in the part relating to imported raw materials;
- changes in the competitiveness of the Group’s offer on export markets;
- changing costs of raw and other materials, as well as energy and services purchased in Poland, whose prices depend, either directly or indirectly, on currency exchange rates;

- realized foreign exchange differences arising between the date of sale or purchase and the date of payment of receivables or liabilities;
- unrealized foreign exchange differences from measurement of accounts and other monetary items as at the balance sheet date;
- varying intensity of competition associated with prices of imported tiles.

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

3.3. Credit risk

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

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

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

3.4. Liquidity risk

The Group uses external funding which determines its liquidity. In order to ensure the availability of funding, the Group maintains the proportion of debt in funding at a safe level (see also the comment in Note [16] and in Note [31]).

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

Amounts in PLN thousand (PLN '000)

Class of liabilities	Total	up to 6 months in 2017	from 6 to 12 months in 2017	in 2018	Subsequent years
Trade and other payables	22,651	22,651	-	-	-
Payments under operating leases*	3,818	1,302	791	1,149	577
Loans eligible for refinancing**	49,500	-	-	49,500	-
Loans to be repaid	5,353	473	4,033	786	62
Total	81,323	24,426	4,823	51,434	639

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

**Amounts resulting from the maximum debt limits granted, regardless of the debt amount as at the end of 2016; as at 31 December 2016, the actual debt amount in this group of loans was PLN 19,546 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 companies of the Group would have to pay for the period till the expiry of the agreements is PLN 2,005 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	888	3,929	foreign exchange	+/-20%	+/-786
Foreign currency denominated receivables	USD	385	1,612	foreign exchange	+/-20%	+/-322
Foreign currency cash	EUR	683	3,022	foreign exchange	+/-20%	+/-604
Foreign currency cash	USD	287	1,201	foreign exchange	+/-20%	+/-240
Foreign currency denominated liabilities	EUR	1,630	7,214	foreign exchange	+/-20%	+/-1443
Foreign currency denominated liabilities	USD	383	1,602	foreign exchange	+/-20%	+/-320
Loans contracted in foreign currencies	EUR	369	1,633	foreign exchange	+/-20%	+/-327
Variable interest rate loans	EUR	369	1,633	interest rate	+/-3.00%	+/-49
Variable interest rate loans	PLN	23,267	23,267	interest rate	+/-3.00%	+/-698

4. Off-balance sheet liabilities

4.1. Contract for the purchase of plant and equipment

Due to the planned modernization of the production plant of Ceramika Nowa Gala SA, contracts with Italian suppliers have been signed. The future obligation to purchase plant and equipment under these contracts amounts to PLN 5,849 thousand (see also Note [10]).

4.2. Non-recourse factoring liabilities

As at the balance sheet date, contingent (off-balance sheet) liabilities under a non-recourse factoring agreement (for more details see section 5.1 of the consolidated report on the operations) signed by the parent company amounted to PLN 11,281 thousand.

5. Sureties and guarantees

On 25 August 2016, in accordance with an annex to the surety agreement, the amount of the surety granted by Ceramika Nowa Gala SA for Ceramika Gres SA to PGE Dystrybucja SA with respect to the payment of the connection fee and expenses incurred for the connection – from PLN 4,023 thousand to PLN 3,056 thousand. Simultaneously, the validity of the surety was extended from 30 August 2016 to 30 June 2017.

Due to the refinancing of the working capital loan by Ceramika Gres SA subsidiary (see also section 7.2.1 in the consolidated report on the operations), Ceramika Nowa Gala SA and Ceramika Nowa Gala II Sp. z o.o. maintained surety bonds granted to ING Bank Śląski SA on behalf of Ceramika Gres SA, up to the amounts of: PLN 21,000 thousand and PLN 10,000 thousand, respectively (the event took place after the balance sheet date)

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