

Ceramika Nowa Gala S.A.
Ceramiczna Street 1, 26-200 Końskie

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

This document is a translation.
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; Kraków 31-548, al. Pokoju 1/VIp., Tel.: +48 12 378 69 00, krakow@bdo.pl; Poznań 60-650, ul. Piątkowska 165, Tel.: +48 61 622 57 00, poznan@bdo.pl; Wrocław 53-332, ul. Powstańców Śląskich 7a, Tel.: +48 71 734 28 00; 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 Financial Statements

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

The Company's Management is responsible for the preparation of the 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 Company's Management is also responsible for such internal controls as it considers necessary to ensure that the financial statements are free of material misstatements resulting from fraud or error.

In accordance with the Accounting Act, the 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 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 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 financial statements. We choose the procedures based on our judgement, including an assessment of the risk of material misstatements in the 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 financial statements in order to plan our audit procedures, and not to express an opinion on the effectiveness of the 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 entity's management, as well as evaluating the overall presentation of the financial statements.

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

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 Company'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 adopted accounting methods (policies),
- b) have been prepared on the basis of properly kept books of account, and
- c) 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 Company's Articles of Association.

Report on Other Legal and Regulatory Requirements

Opinion on Directors' Report on the Company's Activities

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

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

In connection with our audit of the financial statements our responsibility was to read the Directors' Report on the Company'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 financial statements. It was our responsibility to report whether, based on our knowledge obtained during the audit about the entity and its environment, we have identified any material misstatements in the Directors' Report on the Company's activities.

In our opinion, the information contained in the Directors' Report on the Company'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 financial statements.

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

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

In connection with our audit of the financial statements it was also our responsibility to read the Company's declaration on the application of corporate governance, constituting a separate section of the Directors' Report on the Company'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 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

**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; Kraków 31-548, al. Pokoju 1/Vlp., Tel.: +48 12 378 69 00, krakow@bdo.pl; Poznań 60-650, ul. Piątkowska 165, Tel.: +48 61 622 57 00, poznan@bdo.pl; Wrocław 53-332, ul. Powstańców Śląskich 7a, Tel.: +48 71 734 28 00; wroclaw@bdo.pl.

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

Audit Report
on the financial statements of
Ceramika Nowa Gala S.A.
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; Kraków 31-548, al. Pokoju 1/Vlp., Tel.: +48 12 378 69 00, krakow@bdo.pl; Poznań 60-650, ul. Piątkowska 165, Tel.: +48 61 622 57 00, poznan@bdo.pl; Wrocław 53-332, ul. Powstańców Śląskich 7a, Tel.: +48 71 734 28 00; wroclaw@bdo.pl.

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

I. GENERAL INFORMATION

1. Information about the Company

The Company does business as Ceramika Nowa Gala Spółka Akcyjna.

The Company's registered office is in 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 Company operates on the basis of:

- the Company's Articles of Association prepared in the form of a notarial deed on 7 February 1995 (Rep. A No. 6499/96) with subsequent amendments,
- the Code of Commercial Partnerships and Companies.

On 11 May 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 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 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 Company's equity totaled 178 598 thousand PLN.

The function of entity manager is exercised by the Management Board.

As at 31 December 2016 the 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. Information about the authorized audit company and the auditor in charge

The financial statements of Ceramika Nowa Gala S.A. for the year 2016 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 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 Company's registered office from 20 February 2017, intermittently until the issue of the audit opinion. It was preceded with a review of the financial statements for the 1st half of 2016 and interim audit.

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 (2016 Journal of Laws, No. 1000 with subsequent amendments).

The 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.

3. Information about the financial statements for the previous financial year

The books of account were opened based on the financial statements prepared for the period from 1 January to 31 December 2015, which had been audited by TPA Horwath Horodko Audit Sp. z o.o. and given an unqualified opinion.

The Company's financial statements for the period from 1 January to 31 December 2015 were approved in Resolution No 6 passed by the General Meeting of Shareholders of 22 June 2016.

In its Resolution No. 7 the General Meeting of Shareholders designated the Company's entire net profit for the period from 1 January to 31 December 2015, amounting to 8 927 thousand PLN on a dividend payment 4 689 thousand PLN and on supplementary capital amounting to 4 238 thousand PLN.

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

II. FINANCIAL ANALYSIS

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

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

	<u>2016-12-31</u>	% of balance sheet total	<u>2015-12-31</u>	% of balance sheet total	<u>2014-12-31</u>	% of balance sheet total
Non-current assets	122 512	58,4	126 708	54,1	133 979	56,3
Current assets	87 286	41,6	107 545	45,9	103 788	43,7
Total assets	209 798	100,0	234 253	100,0	237 767	100,0
Equity	178 598	85,1	189 058	80,7	184 821	77,7
Liabilities	31 200	14,9	45 195	19,3	52 946	22,3
Total liabilities and equity	209 798	100,0	234 253	100,0	237 767	100,0

Item	<u>1.01.2016- 31.12.2016</u>	% of revenue	<u>1.01.2015- 31.12.2015</u>	% of revenue	<u>1.01.2014- 31.12.2014</u>	% of revenue
Sales revenue	133 849	100,0	147 592	100,0	145 278	100,0
Cost of goods sold	(114 521)	(85,6)	(131 210)	(88,9)	(135 905)	(93,5)
Profit (loss) on sales	19 328	14,4	16 382	11,1	9 373	6,5
Administrative and selling expenses	(24 412)	(18,2)	(23 404)	(17,5)	(23 666)	(17,7)
Profit (loss) on other operating activities	(1 930)	(1,4)	(380)	(0,3)	(1 449)	(1,0)
Profit (loss) on operating activities	(7 014)	(5,2)	(7 402)	(5,5)	(15 742)	(11,8)
Profit (loss) on other finance activities	371	0,3	15 099	10,2	10 920	7,5
Profit (or loss) from continuing operations before tax	(6 643)	(5,0)	7 697	5,2	(4 822)	(3,3)
Income tax	(872)	(0,7)	(1 230)	(0,8)	(2 963)	(2,0)
Profit (or loss) from continuing operations	(5 771)	(4,3)	8 927	6,7	(1 859)	(1,4)
Profit (or loss) from discontinued operations	-	-	-	-	-	-
Net profit (loss)	(5 771)	(4,3)	8 927	6,0	(1 859)	(1,3)
Total comprehensive income for a period	(5 771)	(4,3)	8 927	6,7	(1 859)	(1,4)

2. Key financial ratios

	2016	2015	2014
Profitability ratios			
Gross sales profitability	14,4%	11,1%	6,5%
Net sales profitability	-4,3%	6,0%	-1,3%
Return on assets	-2,8%	3,8%	-0,8%
Liquidity ratios			
Current ratio	3,2	3,0	3,0
Quick ratio	1,2	1,3	1,3
Operating ratios			
Receivable days	82	99	99
Debt ratios			
Payable days	53	55	60
Debt rate	14,9%	19,3%	22,3%

3. Remarks

The analysis of the data above indicates some trends:

- In the audited year total assets decreased by 24 455 thousand PLN as compared to the previous year.
- Fixed assets accounted for 58,4% of the Company's total assets at the end of the audited period, and it increased from 54,1% by the end of 2015. Current assets constituted 41,6% of total assets at the end of the audited period after declining from 45,9% at the end of 2015.
- Equity has increased in comparison to the previous year to 85,1% of the balance sheet total. Liabilities and provisions for liabilities account for 14,9% of total liabilities and equity.
- In the audited period the Company recorded an decrease in sales revenue by 9,3% from the previous year, and a 10,1% decrease in cost of goods sold.
- Gross sales profitability increased from 11,1% to 14,4%, in audited period. Liquidity ratios changed, Current ratio increased from 3,0 to 3,2, and Quick ratio decreased from 1,3 to 1,2.
- The debt rate has decreased from the 19,3% in the previous year, amounting to 14,9% at the end of the audited period.

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

III. DETAILED INFORMATION

1. Assessment of the Company's accounting and internal control systems

The Company has documentation describing its accounting methods, as set forth in Article 10 of the Accounting Act.

The Company's books of account are kept at its registered office. The Company's accounting records are computerized using the Si system provided by Oracle EBS R12.

During our audit of the financial statements we performed a random check of the operation of the Company's accounting system. It was not an objective of the audit to express a comprehensive opinion on the operation of this system.

In the course of our audit we found no misstatements in the books of account, which could have a significant effect on the audited financial statements. Our audit has shown that:

- the accounting methods (policies) are valid and applied continuously, and that the books of account were opened correctly,
- economic transactions are documented accurately, completely and clearly, and correctly classified for entry in the books of account,
- the methods used to secure access to data and the data processing system are appropriate,
- accounting entries are complete and accurate, made continuously and are consistent with the corresponding source documents and financial statements,
- accounting documents, books of account and financial statements are properly protected.

The Company's inventory count of its assets and liabilities, conducted in accordance with the scope, due date and frequency requirements of the Accounting Act, was performed correctly, and the resulting differences have been settled in the books of account of the audited period.

2. Information about selected significant financial statements items

The most significant financial statements items have been described in the notes to the financial statements and in the Directors' Report on the Company's activities.

3. Additional information

The information contained in the introduction and notes to the financial statements has been prepared completely and correctly.

4. Management's Declaration

The 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