Report on the operations of the

Ceramika Nowa Gala SA Group

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

Końskie, March 21, 2016

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 (the parent company) are prepared in accordance with International Financial Reporting Standards (IFRS). All data has been derived from the accounting records of the parent company and the subsidiary companies, 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 is composed of the following business entities whose financial statements are consolidated on a line-by-line basis:

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

Except for the CNG Luxembourg S.à.r.l. subsidiary, the accounts of the subsidiary companies are kept based on the same accounting principles as those applied by the parent company. The accounts of the CNG Luxembourg S.à.r.l. are kept in accordance with accounting standards applicable in Luxembourg, and its financial statements are subject to relevant transformations in the consolidation process. The 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 in 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 one 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 are also polished. Supplementary decorative elements are also manufactured and sold within one joint offer.

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

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, this company does not conduct any other activity, and all treasury shares held by this entity have been transferred to Ceramika Nowa Gala SA and redeemed.

Energia Park Trzemoszna Sp. z o.o. did not conduct any activity in 2015.

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 ceramic 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 greatest number of manufacturers. In accordance with the strategy adopted by Ceramika Nowa Gala SA, 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 in the Group's sales. 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-color 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

This collection is inspired by natural basalt rocks. It is available in a modular system (a number of different sizes can be combined), in six colors: 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

This 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 colors. Its advantage is that 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 types of modern decors, manufactured using the modern waterjet technology.

Neutro

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

Prestige

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

Basis

A "salt and pepper" type collection complemented with decorative inserts. The tiles in this collection are manufactured in five colors 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 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, surpassing, however, its strength parameters.

Signum

The tiles in 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, they are enjoyed also by individual customers. The collection is distinguished by its high stain and abrasion resistance. It is available in a modular system. The colors used in the Signum collection include: light and dark beige, brown and 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 cm, 15x60 cm and 10x60 cm. A modular system enables arranging the tiles in many different combinations. All tiles are rectified.

Trend Stone

A collection of tiles whose design has been inspired by natural stones with minimalist appearance. The tiles are offered in two color ranges – grey and beige. Both the graphics and the color range correspond to modern trends. Due to their subdued colors of soil and natural satin surface, the tiles can be used in different types of buildings. Tiles in sizes of 60x60 cm, 30x60 cm 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 colors. The glossy surface in the semi-polished version enhances the impression of color intensity. 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 colors. The surface is distinguished by a fine texture and sparkling inserts. The tiles are complemented with monochrome mosaics.

Event

Tiles in this minimalist collection resemble granite. Tiles are made using the digital printing technology, and come in four colors - a range of grey and beige. They have smooth, satin-like surface and are rectified.

Atelier

Tiles in this collection have warm and bright colors. They are inspired by limestone (French stone design). The tiles are made using the digital printing technology. The drawing is diverse, with transitions in shades of cream and beige. Tiles with two types of surface are available: natural rectified and semi-polished.

In 2016, 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.

Colonial

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

Artwood

The Artwood collection is inspired by the appearance of manually processed boards. This effect was achieved by the use of 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. Due to its technical parameters, 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 cm and 15x60 cm.

Excellent

The first collection created by Ceramika Gres using a technology enabling the 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 come in sizes of 30x60 cm and 60x60 cm.

Redmar

The collection is inspired by natural stones with rich veining. The tiles resemble smooth and glossy surface of polished marble. They are available in four colors: 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 colors.

Caldo

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

Indus

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

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 very precise, halftone print of models reflecting in a precise manner 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 colors, in sizes of 60x60 cm 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 colors: grey and graphite, using the traditional "wet" technology.

Equal

The design and color 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 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 wood. Digital imprints on the structure resemble marks of manually processed wood. The colors correspond to those of 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.

Spargo

The collection is inspired by rustic concrete surface in shades of grey and warm beiges or browns. The smooth surface looks like satin. The tiles in this collection are available in a size of 40x40 cm. The offer includes also a patchwork decor.

Domus

The pattern on the tiles in this collection resembles wood-like mosaics. The tiles are available in a size of 40x40 cm, in two colors: beige and brown.

33x33

Glazed stoneware tiles in a size of 33x33cm make up a substantial part of the product offer of Ceramika Gres. They are intended for widespread distribution and satisfy the demand for products at the low-end and middle of the market. The most important collections of this type include Scandina, Castilo, Alpino, Java, Riva and Roxy.

2.3. Decorative elements

Decorative elements are complementary elements of the offer. Not only do they increase its attractiveness, but they are also a source of additional revenue. 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).

	2015		2014	
Unglazed tiles	74,122	41%	70,687	40%
Glazed tiles	98,063	54%	97,898	54%
Decors and step tiles	7,776	4%	9,088	5%
Other sales	689	1%	1 192	1%
	180,649	**100%**	**178,865**	**100%**

3.2. Quantitative sales structure

	2015		2014	
Unglazed tiles	2,322	thousand sq. m.	2,195	thousand sq. m.
Glazed tiles	3,867	thousand sq. m.	3,541	thousand sq. m.
	6,189	**thousand sq. m.**	**5,736**	**thousand sq. m.**

A significant increase in the quantity of sold tiles was recorded in 2015, while the value of sold products increased less dynamically. Therefore, the average price for which the Group sells its products was lower than in 2014. The decrease in the average price was due primarily to increased sales of less expensive collections sold to DIY chain stores.

3.3. Sales by selling markets

Amounts in PLN thousand (PLN '000).

	2015		2014	
Domestic market	151,735	84%	146,638	82%
Exports	28,914	16%	32,227	18%
	180,649	**100%**	**178,865**	**100%**

Increased sales were recorded in the domestic market. Export performance is adversely affected by the situation in Eastern markets. Exports intended for these markets have been systematically replaced with sales to other European markets, but the total value of exports has not been fully restored.

The group of customers of the products offered by the companies of 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

The most important suppliers of the Ceramika Nowa Gala SA Group include providers of gas and electricity, as well as producers and distributors of materials used in production (feldspars, clays, mineral pigments, enamels, etc.). The Group procures commercially available natural resources used in the production of tiles, mainly imported ones due to their higher quality. The suppliers are diversified and, with the exception of the 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, the Group entered into the following significant agreements in 2015:

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

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

- the agreement was concluded by the Ceramika Gres SA subsidiary;

- the price to be paid by the subsidiary for received fuel gas depended on the prevailing tariff;
- the debtor's consent for voluntary submission to enforcement of up PLN 2,500 thousand was used as a performance bond;
- should the actual annual purchase of fuel gas be lower than the minimum quantity specified in the agreement, the subsidiary company would be required to pay the seller liquidated damages in the amount of 75% of the price for uncollected fuel gas;
- the agreement was concluded for an indefinite time;
- the Polish zloty was the currency of the agreement.
- the value of purchases made under the agreement within 5 years was estimated at approx. PLN 58,137 thousand.

In August, a decision to change the gas supplier was made and all the companies of the Group signed new comprehensive agreements on the purchase and distribution of gas. The new supplier was authorized to terminate the agreement concluded with PGNiG (for details see section [31]. As a result, the Group did not purchase gas from PGNiG for the estimated amount. None of the companies of the Group has been – and will not be in the future – charged with liquidated damages for termination of these agreements.

5.2. Change of the gas supplier for the companies of the Group

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

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

The most important details concerning the agreement of the highest value, concluded by the parent company, i.e. Ceramika Nowa Gala SA, are as follows:

- the price to be paid for fuel gas will be calculated based on GAS_BASE contracts traded on the Commodity Derivatives Market and the POLPX-gas price index used on the Polish Power Exchange (TGE) and will be increased by the seller’s margin. In case of significant discrepancies between the actual gas consumption and the projected one, the actual purchase price may be further adjusted;
- besides the fuel gas price the Company is required to pay to the seller charges for distribution according to the current tariff of the Distribution System Operator;
- under the agreement, the seller has received the Company's authorization to carry out the process of changing the existing supplier and notify this change in accordance with the terms of the "Instruction on the Distribution Network Operation and Use" developed by the Distribution System Operator;
- each party to the agreement has the right to terminate it in writing with a 3-month notice period, but should it be the case, the party which has terminated the agreement shall be obliged to pay liquidated damages. Liquidated damages will be calculated based on the difference between the ordered quantity of gas and that actually purchased during the agreement period, multiplied by the difference between the actual price of gas purchased during the agreement period and the weighted average daily price of the purchase or sale of fuel gas specified by the GAZ-SYSTEM Transmission System Operator on the effective date of termination of the agreement, adjusted for a factor specified therein;
- the estimated value of the agreement over its duration is PLN 13,300 thousand.

6. INFORMATION ON ENTERING BY THE COMPANY OR A SUBSIDIARY THEREOF INTO ONE OR MORE TRANSACTIONS WITH RELATED PARTIES, WHERE SUCH TRANSACTIONS ARE SIGNIFICANT, EITHER INDIVIDUALLY OR COLLECTIVELY, AND WERE CONCLUDED 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 2015 AND SURETIES AND GUARANTIES GRANTED WITHIN THAT YEAR

7.1. Loans contracted by Ceramika Nowa Gala SA

7.1.1. Annex to the loan agreement concluded with mBank SA on October 28, 2002

The deadline for repayment of the revolving credit facility in the amount of PLN 4,280 thousand granted to the Company by mBank SA fell on June 30, 2015. On June 25, 2015, Ceramika Nowa Gala SA signed an annex to the loan agreement which extended the deadline for its repayment until June 29, 2017, while maintaining the existing collateral. At the same time, the Company decreased its existing overdraft limit from PLN 4,280 thousand to PLN 4,200 thousand, in line with the strategy which assumes debt reduction.

7.1.2. Annex to the loan agreement concluded with mBank SA on October 15, 2004

The deadline for repayment of the overdraft credit facility in the amount of PLN 4,500 thousand granted to Ceramika Nowa Gala SA by mBank SA fell on November 27, 2015. On November 6, 2015, the Company signed an annex to the loan agreement which extended the deadline for its repayment until December 13, 2016, while maintaining the existing collateral.

7.2. Loans contracted by the Ceramika Gres SA subsidiary

7.2.1. Annex to the loan agreement concluded with ING Bank Śląski SA on June 28, 2014

On October 7, 2015, the Ceramika Gres SA subsidiary signed an annex to the loan agreement signed with ING Bank Śląski SA to extend the deadline for the repayment of the loan from June 23, 2016 to August 31, 2017, while maintaining the existing collateral and the maximum amount of financing of PLN 40,000 thousand.

7.3. Loans received

No loans were contracted by the Group in 2015.

8. INFORMATION ON LOANS AND GUARANTEES GRANTED IN 2015

8.1. Loans granted

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

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

8.2. Guarantees granted

No financial guarantees were granted in 2015.

8.3. Sureties granted

Due to the refinancing of the working capital credit by the Ceramika Gres SA subsidiary (see also section 7.2.1), Ceramika Nowa Gala SA and Ceramika Nowa Gala II Sp. z o.o. maintained surety bonds granted to ING Bank Śląski SA on behalf of Ceramika Gres SA, up to the amounts of: PLN 21,000 thousand and PLN 10,000, respectively.

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

9. ULIZATION OF PROCEEDS FROM ISSUED SECURITIES

No securities were issued in 2015.

10. IMPLEMENTATION OF EARNINGS GUIDANCE

The Group did not publish any earnings guidance in 2015.

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 71% of total assets. The current liquidity ratio decreased as compared to the preceding year and was 3.14, which can be considered a safe value. The Group settled its liabilities on an ongoing basis (minor delays occurred as regards some trade liabilities). Both the receivable repayment period and the inventory turnover period were similar to those in 2014, while the liability repayment period was slightly shorter.

Selected economic indicators*

	2015	2014
Current liquidity ratio	3.14	4.25
Current liquidity ratio II	1.13	1.57
Return on assets	0.13%	0.78%
Return on equity	0.18%	1.12%
Net return on sales	0.19%	1.25%
Receivables turnover (in days)	75	73
Liabilities turnover (in days)	69	50
Inventory turnover (in days)	223	229

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

12. ASSESSMENT OF FEASIBILITY OF INVESTMENT PLANS

In line with the adopted mid-term strategy for 2014-2016, the Group seeks to reduce debt financing, which is implemented, e.g. by reducing investment in fixed assets to the level necessary for their recovery. This policy will be continued in 2016, but in the second half of 2016, investment in a new logistics warehouse for the Group's products is planned (this investment was also provided for in the aforementioned strategy). Total expenditure planned for this project is estimated at approx. PLN 12 million, of which PLN 6 million is to be spent in 2016, and the remaining part in the next year.

Operational savings generated by the Group, including those under plans to reduce current assets (inventories) should enable it to finance the planned capital expenditure, 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 2015:

- the profit was lower by PLN 9,099 thousand due to production downtime;
- offsetting the dividend from the Ceramika Nowa Gala II Sp. z o.o. subsidiary (see section 32). The transaction influenced the separate financial statements only and is eliminated from the consolidated financial statements;
- payment of the dividend to shareholders (see section 34): PLN 4,689 thousand.

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 prevailing conflict in Ukraine (see section 24.2.1.) and the risk of deterioration of the economic situation in Western Europe.

14.2. Strategy and development of the Group

The Group has been systematically implementing its strategy announced in March 2014. In 2016, the strategy provides for, e.g. the launch of the construction of a logistics center intended for all companies of the Group (see section 10). The debt level is gradually decreasing, which should allow the Group to finance major investments aimed at its development. Dividends for shareholders are paid on a regular basis.

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 2015.

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 2014. The Supervisory Board of Ceramika Nowa Gala SA is composed of:

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

The Management Board of the Company is composed of:

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

Mr. Zbigniew Polakowski acts as a proxy in Ceramika Nowa Gala SA and the 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)

Amounts in PLN thousand (PLN '000).

Name and surname	CNG SA	CNG II	CGR SA	CNG Lux	Total
Waldemar Piotrowski	385	87	215	26	713
Paweł Górnicki	274	57	179	26	536
Zbigniew Polakowski	110	74	60	-	244
Total	**769**	**218**	**454**	**52**	**1,493**

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

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 OR SUBSIDIARIES THEREOF TO THE MANAGING AND SUPERVISORY PERSONS, OR TO PERSONS AFFILIATED WITH THEM

So such transactions occurred as at 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, no change occurred in 2015 as regards the ownership of the Company's shares by the issuer's managing and supervisory persons. As at the date of this report, it follows from the information available to the Issuer that:

- Mr. Waldemar Piotrowski, President of the Management Board, holds: 10,806,249 shares of the Company constituting 23.04% of the share capital and authorizing their holder to the same number of votes at the general shareholders' meeting;
- Mr. Paweł Górnicki, Vice-President of the Management Board, holds: 352,077 shares of the Company, constituting 0.75% of the share capital and authorizing their holder to the same number of votes at the general shareholders' meeting;
- Mr. Zbigniew Polakowski, Proxy, holds: 12,070 shares of the Company, constituting 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. The information provided below was determined based on communications received by the Company from shareholders, or based on the number of shares under which a given shareholder was authorized for dividend payments.

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%
Nationale-Nederlanden Otwarty Fundusz Emerytalny and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny	4,746,672	10.12%	4,746,672	10.12%

There are no securities conferring special control rights 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 2015 was carried out under an agreement concluded on July 1, 2015. The agreement concerns audit of the separate financial statements of the Company for 2015, the consolidated financial statements of the Company for 2015, a review of the interim separate financial statements as at June 30, 2015, and a review of the interim consolidated financial statements as at June 30, 2015. The total net remuneration of the audit firm under the aforementioned agreement is PLN 44.9 thousand. TPA Horwath Horodko Audit Sp. z o.o. is also entitled to 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 2015, TPA Horwath Horodko Audit Sp. z o.o. carried out for Ceramika Nowa Gala SA and its subsidiaries: Ceramika Nowa Gala II Sp. z.o.o. and Ceramika Gres SA also a validation service involving verification of the accuracy of calculation of the electric power consumption intensity coefficient for 2015 and for 2012-2014. The total remuneration for this rendition amounted to PLN 19 thousand.

In 2014, the financial statements of the Group were audited by TPA Horwath Horodko Audit Sp. z o.o. as well. The audit firm rendered services to the companies in the Group under agreements of 10 July 2014. 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 at June 30, 2014;

- audit of the annual separate financial statements of the Company, the separate financial statements of the subsidiaries and the consolidated financial statements of the Company as at December 31, 2014.

TPA Horwath Horodko Audit Sp. z o.o. received under the agreements concluded in 2014 remuneration in the amount of PLN 74 thousand plus VAT and reimbursement of the actual costs of the audit.

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

24.1. Risk factors related to the Group's activity

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 Group attaches great importance to cost control and reduction at various stages of production. In 2015, the Group managed to take advantage of significant decreases in the prices of gas on international markets. The previous gas supplier was changed (for more information see Note 5.1 and Note 5.2), which gave the Group an opportunity to pay prices close to prevailing stock market prices. Significant financial benefits were therefore recorded in the last quarter of 2015, which will be reflected in the consolidated profit for the whole 2016. The situation on global markets is not stable now, which means that the risk of increased prices of this raw material in the medium turn cannot be ruled out. The Group is able to secure the price of part of gas purchases with stock exchange prices and commodity futures contracts with the delivery date of up to one year. At the same time, one of the companies of the Group obtained a license to trade in gas, which should enable future gas purchases directly on the market (see section 30 in the consolidated financial statements).

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

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

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

The Group uses high-quality raw materials to produce ceramic tiles. In order to obtain high quality homogeneous ceramics it is necessary to use ingredients with a low level of impurities. For colors to be vivid, a mass which does not darken during firing needs to be used. As part of the raw materials is imported from eastern Ukraine (from an area which has not been covered by war operations yet), there is a risk of a limited availability of raw materials with the required quality parameters, which would force the companies 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 of 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

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

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

There are also potential risks (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 competitors' activities

As a result of the economic downturn recorded in recent years and a sharp decline in exports to eastern markets (the conflict in Ukraine), increased competition has been observed in relation to all segments. The Group makes efforts to maintain its position as the leading manufacturer of ceramic stoneware floor tiles. In order to maintain its competitive edge, the Group continuously improves and expands its product port folio. It also seeks new opportunities for enhancing and expanding its capacities.

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, wood and – since recently – also glass. There is a risk that in the future new or existing finishes will become an attractive substitute for ceramic tiles. This situation could adversely affect the level of sales and the performance of the Group.

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 24.2.1, 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 and the purposes and principles of its management

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

The main risks arising from financial instruments held by the Group include the interest rate risk, currency risk and credit risk. The Management Board reviews and adopts policies for managing each of these risks. These policies are briefly described below. The 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 financial statements are not subject to fluctuations caused by changes in interest rates. However, due to the fact that the Group uses financing sources with variable interest rates, an increase (decrease) in base rates, or an increase (decrease) in margins used by financial institutions may result in an increase (decrease) in financial expenses. The Group does not use cash flow hedges against changes in interest rates.

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

The risk of foreign exchange volatility is largely offset, as the Group carries out foreign transactions involving both export and import. Trade transactions in foreign currencies (import and export) are part of the normal course of business pursued by the Group. Therefore, future cash flows from such transactions are subject to the risk of change in their value resulting from foreign exchange volatility, and the available instruments hedging against the foreign exchange risk are limited due to uncertainty prevailing 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 entail credit risk. Each year, part of receivables is lost (write-downs for bad debts are made). Credit risk related to receivables from customers is limited by:

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

Debt of individual customers is monitored and – in case of problems – action is taken to recover amounts due. In determining credit risk mitigation policies, lost 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 in 2016	6-12 months in 2016	in 2017	2018-2019
Trade and other liabilities	26,360	26,360	-	-	-
Payments under operating leases*	5,082	1,474	1,215	1,404	990
Loans eligible for refinancing**	63,640	6,500	13,500	43,640	-
Loans to be repaid	2,842	650	538	837	817
Total	97,924	34,984	15,253	45,881	1,806

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

In the case of significant agreements classified as operating leases that cannot be terminated or have a defined minimum contractual period of notice, the total amounts that the company would have to pay for the period till the dates of expiry of the agreements is PLN 3,717 thousand.

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	799	3,409	foreign exchange	+/-20%	+/-682
Foreign currency denominated receivables	USD	439	1,723	foreign exchange	+/-20%	+/-345
Foreign currency cash	EUR	1,025	4,368	foreign exchange	+/-20%	+/-874
Foreign currency cash	USD	200	780	foreign exchange	+/-20%	+/-156
Foreign currency denominated liabilities	EUR	1,981	8,445	foreign exchange	+/-20%	+/-1,689
Foreign currency denominated liabilities	USD	189	736	foreign exchange	+/-20%	+/-147
Loans contracted in foreign currencies	EUR	573	2,442	foreign exchange	+/-20%	+/-488
Variable interest rate loans	EUR	573	2,442	interest rate	+/-3.00%	+/-73
Variable interest rate loans	PLN thousand	33,311	33,311	interest rate	+/-3.00%	+/-999

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. 52% of total assets. As regards their structure, tangible fixed assets account for the greatest share in their value (71% of the total amount of the relevant items). The change in the value of tangible fixed assets between 2015 and 2014 was due to depreciation charges made during the year as well as capital expenditures. The investment property, whose value did not change compared to 2014, is an important fixed asset item. As at the end of 2015, this item accounted for 3% of total assets.

In the case of current assets, in 2015 – just like in 2014 – inventories accounted for the largest share of those assets (64%). Trade and other receivables accounted as at the end of 2015 for 14% of the value of assets and 28% of the value of current assets. In 2014, these figures were 12% and 26%, respectively. Given a minor increase in the sales value (1% compared to 2014), control over the value of current assets helped to reduce the inventories' value, while the value of receivables increased marginally compared to 2014.

As regards equity and liabilities, equity – representing 71% of total assets – was the main item in this group. The amount of equity decreased compared to the end of 2014 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 (bank loans mainly) in the total equity and liabilities decreased from 18% in 2014 to 14% in 2015. The proportion of short-term debt under loans in the equity and liabilities remained at the level of 2014, i.e. 2% (including financing under recourse factoring). With positive EBITDA and by reducing the amount of current assets, in line with the Group’s strategy, available credit limits were reduced. As a result, the overall proportion of debt under the loans in the financing of the Group's assets decreased and has remained at a safe level.

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

In the case of the loans granted to Ceramika Nowa Gala SA by mBank SA, the condition to achieve the level of the profit margin on sales and the net profit margin specified by the bank was not met as at the balance sheet date. Despite the failure to comply with the above-mentioned conditions, the bank, in accordance with the letter of March 25, 2016, does not intend to terminate the loan agreements.

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

No capital expenditure was made in the Group in 2015.

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 a subsidiary thereof concerns a dispute whose value would be significant from the perspective of the financial statements. There are no judicial disputes either under which the value of receivables of the Group would not be written off.

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. OFFSETTING THE DIVIDEND FROM THE CERAMIKA NOWA GALA II SP. Z O.O. SUBSIDIARY

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

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

33. RESOLUTIONS ADOPTED BY THE SUBSIDIARIES AS REGARDS THE PAYMENT OF DIVIDEND TO CERAMIKA NOWA GALA SA

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

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

34. PAYMENT OF DIVIDEND

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