

**THE GROUP**  
**where the holding company is**  
**Ceramika Nowa Gala S.A.**  
**Ceramiczna Street 1, 26-200 Końskie**

**Independent Auditor's Opinion and Report**  
**on the consolidated financial statements**  
**for the period from 1 January to 31 December 2016**

**This document is a translation. Polish version is signed**  
**The Polish original should be referred to in matters of interpretation.**

BDO Sp. z o.o., Sąd Rejonowy dla M. St. Warszawy, XIII Wydział Gospodarczy, KRS: 0000293339, NIP 108-000-42-12, Kapitał zakładowy: 1 000.000 PLN.  
Biura regionalne BDO w Polsce: Katowice 40-007, ul. Uniwersytecka 13/Vp., Tel.: +48 32 661 06 00, [katowice@bdo.pl](mailto:katowice@bdo.pl); Kraków 31-548, al. Pokoju 1/Vlp., Tel.: +48 12 378 69 00, [krakow@bdo.pl](mailto:krakow@bdo.pl); Poznań 60-650, ul. Piątkowska 165, Tel.: +48 61 622 57 00, [poznan@bdo.pl](mailto:poznan@bdo.pl); Wrocław 53-332, ul. Powstańców Śląskich 7a, Tel.: +48 71 734 28 00; [wroclaw@bdo.pl](mailto:wroclaw@bdo.pl).

BDO jest członkiem BDO International Limited, brytyjskiej spółki i częścią międzynarodowej sieci BDO, złożonej z niezależnych spółek członkowskich.

## INDEPENDENT AUDITOR'S OPINION

for the General Meeting and Supervisory Board of Ceramika Nowa Gala S.A.

### Report on the Audit of the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Ceramika Nowa Gala S.A. ("the Company") with its registered office at Ceramiczna Street 1, 26-200 Końskie, consisting of the consolidated statement of financial position prepared as at 31 December 2016, the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the period from 1 January to 31 December 2016, and information on significant accounting policies and other explanatory information.

#### *Responsibilities of Holding Company Management and Supervisory Board for the Consolidated Financial Statements*

The Holding Company's Management is responsible for the preparation of the consolidated financial statements based on properly kept books of account, and for their fair presentation in accordance with International Accounting Standards, International Financial Reporting Standards and the related interpretations announced in the form of European Commission regulations, as well as other binding legal regulations. The Holding Company's Management is also responsible for such internal controls as it considers necessary to ensure that the consolidated financial statements are free of material misstatements resulting from fraud or error.

In accordance with the Accounting Act, the Holding Company's Management and members of its Supervisory Board are required to ensure that the financial statements meet the requirements of the Accounting Act.

#### *Responsibilities of the Auditor*

Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

We performed the audit in accordance with the provisions of Chapter 7 of the Accounting Act, and in accordance with the International Standards on Auditing adopted as National Standards on Auditing in Resolution No. 2783/52/2015 passed by the National Council of Certified Auditors on 10 February 2015, with subsequent amendments. These standards require us to comply with ethical requirements and to plan and perform the audit in a manner that allows us to obtain sufficient assurance that the consolidated financial statements are free of material misstatements.

The audit consisted of performing procedures aimed at obtaining audit evidence on the amounts and information disclosed in the consolidated financial statements. We choose the procedures based on our judgement, including an assessment of the risk of material misstatements in the consolidated financial statements due to fraud or error. In assessing this risk we consider the internal controls related to the preparation and fair presentation of the consolidated financial statements in order to plan our audit procedures, and not to express an opinion on the effectiveness of the Holding Company's internal controls. An audit also includes assessing the appropriateness of the accounting policies used and the reasonableness of the estimates made by the Holding Company's

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management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Opinion*

In our opinion, the audited financial statements:

- a) give a true and fair view of the Group's financial position as at 31 December 2016, as well as of its financial result and cash flows for the period from 1 January to 31 December 2016, in accordance with International Accounting Standards, International Financial Reporting Standards and the related interpretations announced in the form of European Commission regulations, as well as the accounting methods (policies) adopted by the Holding Company,
- b) are consistent, in content and in form, with the requirements of the Minister's of Finance Decree of 19 February 2009 on the current and periodic information submitted by the issuers of securities and on the conditions for recognizing as equally valid the information required by the regulations of a state that is not a member state (2016 Journal of Laws, item 860), as well as with other applicable laws and regulations and with the Holding Company's Articles of Association.

## **Report on Other Legal and Regulatory Requirements**

### *Opinion on Directors' Report on the Group's Activities*

Our opinion on the consolidated financial statements does not cover the Directors' Report on the Group's activities.

In accordance with the Accounting Act and other binding regulations, the preparation of the Directors' Report on the Group's activities is the responsibility of the Holding Company's Management. The Holding Company's Management and members of its Supervisory Board are also responsible for ensuring that the Directors' Report on the Group's activities meets the requirements of the Accounting Act.

In connection with our audit of the consolidated financial statements our responsibility was to read the Directors' Report on the Group's activities and to indicate whether the information presented therein complies with the provisions of Article 49 of the Accounting Act and is consistent with the information presented in the accompanying consolidated financial statements.

It was our responsibility to report whether, based on our knowledge obtained during the audit about the group and its environment, we have identified any material misstatements in the Directors' Report on the Group's activities.

In our opinion, the information contained in the Directors' Report on the Group's activities complies with the provisions of Article 49 of the Accounting Act and with the requirements of the Minister's of Finance Decree of 19 February 2009 on the current and periodic information submitted by the issuers of securities and on the conditions for recognizing as equally valid the information required by the regulations of a state that is not a member state (2016 Journal of Laws, item 860), and is consistent with the information presented in the accompanying consolidated financial statements.

Furthermore, based on our knowledge obtained during the audit about the Group and its environment we have identified no material misstatements in the Directors' Report on the Group's activities.

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In connection with our audit of the consolidated financial statements it was also our responsibility to read the Holding Company's declaration on the application of corporate governance, constituting a separate section of the Directors' Report on the Group's activities. In our opinion, the declaration contains the information required by the implementing provisions issued based on Article 60 par. 2 of the Act on Trading in Financial Instruments of 29 July 2005 (2016 Journal of Laws, item 1639, with subsequent amendments). The information presented therein is consistent with the applicable regulations and with the information presented in the accompanying consolidated financial statements.

Kraków, 23 March 2017

**BDO Sp. z o.o.**  
**ul. Postępu 12**  
**02-676 Warszawa**  
**Authorized Audit Company No. 3355**

**Auditor in charge:**

(-)  
**Marcin Krupa**  
Certified Auditor  
No. 11142

**On behalf of BDO Sp. z o.o.:**

(-)  
**Dr. André Helin**  
Managing Partner  
Certified Auditor No. 90004

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**Year-end Audit Report**  
**on the consolidated financial statements of**  
**THE GROUP**  
**prepared by**  
**Ceramika Nowa Gala S.A.**  
**for the period from 1 January to 31 December 2016**

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## I. GENERAL INFORMATION

### 1. Information about the holding company

The holding company of the Ceramika Nowa Gala S.A. Group (“the Group”) is Ceramika Nowa Gala S.A. (“the Holding Company”, “the Company”).

The Holding Company’s registered office is 26-200, Końskie, Ceramiczna Street 1.

In accordance with the entry in the National Court Register and the Company’s Articles of Association, the Company’s main area of activity is production and sale of porcelain stoneware tiles.

The Holding Company operates on the basis of:

- the Company’s Articles of Association prepared in the form of a notarial deed on 07 February 1995 (Rep. A No. 6499/96) with subsequent amendments,
- the Code of Commercial Partnerships and Companies.

On 27 November 2001 the Company was entered in the National Court Register at the Regional Court in Kielce, X Business Division Registration Section, in number KRS 0000011723.

The Company has been assigned tax identification number NIP: 6581002540, as well as statistical identification number REGON: 290556362.

As at 31 December 2016 the Holding Company’s share capital amounted to 46 894 thousand PLN and consisted of 46 893 621 shares with a nominal value of 1,00 PLN per share.

No changes were made in the Holding Company’s share capital in the year 2016 or before the end of the audit.

The Company’s shareholders as at 31 December 2016, as per the information provided by the Management Board:

Shareholder	Number of shares	% of votes at General Meeting
Piotrowski Waldemar	10 806 249	23,04%
MetLife Otwarty Fundusz Emerytalny	9 356 722	19,95%
PTE Allianz Polska SA	6 049 157	12,90%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	5 834 364	12,44%
Nationale-Nederlanden Otwarty Fundusz Emerytalny oraz Nationale-Nederlanden Dobrowolny Fundusz Emerytalny	4 687 607	9,99%
Other	10 159 522	21,68%

As at 31 December 2016 the Holding Company’s equity totaled 178 598 thousand PLN.

The function of group manager is exercised by the Management of the Holding Company.

As at 31 December 2016 the Holding Company’s Management Board comprised:

- Waldemar Piotrowski - President of the Management Board
- Paweł Górnicki - Member of the Management Board

No changes were made in the composition of the Company’s Management Board in the audited period and before the end of the audit.

## 2. Composition of the Group

The separate financial statements of the Holding Company for the financial year ended 31 December 2016 have been audited by BDO Sp. z o.o. and given an unqualified opinion.

As at 31 December 2016 the Ceramika Nowa Gala S.A. Group consisted of the following (direct and indirect) subsidiaries:

Company name	Auditor	Audit opinion	Consolidation method
Ceramika Nowa Gala II Sp. z o.o.	BDO Sp. z o.o.	Unqualified opinion	Full consolidation method
Ceramika Gres S.A.	BDO Sp. z o.o.	Unqualified opinion	Full consolidation method
CNG Luxemburg S.a.r.l.	-	Not audited	Full consolidation method
Energia Park Trzemoszna Sp. z o.o.	-	Not audited	Full consolidation method

The financial year of all subsidiaries ended at the same date as financial year of Holding Company.

## 3. Information about the authorized audit company and the auditor in charge

The consolidated financial statements of the Ceramika Nowa Gala S.A. Group have been audited by BDO Sp. z o.o. with its registered office in Warsaw, ul. Postępu 12, an entity authorized to audit financial statements, registered with the National Chamber of Certified Auditors in number 3355.

The auditor was selected in Resolution No. F/20 maja 2016 passed by the Holding Company's Supervisory Board on 20 May 2016.

The audit was conducted based on an audit agreement signed on 29 July 2016, and performed under the direction of Marcin Krupa (Certified Auditor No. 11142). The audit was performed at the Holding Company's registered office and at the offices of the subsidiaries, from 13 February 2017 intermittently until the issue of the audit opinion.

We hereby declare that BDO Sp. z o.o., its management, the certified auditor and team performing the audit of the financial statements meet the conditions required to issue an objective and independent opinion on the audited financial statements - as provided for in Article 56 par. 3 and 4 of the Act on certified auditors and their self-government, entities authorized to audit financial statements and on public supervision (2009 Journal of Laws No. 77, item 649 with subsequent amendments).

The Holding Company's Management submitted all of the declarations, explanations and information requested by the auditor and necessary to perform the audit.

No limitations had been placed on the scope of the audit or on the methods selected by the auditor to perform the audit.

#### **4. Information about the consolidated financial statements for the previous financial year**

The Group's consolidated financial statements prepared for the period from 1 January to 31 December 2015 had been audited by TPA Horwath Horodko Audit Sp. z o.o. and given an unqualified opinion.

The Group's consolidated financial statements for the period from 1 January to 31 December 2015 were approved in Resolution No. 10 passed by the General Meeting of Shareholders of 22 June 2016.

The Group's consolidated financial statements for the year 2015 were filed with the National Court Register on 29 June 2016.



## II. FINANCIAL ANALYSIS

Presented below are selected items from the consolidated statement of financial position, the consolidated profit and loss account and the consolidated statement of comprehensive income, as well as key financial ratios, compared to analogical amounts for the previous year.

### 1. Main items from the consolidated statement of financial position, the consolidated profit and loss account and the consolidated statement of comprehensive income (in '000 zł)

	2016-12-31	% of balance sheet total	2015-12-31	% of balance sheet total	2014-12-31	% of balance sheet total
Non-current assets	128 758	52,3	143 138	51,8	151 824	52,5
Current assets	117 611	47,7	133 176	48,2	137 224	47,5
<b>Total assets</b>	<b>246 369</b>	<b>100,0</b>	<b>276 314</b>	<b>100,0</b>	<b>289 048</b>	<b>100,0</b>
Equity	182 685	74,2	196 329	71,1	200 669	69,4
Liabilities	63 684	25,8	79 985	28,9	88 379	30,6
<b>Total liabilities and equity</b>	<b>246 369</b>	<b>100,0</b>	<b>276 314</b>	<b>100,0</b>	<b>289 048</b>	<b>100,0</b>
<b>Item</b>	<b>1.01.2016- 31.12.2016</b>	<b>% of revenue</b>	<b>1.01.2015- 31.12.2015</b>	<b>% of revenue</b>	<b>1.01.2014- 31.12.2014</b>	<b>% of revenue</b>
Sales revenue	170 982	100,0	180 649	100,0	178 865	100,0
Cost of goods sold	(127 836)	(74,8)	(139 061)	(77,0)	(135 605)	(75,8)
<b>Profit (loss) on sales</b>	<b>43 146</b>	<b>25,2</b>	<b>41 588</b>	<b>23,0</b>	<b>43 260</b>	<b>24,2</b>
Administrative and selling expenses	(41 840)	(24,5)	(40 201)	(23,5)	(39 901)	(23,3)
Profit (loss) on other operating activities	(8 880)	(5,2)	(492)	(0,3)	(1 294)	(0,7)
<b>Profit (loss) on operating activities</b>	<b>(7 574)</b>	<b>(4,4)</b>	<b>895</b>	<b>0,5</b>	<b>2 065</b>	<b>1,2</b>
Profit (loss) on finance activities	(1 495)	(0,9)	(1 258)	(0,7)	(1 503)	(0,8)
<b>Profit (or loss) from continuing operations before tax</b>	<b>(9 069)</b>	<b>(5,3)</b>	<b>(363)</b>	<b>(0,2)</b>	<b>562</b>	<b>0,3</b>
Income tax	(119)	(0,1)	(715)	(0,4)	(1 680)	(0,9)
<b>Profit (or loss) from continuing operations</b>	<b>(8 950)</b>	<b>(5,2)</b>	<b>352</b>	<b>0,2</b>	<b>2 242</b>	<b>1,3</b>
Profit (or loss) from discontinued operations	-	-	-	-	-	-
<b>Net profit (loss)</b>	<b>(8 950)</b>	<b>(5,2)</b>	<b>352</b>	<b>0,2</b>	<b>2 242</b>	<b>1,3</b>
Total comprehensive income for a period	(8 953)	(5,2)	349	0,2	2 244	1,3

## 2. Key financial ratios

	2016	2015	2014
<b>Profitability ratios</b>			
Gross sales profitability	25,2%	23,0%	24,2%
Net sales profitability	-5,2%	0,2%	1,3%
Return on assets	-3,6%	0,1%	0,8%
<b>Liquidity ratios</b>			
Current ratio	2,0	3,1	4,2
Quick ratio	0,8	1,2	1,6
<b>Operating ratios</b>			
Receivable days	68	75	77
<b>Debt ratios</b>			
Payable days	53	46	50
Debt rate	25,8%	28,9%	30,6%

## 3. Remarks

The analysis of the data above indicates some trends:

- In the audited year total assets decreased by almost 29 945 thousand PLN as compared to the previous year.
- Fixed assets accounted for 52,3% of the Company's total assets at the end of the audited period, increased from 51,8% by the end of 2016. Current assets constituted 47,7% of total assets at the end of the audited period after declining from 48,2% at the end of 2015.
- Equity has increased in comparison to the previous year to 74,2% of the balance sheet total. Liabilities and provisions for liabilities account for 25,8% of total liabilities and equity.
- In the audited period the Company recorded a decrease in sales revenue by 5,4% from the previous year, which was accompanied by a 5,4% decrease in operating costs.
- Gross sales profitability increased from 23,0% in previous year to 25,2% in audited period. Liquidity ratios changed, Current ratio decreased from respectively 3,1 in previous year to respectively 2,0 and Quick ratio decreased from 1,2 in previous year to 0,8 in audited period. The debt rate has decreased from the previous year, amounting to 25,8% at the end of the audited period.

In the course of the audit of the consolidated financial statements we found no indications that as a result of discontinuing or significantly limiting its operations the Holding Company will not be able to continue as a going concern in at least the next reporting period.

### **III. DETAILED INFORMATION**

#### **1. Basis for the preparation of the consolidated financial statements**

The consolidated financial statements of the Ceramika Nowa Gala S.A. Group have been prepared in accordance with the International Financial Reporting Standards endorsed by the European Union.

#### **2. Completeness and correctness of consolidation documentation**

Consolidation documentation has been prepared in accordance with the requirements of the Minister's of Finance Decree of 25 September 2009 on the detailed methods used by entities other than banks, insurers and re-insurers to prepare the consolidated financial statements of groups (2009 Journal of Laws No. 169, item 1327).

In the course of the audit we found no un-remedied misstatements in the consolidation documentation with a significant effect on the audited consolidated financial statements, including with regard to the fulfilment of the requirements that consolidation documentation should comply with.

#### **3. Methods used to value assets, liabilities and equity**

The entities covered by the Group's consolidated financial statements apply consistent accounting principles and methods in the valuation of their assets and liabilities.

#### **4. Information about consolidated financial statements items**

The structure of the Group's assets, liabilities and equity is presented in the consolidated financial statements for the financial year ended 31 December 2015.

The data disclosed in the Group's consolidated financial statements are consistent with the consolidation documentation.

##### **4.1 Goodwill on consolidation and impairment write downs**

The methods used to determine goodwill on consolidation, to assess impairment and to make impairment write downs for the financial year and up until the balance sheet date, are presented in Note 35 to the consolidated financial statements.

##### **4.2 Equity**

The value of equity is consistent with the consolidation documentation and the legal documents.

Equity data is presented in Note 15 to the consolidated financial statements.

## 5. Additional information

The information presented in the notes to the consolidated financial statements, containing a description of significant accounting policies and other explanatory information, has been presented completely and correctly in all material respects.

## 6. Management's Declaration

The Holding Company's Management submitted a written declaration about the completeness of the books of account and disclosure of all contingent liabilities and absence of significant post-balance sheet events.

Kraków, 23 March 2017

**BDO Sp. z o.o.**  
**ul. Postępu 12**  
**02-676 Warszawa**  
**Authorized Audit Company No. 3355**

**Auditor in charge:**

(-)  
**Marcin Krupa**  
Certified Auditor  
No. 11142

**On behalf of BDO Sp. z o.o.:**

(-)  
**Dr. André Helin**  
Managing Partner  
Certified Auditor No. 90004