Report on the activities of the

Ceramika Nowa Gala SA Group

for the period of 1 January–31 December 2014

Końskie, 19 March 2015

1. PRINCIPLES OF PREPARATION OF THE ANNUAL FINANCIAL STATEMENTS AND DESCRIPTION OF THE ORGANIZATIONAL AND CAPITAL RELATIONS WITHIN THE GROUP

The consolidated financial statements of Ceramika Nowa Gala SA are prepared in accordance with International Financial Reporting Standards (IFRS). All data have been derived from the accounting records of the subsidiaries, off-balance sheet records and consolidation documents.

Methods used to measure assets and liabilities and the financial profit (loss) are presented in the introduction to the consolidated financial statements.

The Group consists of the following business entities whose financial statements are consolidated on a line-by-line basis:

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

Except for CNG Luxembourg S.à.r.l. subsidiary, the accounts of the subsidiary companies are maintained in accordance with the same accounting principles as in the case of the parent company. The accounts of CNG Luxembourg S.à.r.l. are maintained in accordance with accounting standards applicable in Luxembourg and its financial statements are subject to relevant amendments in the consolidation process. The financial statements of the subsidiaries are consolidated on a line-by-line basis, with due account of any applicable exclusions and conversions to the presentation currency, i.e. the Polish zloty.

The core business of the Group consists of the production and sale of ceramic stoneware tiles. The tiles are made of mineral raw materials (minerals). Production takes place in two factories located in Końskie and in the factory located in the village of Kopaniny in the Końskie district.

The most important production steps are as follows: milling of raw materials, production of ceramic powder, ceramic tile pressing, glazing (in the case of some products) and firing. The production process is continuous and automated. Part of the tiles is also polished. The Company produces also supplementary decorative elements sold as a part of a joint offer.

The products are sold primarily via a network of wholesalers cooperating with the companies of the Group, both in Poland and in foreign markets, as well as DIY chain stores. The products are used as finishing material in the construction industry: flooring and wall cladding.

CNG Luxembourg S.à.r.l. has been established to manage the portfolio of treasury shares of the parent company, purchased in the framework of share buyback programs. Currently, the company does not conduct any other activity, and all treasury shares held by this entity have been transferred to Ceramika Nowa Gala SA.

Energia Park Trzemoszna Sp. z o.o. did not conduct any activity in 2014.

2. INFORMATION ON THE KEY PRODUCTS

Products and goods sold by the Group can be divided into three categories:

- unglazed stoneware tiles (including polished and semi-polished ones);
- glazed stoneware tiles (including semi-polished ones);
- decorative elements.

2.1. Unglazed tiles

Salt and pepper

The name of this kind of tiles is derived from their appearance, as their granular structure resembles the mixture of salt and pepper. Products of this kind are offered by the largest number of manufacturers. In accordance with the strategy adopted by Ceramika Nowa Gala, this product line is a complementary one.

Quarzite

Quarzite tiles have a more complex design (structure) compared to the Salt and pepper line. They are an important item as regards sales of Ceramika Nowa Gala. This collection includes also tiles with polished surface. These tiles are particularly well suited for industrial and commercial buildings, with heavy traffic (aisles).

Magma

This collection is inspired by volcanic lava. It is distinguished by a clearly marked structure. A five-colour range (white, dark beige, red, light and dark grey) and two types of surface (natural and semi-polished) enable laying the tiles in a variety of combinations. The tiles are available also in a size of 60x120 cm.

Dolomia

The collection is inspired by natural basalt rocks. It is available in a modular system (a number of different sizes can be combined), in six colours: white, black, light grey, dark grey, light brown, dark brown, and with two types of surface: natural and semi-polished. The collection is complemented with borders and mosaics with metal and quartz glass inserts.

Concept

The collection is inspired by natural sandstone and loess. It is characterized by a minimalist design. The tiles are available with two types of surface: polished and natural, and in a large size: 60x120 cm.

Zenith

Zenith tiles are characterized by a soft linear drawing in monochrome colours. Besides natural and polished surface, the tiles are available also with structural surface which provides slip resistance in areas where it is particularly important to ensure safety conditions. The collection is complemented with two lines of modern decors, manufactured using the modern waterjet technology.

Neutro

A minimalist collection whose design resembles concrete structure. The tiles are formed using the double charge technology, by combining two layers: the base and top (micronized) one. The drawing is diverse, yet subdued and limited to a homogeneous range of colours. The same colours used in both layers allow for obtaining a tile with a uniform cross-section. In this collection, polished tiles are also available.

Prestige

A collection inspired by old stone slabs, with marks of long use: subtle cavities, highlighted by the play of light on a relief structure. Prestige tiles come in subdued shades of grey.

Basis

A "salt and pepper" type collection complemented with decorative elements with inclusions. The tiles in this collection are manufactured in five colours corresponding to the current market trends.

2.2. Glazed tiles

Orientale

The design of these tiles resembles natural stones. Dimensional accuracy, achieved through mechanical processing of the edges (rectification) is an additional advantage of this product. Due to their excellent performance properties, the tiles are suitable for finishing both interior surfaces (walls, floors, window sills) and external facades, stairs, terraces or balconies.

Travertino

A collection designed for a very demanding customer appreciating the combination of the natural appearance of floors and walls with unique technical parameters of stoneware tiles. The dry glaze technology enabled to obtain remarkable surface: smooth and natural, yet resistant to abrasion and staining. The tile faithfully reproduces the structure of travertine, however, surpassing its strength parameters.

Signum

The tiles making up this collection have a minimalist design, with slight glitter sheen on a matte surface. Though these tiles are recommended especially for buildings such as shopping centers, although they are enjoyed by individual customers as well. The collection is distinguished by its high stain and abrasion resistance. It is available in a modular system. The colours used in the Signum collection include: light and dark beige, brown, light and dark grey.

Stonewood

Tiles with a drawing resembling natural wood, intended to be used both as floor and wall cladding. The collection is complemented with decorative borders and mosaics. The sizes correspond to the characteristics of the collection (board): 30x60, 15x60 and 10x60 cm. A modular system enables arranging many different combinations. These tiles are rectified.

Muscat

The tiles in this collection have strong colours of soil and are inspired by stone structures. The granilla layer applied on the surface of the tiles resembles water drops. The tiles are produced in sizes of 60x60 and 30x60 cm in five colours. They have natural or semi-polished surface. The collection includes floral ornaments, made using a novel sanding method.

Trend Stone

A collection of tiles whose design has been derived from natural stones with minimalist appearance. The tiles are offered in two colour ranges – grey and beige. Both the graphics and the colour range correspond to modern trends found in the design of ceramic tiles. Due to their subdued colours of soil and natural satin surface, the tiles can be used in different types of buildings. Tiles in sizes of 60x60, 30x60 and 30x30 cm can be complemented with a wide selection of mosaics used as decorative elements of wall and floor cladding.

Lumina

This modern collection is available in five vibrant colours. Glossy surface in the semi-polished version enhances the impression of colour sharpness. The tiles are complemented with modern decors. The collection is designed for finishing of interior walls and floors.

Everstone

The collection is inspired by the appearance of natural basalt, made up of various fine grains, and the tiles have monochrome colours. The surface is distinguished by a fine texture and sparkling inclusions. The tiles are complemented with monochrome mosaics.

In 2015, further work is planned as regards the development and modernization of the product portfolio.

The product portfolio of the Group includes also a number of glazed stoneware tiles, sold under the brand names of Ceramika Gres and Milo, positioned in the middle and low end of the market. The main product collections offered under these brands are described below.

Sandstone

The design was inspired by natural sandstone. The tiles are semi-polished and are available in sizes of 40x40, 30x60 and 60x60 cm. They are offered in four colours: cream, beige, brown and anthracite. The collection is designed for residential and commercial buildings. The tiles look great on large surfaces.

Forum

A combination of classic style with modern design. The tiles resemble smoothened natural travertine sheet. They are offered along with modern geometric decors. The tiles are available in three sizes: 40x40, 30x60 and 60x60 cm and can be rectified and semi-polished. They come in two colours: cream and beige. The collection is recommended, among others, for bathing room, bathrooms and kitchens.

Storm

The design of the tiles resembles marble surface with fine veining. The tiles are semi-polished and are available in sizes of 40x40 cm, 30x60 cm and 60x60 cm, and come in five colours: white, cream, beige, grey and graphite.

Xenon

The collection is inspired by stone structures in natural colours, resembling granite. The tiles are available in sizes of 40x40, 30x60 and 60x60 cm, and come in three colours: cream, beige and brown. As the tiles are universal, they can be used, among others, in living rooms, kitchens and facades of buildings, as well as cladding in showrooms and restaurants.

Colonial

The tiles in this collection are available in sizes of 30x60 and 15x60 cm. The collection is inspired by natural wood characterized by gentle drawing with clearly visible grain along the tile. The line can be used in all living areas and can successfully replace natural wood cladding due to their better technical performance and comfort.

Artwood

The Artwood collection is inspired by the appearance of manually processed boards. This effect was achieved by using an appropriate relief structure, and was further enhanced by glossy wood grain drawing on matte glaze. A different structure of the surface of tiles in this collection is due to regular longitudinal grooves. Owing to its usability, the collection is intended primarily for terraces, but it can also decor walls. The tiles are available in a natural version in sizes of 30x60 and 15x60 cm.

Mission

The tiles in this collection are available in sizes of 30x60 and 60x60 cm. The graphic design resembles rich marble. The subdued colours of the tiles create a very attractive impression. The collection is available in natural and semi-polished versions. The tiles can be used in living areas and those publically available.

Excellent

The first collection created by Ceramika Gres using a technology enabling surface to be fully polished. The graphic design resembles a high resolution photographic image of marble. The collection can be used in all living areas and those publicly available. The tiles are available in sizes of 30x60 and 60x60 cm.

Redmar

The collection is inspired by the appearance of natural stones with rich veining and the tiles resemble smooth and shiny surface of polished marble. The tiles are available in four colours: brown, burgundy, grey and cream, along with ceramic borders and corners as well as brass squares. The collection is recommended for living rooms with classic design.

Vulcan

The tiles in this collection are inspired by natural sandstone. They are suitable for use both indoors and outdoors (terraces), where slip resistance is particularly important. The tiles are available in four colours.

Caldo

The tiles in this collection have a gentle relief surface. They are available in size of 40x40 cm, in three natural colours. The rich graphics allow for manufacturing tiles with a variety of images, which makes the surface arranged with them diversified. The collection is designed to be used both indoors and outdoors. It is a perfect choice for areas designed in a rustic style.

Tandem

The tiles in this collection are available in a size of 40x40 cm. They have a characteristic relief surface. The tiles can be arranged in rosettes. This collection is available in warm, beige colours. It is ideal for terraces and arbors, as well as living areas, clubs and bars.

Indus

The tiles in this collection are available in a size of 40x40 cm. The design reflects the current trends as regards colours and patterns. The graphics are inspired by the appearance of rustic boards. The collection is available in warm shades of beige, brown and grey. It is a perfect choice for both rustic and modern rooms.

Bella, Crema and Paladio

The tiles in these collections are made using a technology of full polishing of enamel. They were the first digitally printed tiles in the Group's portfolio.

They are characterized by exact, halftone print of models reflecting in a precise manner the appearance of natural marble. The collections include also polished decors made in a digital technology (inlaid rosette, photo-realistic views).

Gesso

Another collection manufactured using digital printing. It has a typology of structural concrete with a formwork effect. The tiles in this collection are rectified and available in natural grey colours, in sizes of 60x60 and 30x60 cm. The tiles are complemented with a decor with a modern typographic pattern.

Corn

A collection in a minimalist style. It is inspired by the image of granite and manufactured in two colours: grey and graphite, using the traditional "wet" technology.

Equal

The design and colour of the tiles in this collection are inspired by natural limestone. The structure of the tile was obtained by application of relief pastes. The tiles in this collection are made in the traditional "wet" technology.

Pamir

The pattern on the tiles is inspired by a natural ardesia stone. The tiles are made in a digital printing technology. As the tiles vary, their arrangement offers a unique effect.

Kalcyt

The tiles in this collection have a delicate marble typology. They are manufactured using digital printing on enamel with a delicate satin surface.

Galeon

The pattern on the tiles in this collection is inspired by the appearance of shabby chic boards. Their relief structure resembles etched wood. The use of a digital printing technology enables realistic image reproduction.

Oakland

The collection is inspired by the natural appearance of wood. Digital imprints on the structure resemble marks of manual processing of wood. The colours correspond to classic wood-like panels.

Solid

The tiles in this collection are made using digital printing on fine structure. The collection is available in shades of grey and warm beige.

33x33

Glazed stoneware tiles in a size of 33x33 cm make up a substantial part of the product offer of Ceramika Gres. They are targeted at widespread distribution and meet the need of products at the low and middle end of the market. The most important collections of this type are as follows: Ventus, Castilo, Alpino, Java, Riva and Roxy.

2.3. Decorative elements

Decorative elements are complementary elements of the offer. They increase its attractiveness and they are also a source of additional revenues. Most of them are manufactured in the production facilities owned by Ceramika Nowa Gala SA and Ceramika Gres SA. The plants are provided with modern equipment for processing stoneware tiles.

3. DATA ON SALES AND SELLING MARKETS

3.1. Percentage sales structure

Amounts in PLN thousand (PLN '000).

		2014		2013
Unglazed tiles	70,687	40%	76,063	38%
Glazed tiles	97,898	54%	111,059	56%
Decors and treads	9,088	5%	10,012	5%
Other sales	1,192	1%	1,317	1%
	178,865	**100%**	**198,451**	**100%**

3.2. Quantitative sales structure

		2013		2013
Unglazed tiles	2,195	thousand sq. m.	2,403	thousand sq. m.
Glazed tiles	3,541	thousand sq. m.	4,003	thousand sq. m.
	5,736	**thousand sq. m.**	**6,406**	**thousand sq. m.**

In 2014, a decrease in sales in all product groups was recorded.

3.3. Sales by selling markets

Amounts in PLN thousand (PLN '000).

		2014		2013
Domestic market	146,638	82%	159,505	80%
Export	32,227	18%	38,946	20%
	178,865	**100%**	**198,451**	**100%**

A decrease in sales was recorded both in the domestic market (by 8%) and in export markets (by 17%). Export performance was adversely affected by the conflict in Ukraine and the depreciation of the national currencies in the eastern markets, which significantly worsened the competitive edge of our products.

The group of customers of the products offered by the companies in the Group is diversified. The share of none of them exceeded 10% of consolidated revenues, thus the Group is not dependent on one or several customers.

4. SUPPLY SOURCES

Among the most important suppliers of the Ceramika Nowa Gala Group there are local providers of gas and electricity as well as producers and distributors of materials used in production (feldspars, clays, mineral pigments, enamels, etc.). The companies in the Group procure commercially available natural resources used in the production of tiles, mainly imported ones due to a higher quality of raw materials. The suppliers are diversified and, with the exception of the domestic gas supplier, the share of any of them does not exceed 10% of the supplies.

5. INFORMATION ON SIGNIFICANT AGREEMENTS AND COLLATERAL ON SIGNIFICANT ASSETS

Assuming 10% of the equity of the parent company at the time of the transaction as a criterion for an agreement to be considered significant, in 2014, the companies in the Group entered into the following significant agreements:

5.1. Agreement between Ceramika Gres SA subsidiary and ING Bank Śląski SA

On June 23, 2014, Ceramika Gres SA concluded a loan agreement with ING Bank Śląski SA. The subject matter and the material terms and conditions of the agreement are as follows:

- the bank has provided an overdraft facility for the maximum amount of PLN 40,000 thousand;
- the loan is intended to finance the current activity of the company, whereby the first use of the loan was allocated for the repayment of the loan granted to the company by Alior Bank SA.;
- the deadline for repayment of the loan is due on June 23, 2016;
- the loan is denominated in PLN;
- the loan bears an interest rate of: WIBOR 1M plus the bank's margin;
- the following collaterals have been provided: mortgage in the amount of up to PLN 69,000 thousand along with the transfer of the rights under the insurance policy on the real property, guarantees of Ceramika Nowa Gala SA of up to PLN 21,000 thousand and of Ceramika Nowa Gala II Sp. z o.o. of up to PLN 10,000 thousand, a registered pledge on finished products and goods along with the transfer of the rights under the insurance policy, a registered pledge on fixed assets along with the transfer of the rights under the insurance policy.

As the owner of the real property, Ceramika Gres SA signed on June 23, 2014, in connection with being granted the overdraft facility in the amount of PLN 40,000 thousand, a declaration on the establishment of a mortgage in the amount of up to PLN 69,000 thousand.

5.2. Establishment of a mortgage on assets of a significant value owned by Ceramika Gres SA subsidiary

Pursuant to the decision of July 4, 2014, the District Court in Końskie, the 4th Land and Mortgage Registry Department, registered the contractual mortgage in the amount of PLN 69,000 thousand against the property entered in the land and mortgage register No. KI1K/00035268/6, owned by Ceramika Gres SA subsidiary. The mortgage was established in favor of ING Bank Śląski SA with its registered seat in Katowice as a collateral for a working capital facility in the amount of PLN 40,000 thousand, granted to the subsidiary to finance its current operations, whereby the first use of the loan was allocated for the repayment of the loan granted to the company by Alior Bank SA. In connection with the repayment of the loan granted to the subsidiary by Alior Bank SA, a similar mortgage, established for the benefit of Alior Bank SA, was cancelled. The net book value of the encumbered property was PLN 22,183 thousand, while its value according to the appraisal report is PLN 35,373 thousand. On the property in question there are located a manufacturing plant as well administrative buildings and warehouses belonging to Ceramika Gres SA.

5.3. Agreements on purchase of fuel gas entered into by the companies in the Group (events after the balance sheet date)

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

- the agreement was concluded by Ceramika Gres SA subsidiary;
- the price to be paid by the subsidiary for received fuel gas will depend on the current tariff;
- the debtor's consent for voluntary submission to enforcement of up PLN 2,500 thousand will be used as a performance bond;
- where the actual annual purchase of fuel gas is lower than the minimum quantity specified in the agreement, the subsidiary will be required to pay the seller liquidated damages in the amount of 75% of the price for uncollected fuel gas;
- the agreement has been concluded for an indefinite period;

- the Polish zloty is the currency of the agreement;
- the value of purchases made under the agreement within 5 years is estimated at approx. PLN 58,137 thousand.

6. INFORMATION ON ENTERING BY THE COMPANY OR A SUBSIDIARY THEREOF INTO ONE OR MORE TRANSLATIONS WITH RELATED PARTIES, WHERE SUCH TRANSACTIONS ARE SIGNIFICANT, EITHER INDIVIDUALLY OR COLLECTIVELY, AND WERE CONCLUDED ON TERMS OTHER THAN ON AN ARM'S LENGTH BASIS

In the period covered by this report, neither Ceramika Nowa Gala SA nor its subsidiaries entered into transactions with related parties, which would be significant, either individually or collectively, and concluded on terms other than on an arm's length basis.

7. LOANS CONTRACTED IN 2014 AND SURETIES AND GUARANTIES GRANTED WITHIN THAT YEAR

7.1. Loans contracted by Ceramika Nowa Gala SA

7.1.1. Loan agreement with mBank SA concluded on January 28, 2014

In order to purchase manufacturing equipment, in January 2014, the Company contracted a 5-year investment loan at mBank SA (former BRE Bank SA) in the amount of EUR 680 thousand. The deadline for payment of the last instalment falls on January 25, 2019.

7.1.2. Loan agreement with Bank Handlowy SA of April 25, 2014

The deadline for payment of the overdraft line of credit granted to the Company by Bank Handlowy w Warszawie SA was set at April 25, 2014. On April 25, 2014, Ceramika Nowa Gala SA signed a revolving credit facility agreement with Bank Handlowy w Warszawie SA, with the repayment deadline set at April 22, 2016, while maintaing the existing collateral and limit.

7.1.3. Annex to the loan agreement with Bank Pekao SA

The deadline for repayment of the overdraft line of credit in the amount of PLN 15,000 thousand granted to the Company by Bank Pekao SA fell on September 30, 2014. On September 29, 2014, Ceramika Nowa Gala SA signed an annex to the loan agreement which extended the deadline for payment to September 30, 2016, while maintaining the existing collateral. At the same time, the Company decreased its existing overdraft limit from PLN 15,000 thousand to PLN 9,000 thousand, in line with the strategy which assumes debt reduction.

7.2. Loans contracted by Ceramika Gres SA subsidiary

7.2.1. Loan agreement with ING Bank Śląski SA

On June 25, 2014, Ceramika Gres SA subsidiary signed an overdraft facility agreement with ING Bank Śląski SA for the amount of PLN 40,000 thousand, intended to finance its current activity, whereby the first use of the loan was allocated for the repayment of the loan and factoring granted to the company by Alior Bank SA. The following collaterals have been provided: guarantees of Ceramika Nowa Gala SA and Ceramika Nowa Gala II Sp. z o.o., a real property mortgage and a registered pledge on finished products, goods and fixed assets. Similar collateral was established for refinancing the loan and the factoring agreement. The deadline for repayment of the loan granted by the bank falls on June 23, 2016 (see also section 5.1).

7.3. Loans received

No loans were contracted by the Group in 2014.

8. INFORMATION ON LOANS AND GUARANTEES GRANTED IN 2014

8.1. Loans granted

In January 2014, Ceramika Nowa Gala SA increased the loan for CNG Luxembourg S.à.r.l. by EUR 60,000 and extended the deadline for its repayment until March 31, 2015. In December 2014, the subsidiary repaid the total interest accrued by that time and the capital in the amount of EUR 120 thousand. The amount of the loan granted to the subsidiary (without accrued interest) is currently EUR 25 thousand. At the same time, the deadline for repayment of the remaining amount has been postponed till December 31, 2015.

8.2. Guarantees granted

No financial guarantees were granted in 2014.

8.3. Sureties granted

Due to the refinancing of the working capital credit performed by Ceramika Gres SA subsidiary (see also section 7.2.1), Ceramika Nowa Gala SA and Ceramika Nowa Gala II Sp. Z o.o. provided ING Bank Śląski SA with surety on behalf of Ceramika Gres SA up to the amounts of: PLN 21,000 and PLN 10,000, respectively. At the same time, the analogous guarantees granted to Alior Bank SA expired.

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

9. ULIZATION OF PROCEEDS FROM ISSUED SECURITIES

No security placements were carried out in 2014.

10. IMPLEMENTATION OF FINANCIAL FORECASTS

The Group did not publish any forecasts in 2014.

11. ASSESMENT OF FINANCIAL RESOURCES MANAGEMENT

As the parent company of the Group, Ceramika Nowa Gala SA implements a policy of maintaining a secure asset financing structure so that the cash flow generated by the current operations less capital expenditure commitments allows for settling liabilities of the Group, with due account of a margin of safety.

At the end of 2014, the Group's equity represented 69% of total assets. The current liquidity ratio increased as compared to 2013 and was 4.25, which is a safe value, and the Group settled its commitments on an ongoing basis (minor delays occurred as regards certain trade liabilities). The improvement in this ratio compared to 2013 was due primarily to a change in the bank financing structure – the majority of loans that were to be renewed in 2014 were renewed for periods longer than one year, and as of the end of the year, they are recognized in the balance sheet as non-current liabilities. Both the repayment periods and the inventory turnover period were at levels similar to those of 2013. The debt repayment period was reduced. Negative values of some indicators in 2013 were due to losses.

Selected economic indicators*

	2014	2013
Current liquidity ratio	4.25	1.70
Current liquidity ratio II	1.57	0.55
Return on assets	0.78%	-0.55%
Return on equity	1.12%	-0.81%
Net return on sales	1.25%	-0.83%
Receivables turnover (in days)	73	73
Liabilities turnover (in days)	50	69
Inventory turnover (in days)	233	229

*In the case of indicators in which the balance sheet data were used, the analysis was based on data derived from the closing balance

12. ASSESSMENT OF FEASIBILITY OF INVESTMENT PLANS

The Group's development strategy for 2014-2016 announced by Ceramika Nowa Gala (see section 14.2) assumes an increase in capital expenditure in the total amount of PLN 45 million, whereby expenditure in the amount of PLN 20 million for the development of logistics and warehouses depends on an improvement in financial performance of the Group (the strategy assumes a number of measures aimed at improving the profitability and EBITDA growth).

The Group develops appropriate measures for the implementation of other planned replacement and modernization investments, which means that there are no plans to increase the existing loan debt.

13. UNUSUAL EVENTS AFFECTING THE FINANCIAL STATEMENTS OF THE GROUP

The following unusual events occurred in 2014:

- decrease in profit due to production downtime: PLN 11,700 thousand;
- offsetting the remaining part of the dividend paid by Ceramika Nowa Gala II Sp. z o.o. subsidiary to the parent company (see section 33). The transaction affects only the separate financial statements and was eliminated from the consolidated financial statements;
- dividend payment (see section 34);
- acquisition of treasury shares from a subsidiary without compensation – a write-down on shares in that subsidiary (see section 28.1). The transaction affects only the separate financial statements and was eliminated from the consolidated financial statements;
- redemption of treasury shares (see section 28.2);
- modernization of the technological line in the parent company (the double charge technology): PLN 6 million.

14. EXTERNAL AND INTERNAL FACTORS IMPORTANT FOR THE DEVELOPMENT OF THE GROUP AND ITS BUSINESS DEVELOPMENT PROSPECTS

14.1. Economic situation

Due to the dependence of the demand for tiles on the economic situation, GDP growth and the development of the construction industry in Poland – which is the main selling market for the Group – are of great importance for its operations. In the case of our Group, the sales performance is adversely affected by the exacerbating conflict in Ukraine (see section 24.2.1.).

14.2. Strategy and development of the Group

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

- sales growth at the annual rate of 5% within the period covered;
- EBITDA margin increase by the end of 2016 by 7 percentage points until it reaches approx. 17% as a result of carrying out strategic initiatives in three main areas:
  a. increasing utilization of production capacity (margin increase of 4-5 percentage points);
  b. new technologies (investments in production of unglazed tiles and digital printing should result in a margin increase of 1-2 percentage points);
  c. process optimization (a number of activities, including product offer simplification, purchase consolidation, redundancies, process simplification, should result in a margin increase of 3 percentage points);

- shortened supply chain with regard to ceramic tiles distribution;
- allocation of a total of PLN 45 million for capital expenditure in the period of 2014-2016, including PLN 10 million for replacements maintenance, PLN 15 million for modernization and new technologies and PLN 20 million for the development of logistics and warehouses;
- maintaining the average level of working capital and the average interest debt at levels from the end of 2013;
- redemption of treasury shares held by the Group (9,220,757 shares representing 16.43% of share capital) in 2014;
- proposal to introduce a dividend policy assuming an annual allocation of at least 30% of the Group's net consolidated profit for dividend payment, however, no more, than PLN 0.1 per share.

15. AMENDMENTS TO THE PRINCIPLES OF MANAGEMENT OF THE COMPANY AND THE GROUP FOR WHICH IT IS THE PARENT COMPANY

No amendments to the principles of the management of the Group were introduced in 2014.

16. CHANGES IN THE COMPOSITION OF THE MANAGING AND SUPERVISORY BODIES

The composition of the managing and supervisory bodies of the Company remained the same as in 2013. The Supervisory Board of Ceramika Nowa Gala SA is composed of:

- Mr. Paweł Marcinkiewicz: Chairman of the Supervisory Board;
- Mr. Grzegorz Ogonowski: Vice Chairman of the Supervisory Board;
- Mr. Łukasz Żuk: Member of the Supervisory Board;
- Mr. Wojciech Włodarczyk: Member of the Supervisory Board;
- Mr. Jacek Tomasik: Member of the Supervisory Board.

The Management Board of the Company is composed of:

- Mr. Waldemar Piotrowski, acting as President of the Management Board;
- Mr. Paweł Górnicki, acting as Vice President of the Management Board.

Mr. Zbigniew Polakowski acts as a proxy in Ceramika Nowa Gala SA and Ceramika Nowa Gala Sp. z o.o. subsidiary.

17. AGREEMENTS WITH MANAGING PERSONS PROVIDING FOR COMPENSATION IN THE CASE OF THEIR RESIGNATION OR DISMISSAL

Under the contracts of employment, each member of the Management Board is entitled to severance pay in the amount of three months' basic salary. All members of the Management Board have signed non-competition agreements. Members of the Management Board are entitled to compensation during the non-competition period.

18. REMUNERATION AND BONUSES PAID OR PAYABLE TO THE MANAGING AND SUPERVISORY PERSONS

18.1. Remuneration and other benefits paid to the managing persons (gross)

Amounts in PLN thousand (PLN '000).

Name and surname	CNG SA	CNG II	CGR SA	CNG Lux	Total
Waldemar Piotrowski	386	87	216	26	715
Paweł Górnicki	272	57	179	26	534
Zbigniew Polakowski	141	81	60	-	282
Total	**799**	**225**	**455**	**52**	**1,531**

18.2. Remuneration paid to members of the Supervisory Board (gross)

Amounts in PLN thousand (PLN '000).

Name and surname	Company	Amount
Paweł Marcinkiewicz	CNG SA	60
Grzegorz Ogonowski	CNG SA	54
Wojciech Włodarczyk	CNG SA	48
Łukasz Żuk	CNG SA	48
Jacek Tomasik	CNG SA	48
Total		**258**

19. OUTSTANDING LOANS, GUARANTEES, SURETIES, ETC. GRANTED BY THE COMPANY OF SUBSIDIARIES THEREOF TO THE MANAGING AND SUPERVISORY PERSONS, OR TO PERSONS AFFILIATED WITH THEM

So such transactions occurred as of the last day of the reporting year.

20. SHARES OF THE COMPANY HELD BY THE MANAGING AND SUPERVISORY PERSONS

According to the information available to the Company in 2014, there was no change in the ownership of the Company's shares by the Issuer's managing and supervisory persons. As of the date of this report, it follows from the information available to the Issuer that:

- Mr. Waldemar Piotrowski, acting as President of the Management Board, holds: 10,806,249 shares of the Company, representing 23.04% of the share capital and authorizing their holder to the same number of votes at the General Shareholders Meeting;
- Mr. Paweł Górnicki, acting as Vice President of the Management Board, holds: 352,077 shares of the Company, representing 0.75% of the share capital and authorizing their holder to the same number of votes at the General Shareholders Meeting;
- Mr. Zbigniew Polakowski, acting as a proxy, holds: 12,070 shares of the Company, representing 0.02% of the share capital and authorizing their holder to the same number of votes at the General Shareholders Meeting.

21. INFORMATION ON SIGNIFICANT SHAREHOLDERS

According to the information obtained by the company, the following shareholders hold shares authorizing them to at least 5% of votes at the General Shareholders Meeting. This information was determined based on communications received by the Company from shareholders or based on the number of shares from which a given shareholder was entitled to dividend payment.

Shareholder	Number of shares taken up	Percentage share in the share capital	Number of votes at the General Meeting	Percentage share in votes at the General Meeting
Waldemar Piotrowski	10,806,249	23.04%	10,806,249	23.04%
MetLife Otwarty Fundusz Emerytalny	9,356,722	19.95%	9,356,722	19.95%
PTE Allianz Polska SA	6,049,157	12.90%	6,049,157	12.90%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	5,834,364	12.44%	5,834,364	12.44%
ING Otwarty Fundusz Emerytalny and ING Dobrowolny Fundusz Emerytalny	3,293,725	7.02%	3,293,725	7.02%

There are no securities conferring special control right with respect to the Company. Shares of the Company bear no restrictions as to the transfer of property rights or limitations on the exercise of voting rights.

22. INFORMATION ON AGREEMENTS KNOWN TO THE COMPANY, AS A RESULT OF WHICH CHANGES IN THE PROPORTIONS OF SHARES HELD BY THE EXISTING SHAREHOLDERS MAY OCCUR IN THE FUTURE

The Company is not aware of any such agreements.

23. INFORMATION ON AGREEMENTS WITH CERTIFIED AUDITOR

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

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

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

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

24. DESCRIPTION OF SIGNIFICANT RISK FACTORS WITH INFORMATION ON THE EXTENT TO WHICH THE COMPANY IS EXPOSED TO THEM

24.1. Risk factors associated with the activities of the Group

24.1.1. 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 companies in the Group attach great importance to cost control and reduction at various stages of production. In 2014, the positive tendency of electricity prices to fall was stopped and reversed. It follows from talks and negotiations that in 2015, electricity prices will be higher than in previous years. The Group has taken active steps to diversify gas suppliers, hoping that such action will lead to a reduction in the costs of purchase of raw material.

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

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

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

The Group uses high-quality raw materials to produce ceramic tiles. In order to obtain high quality homogeneous ceramics it is necessary to use ingredients with low levels of impurities. For colours to be vivid, a mass which does not darken after firing needs to be applied. There is a risk of limited availability of raw materials with the required quality (part of the raw materials is imported from eastern Ukraine, in an area which is not, however, covered by the war), and the companies in the Group may be forced to modify formulations used by them. The Group hedges against this risk by developing alternative formulations, using substitute ingredients. This risk is of greater significance for the Nowa Gala brand than the Ceramika Gres one.

24.1.4. 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 in the Group monitor prevailing market trends and adjust their product portfolio to the tastes and requirements of customers.

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

24.2.1. Risk associated with the macroeconomic and political situation

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

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

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

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

24.2.2. Risk associated with the activities of competitors

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

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

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

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

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

24.2.5. Risk associated with the tax system

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

24.3. Financial risk as well as the purposes and principles of its management

The main financial instruments used by the Group include bank loans, cash and short-term deposits. The main purpose of these financial instruments is to raise funds for the Group's business activities. The companies in the Group have also other financial instruments, such as trade receivables and liabilities that arise directly in the course of their business. The Group has also interests in other business entities, but the value of these interests in immaterial. The companies in 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 magnitude of this risk in the period concerned is shown below as well. The accounting principles applied by the Group in relation to financial instruments have been discussed in the introduction to the consolidated financial statements.

24.3.1. Interest rate risk

At present, the assets and liabilities recognized in the consolidated statement of financial position are not subject to fluctuations due to 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.

24.3.2. Risk associated with foreign exchange rates

The Group carries out import and export transactions in foreign currencies (the US Dollar and the Euro) on a significant scale. Change in exchange rates against the Polish zloty may result in profits lower than expected. Foreign exchange volatility affects the consolidated profit (loss) by:

- changes in the value of export sales denominated in PLN and production costs denominated in PLN, in the part relating to imported raw materials;
- changes in the competitiveness of the Group's offer in export markets;
- changing costs of raw and other materials as well as energy and services purchased in Poland, whose prices depend, either directly or indirectly, on currency exchange rates;
- realized foreign exchange differences arising between the date of sale or purchase and the date of payment of receivables or liabilities;
- unrealized foreign exchange differences on measurement of accounts and other monetary items as of the balance sheet date;
- varying intensity of competition associated with prices of imported tiles.

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

24.3.3. Credit risk

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

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

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

24.4. Liquidity risk

The Group uses external financing which determines its liquidity. In order to ensure the availability of funding the Group maintains the proportion of debt in financing at a safe level.

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

*concerns the most significant lease agreements concerning office space and warehouse space as well as car and forklift rental agreements

**amounts resulting from the maximum debt limits granted, regardless of the debt amount as of the end of 2014

In the case of significant agreements classified as operating leases that cannot be terminated or have a defined minimum contractual period of notice, the total amounts that the Company would have to pay for the period till the dates of expiry of the agreements is PLN 4,703 thousand.

24.5. 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	795	3,389	foreign exchange	+/-20%	+/-678
Foreign currency denominated receivables	USD	1,022	3,583	foreign exchange	+/-20%	+/-717
Foreign currency cash	EUR	1,023	4,359	foreign exchange	+/-20%	+/-872
Foreign currency cash	USD	1,409	4,941	foreign exchange	+/-20%	+/-988
Foreign currency denominated liabilities	EUR	921	3,930	foreign exchange	+/-20%	+/-786
Foreign currency denominated liabilities	USD	158	551	foreign exchange	+/-20%	+/-110
Loans contracted in foreign currencies	EUR	596	2,541	foreign exchange	+/-20%	+/-508
Variable interest rate loans	EUR	596	2,541	interest rate	3.00 pp	+/-76
Variable interest rate loans	PLN	52,257	52,257	interest rate	3.00 pp	+/-1,568

25. IMPORTANT EVENTS AFFECTING THE OPERATIONS OF THE GROUP THAT TOOK PLACE AFTER THE BALANCE SHEET DATE AND BEFORE THE DATE OF THIS REPORT

Such events have been described in the notes to the consolidated financial statements.

26. DESCRIPTION OF SIGNIFICANT OFF-BALANCE SHEET ITEMS

The description of significant off-balance sheet items has been provided in the notes to the consolidated financial statements.

27. DESCRIPTION OF THE STRUCTURE OF ASSETS AND LIABILITIES IN THE CONSOLIDATED BALANCE SHEET

Fixed assets are the main item among the assets recognized in the statement of financial position. These account for approx. 53% of total assets. As regards their structure, tangible fixed assets account for the greatest share in their value (72% of the amount of the items). The change in the value of tangible fixed assets between 2014 and 2013 was due to depreciation charges made during the year as well as capital expenditures. The investment property, whose value did not change compared to 2013, is an important fixed asset item. As of the end of 2014, this item accounted for 3% of total assets.

In the case of current assets, in 2014 (just like in 2013), inventories accounted for the largest share of those assets (63%). Trade and other receivables accounted as of the end of 2014 for 12% of the value of assets and 26% of the value of current assets. In 2013, these figures were 13% and 28%, respectively. As a result of the decrease in sales and controlling the value of current assets, both the value of inventories and receivables decreased compared to 2013.

As regards equity and liabilities, equity, representing 69% of total assets, was the main item in this group. The amount of equity decreased compared to the end of 2013 due to the payment of the dividend to shareholders of the parent company. As Ceramika Nowa Gala SA holds 100% of equity in its subsidiaries, no minority interests are shown in the consolidated financial statements. A very small amount of foreign exchange differences on translation is due to conversion from EUR to PLN of the financial statements of CNG Luxembourg S.à.r.l. subsidiary.

The proportion of long-term debt in total liabilities increased from 4% in 2013 to 19% in 2014. The deadline for repayment of part of the renewed working capital loans fell in 2014, however, the negotiated repayment periods are longer than one year. At the same time, due to this reclassification, the proportion of short-term debt from loans in total liabilities was 2% at the end of 2014, while at the end of 2013 (including funding under recourse factoring) it was 16%. Besides reclassification of the loans with positive EBITDA and reducing the amount of current assets, available credit limits were reduced in line with the strategy of the Group. As a result, the overall proportion of debt from the loans in the financing of the Group's assets decreased and has remained at a safe level.

28. DESCRIPTION OF THE STRUCTURE OF MAJOR CAPITAL DEPOSITS OR MAJOR EQUITY INVESTMENTS MADE WITHIN THE GROUP

28.1. Acquisition of treasury shares from a subsidiary without compensation

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

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

As a result of the aforementioned transaction, the separate financial statements of

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

The results of both of these transactions were mutually offset, directly at the level of the parent company's equities, and they did not affect the total profit presented in the separate financial statements.

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

28.2. Decrease in the authorized share capital of the parent company

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

28.3. Increase in the capital of Luxembourg S.à.r.l. subsidiary

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

29. DESCRIPTION OF PROCEEDINGS PENDING BEFORE COURT, AN ARBITRATION AUTHORITY OR A PUBLIC ADMINISTRATION AUTHORITY

None of the judicial or administrative proceedings involving the Company or its subsidiaries concerns a dispute with a value in excess of 10% of the equity of the Company.

30. STATEMENT OF CORPORATE GOVERNANCE PRACTICES

The Company has drawn up a separate document in this regard, audited by a certified auditor and attached to the annual report.

31. INFORMATION ON THE CONTROL SYSTEM FOR EMPLOYEE STOCK OWNERSHIP PLANS

Currently, the Group does not operate any ESOPs.

32. ADOPTION BY THE GENERAL SHAREHOLDERS MEETING OF A RESOLUTION ON REDEMPTION OF TREASURY SHARES WITHOUT COMPENSATION AND DECREASE IN THE COMPANY'S SHARE CAPITAL

On June 30, 2014, the General Shareholders Meeting resolved to decrease the Company's share capital from PLN 56,114,378 to PLN 46,893,621 by redemption of 9,220,757 shares. The redemption of 8,983,608 shares held by CNG Luxembourg S.à.r.l. subsidiary did not include compensation, which was agreed to by the shareholder in the agreement on the transfer of the ownership of shares, concluded outside the regulated market between the shareholder and the Company (for more information see section 28.1). The objective of the redemption of 8,983,608 shares held by the subsidiary and 237,149 shares held by the Company was to organize the Company's shareholding structure and ensure its transparency and stability with regard to the shareholding structure in the future.

33. OFFSETTING THE REMAINING PART OF THE DIVIDEND FROM THE SUBSIDIARY

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

- the amount of PLN 32,791,458.09 by 30 June 2013;
- the amount of PLN 12,678,303.72 – was offset against other accounts was on January 31, 2014.

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

34. PAYMENT OF DIVIDEND

In accordance with Resolution No. 7 adopted by the General Shareholders Meeting on June 30, 2014, on October 15, 2014, the Company paid a dividend in the amount of PLN 3,751,489.68. This amount was part of the profit for 2013. Dividend from one share was PLN 0.08.