Report on the operations of

Ceramika Nowa Gala SA

for the period from 1 January 2016 to 31 December 2016

Końskie, 23 March 2017

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

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.

In 2015, Energia Park Trzemoszna Sp. z o.o. was granted a licence to trade in gas. This line of business was, however, actually launched in March 2016. This company purchases part of gas for the other companies in the Group.

Furthermore, Ceramika Nowa Gala SA has a significant impact on its two associated companies: Energo-Gaz Sp. z o.o. based in Końskie (50% share) and Ceramika Nova Sp. z o.o. based in Końskie (50% share). Shares in the aforementioned associated companies were recognized in the consolidated financial statements at cost less a possible write-down for impairment. The carrying amount of the shares in Energo-Gaz Sp. z o.o. is PLN 31 thousand, and the share of Ceramika Nowa Gala SA in its equity amounted, as at 31 December 2016, to PLN 359 thousand. Financial data of this company for 2016, determined in accordance with Polish accounting standards, is as follows: assets: PLN 812 thousand, provisions and liabilities: PLN 93 thousand, revenue: PLN 1,811 thousand, net profit for 2016: PLN 80 thousand. Transactions concluded with this company are described in Note [22] in the consolidated financial statements and relate mainly to the handling of a siding (the siding is owned by Ceramika Nowa Gala SA and an entity not related to it – joint ownership). The carrying amount of a 50% stake in Ceramica Nova Sp. z o.o., amounting to PLN 2 thousand, is written down in 100% for impairment, and the company has never commenced any operations and holds no assets.

The Group comprises no other subsidiaries or associates, and no joint ventures have been taken.

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 in the reporting year took place in two factories located in Końskie and in one factory located in the village of Kopaniny in the Końskie district. In Q1 2017, the production plant of Ceramika Nowa Gala II Sp. z o.o. subsidiary was closed and the production carried out there until then was moved to the other two factories of the Group.

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.

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. This is 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 the 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. The advantage of this collection 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. Light emphasizes gentle indentations on a relief structure. Prestige tiles come in subdued shades of grey.

Basis

A "salt and pepper" type collection complemented with decorative inserts. Tiles in this collection are manufactured in five colors corresponding to the current market trends.

Monotec

A monochrome collection with gentle shading. Monotec tiles come in six colors in shades ranging from light beige to fuscous and from white to black. The tiles are available in three formats: 60x60 cm, 30x60 cm and 30x30 cm, and their surface can be natural or rectified.

Vario

A minimalist collection with trendy tiles resembling concrete structure. This effect is due to compressed grains of various seizes and with varying color saturation. Application of a decorating technology using micronized granules results in a varied and unique drawing on tiles, while preserving homogeneity in the color range. Tiles in this collection are available in sizes of 60x60 cm and 30x60 cm and can also be polished, which emblazons the depth of the structure and the fine finish of the surface.

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, these tiles are suitable for finishing both interior surfaces (walls, floors, window sills) and external facades, stairs, terraces or balconies.

Signum

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 often chosen also by individual customers. The collection is distinguished by its high stain and abrasion resistance. It is available in a modular system. Tiles in the Signum collection come in the following colors: 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. They are made using the digital printing technology, and come in four colors - a range of grey and beige. The tiles have smooth, satin-like surface and are rectified.

Atelier

Tiles in this collection come in 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 2017, further work is planned as regards the development and modernization of the product offering, including enhancing production capacities with respect to tiles in the size of 60x120 cm and accompanying elements.

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

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. These tiles 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. Due to its technical parameters, the collection is intended primarily for terraces, but it can also decor walls. Tiles are available 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. Tiles come in sizes of 30x60 cm and 60x60 cm.

Vulcan

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.

Indus

Tiles in this collection are available in the 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 in a rustic style and a modern one.

Bella, Crema and Paladio

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 resembling natural marble. The collections include also decors.

Gesso

Another collection manufactured using digital printing. It has a typology of structural concrete with a formwork effect. 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 modern decorative elements.

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 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. Tiles in this collection are made in the traditional "wet" technology.

Pamir

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

Kalcyt

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 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 natural wood. The colors correspond to those of classic wood-like panels.

Spargo

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

Domus and Parquet

The patterns on tiles in these collections resemble wood-like mosaics. The tiles are available in the size of 40x40 cm, in two colors: beige and brown.

Constant

The collection is inspired with the surface and structure of concrete. Tiles with a natural surface and in the size of 40x40 cm come in two colors: grey and graphite. The collection is complemented with patchwork decors.

Belvedere

The collection is inspired with classic marble with delicate veins. The tiles are cream have a smooth glossy surface. They are available in the size of 40x40 cm.

Brush

Tiles in this collection come in shades of grey and beige, and have a concrete-like surface. They are available in the size of 60x60 cm and their surface can be natural or semi-polished with rectified edges. The tiles are made using the digital printing technology.

Amber

A collection of tiles in the cotto style with irregular edges. The tiles in the size of 33x33 cm have a natural surface and come in cream and brown.

Corte

Tiles in this collection are available in the size of 33x33 cm and are manufactured using digital printing on a delicate satin surface. Varied natural shades of beige, brown and grey combined with an expressive and contrastively more sober structure resemble lively and natural clay floor.

Odeon

Tiles in this collection are available in the size of 40x40 cm and have a satin surface made using the digital printing technology. The collection is inspired with natural travertine. The tiles come in shades of cream and brown.

Galaxy

Tiles in this rustic collection have a satin surface and are made using the digital printing technology. The tiles come in natural shades of beige, brown and grey, in the size of 40x40 cm.

Collections in the size of 20x60 cm

Rancho

Tiles in this collection resemble classic wood and come in three colors. The tiles are made using the digital printing technology on a delicate structure with natural surface and edge finish.

Capas

The collection is inspired with granite-like stone. The tiles come in shades of grey, graphite, cream and brown and are made also using the printing technology. The tiles have a smooth matt surface.

Conglomerate

The collection is inspired with stone conglomerate. The tiles have a matt surface and come in shades of cream, grey and graphite. They are made using the digital printing technology on a delicate structure.

Ashwood

Tiles in this collection have a matt surface and are made using the digital printing technology. The varied graphics (12 faces) and a well-matched structure perfectly resemble an expressive drawing of wood, which provides an authentic and unique interior arrangement.

Amarillo

Tiles in this collection are made using the digital printing technology and are finished with natural microgranilia. The industrial-inspired tiles come in rusty colors and have a surface which resembles metallic finish.

Modesto

Tiles in this collection have a matt surface and are made using the digital printing technology. The colors of the tiles resemble raw concrete and their surface has a structure which resembles plaster on a wall when touched.

33x33

Glazed stoneware tiles in the 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 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 facility of Ceramika Nowa Gala SA, 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)

	2016		2015	
Unglazed tiles	71,096	42%	74,122	41%
Glazed tiles	91,975	54%	98,063	54%
Decors and step tiles	7,690	4%	7,776	4%
Other sales	221	0%	689	1%
	170,982	**100%**	**180,649**	**100%**

3.2. Quantitative sales structure

	2016		2015	
Unglazed tiles	2,246	thousand sq. m.	2,322	thousand sq. m.
Glazed tiles	3,821	thousand sq. m.	3,867	thousand sq. m.
	6,067	**thousand sq. m.**	**6,189**	**thousand sq. m.**

Although the sales volume remained in 2016 at a level similar to that recorded in 2015, their value decreased compared to 2015 by 5.5%. This means that a decrease in the average price at which the Group sells its products was recorded in this period. The decrease in the average price results from an increased percentage in sales of collections at the low-end of the market, sold under the Ceramika Gres brand (also to DIY chains), at the expense of collections sold under the CNG brand.

3.3. Sales by selling markets

Amounts in PLN thousand (PLN '000)

	2016		2015	
Domestic market	139,638	82%	151,735	84%
Exports	31,344	18%	28,914	16%
	170,982	**100%**	**180,649**	**100%**

Systematic efforts aimed at substituting sales to the East with sales onto European markets resulted in increased exports in 2016. Decreased sales were recorded on the domestic market.

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 no of them exceeds 10% of the supplies.

5. INFORMATION ON SIGNIFICANT AGREEMENTS, COLLATERAL ON SIGNIFICANT ASSETS AND CONCLUDED INSURANCE AGREEMENTS

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 companies in the Group entered in 2016 into the following significant agreements:

5.1. Factoring agreement concluded by the parent company with mFaktoring SA

On 5 August 2016, Ceramika Nowa Gala SA and mFaktoring SA, based in Warsaw, concluded a non-recourse factoring agreement based on an insurance policy of the companies of the Group. The factoring limit is PLN 25,000 thousand. The limit will be used depending on the amount of discounted invoices. (See the Company's Current Report 14/2016).

The aforementioned agreement allows for decreasing the carrying amount of receivables to the amount disbursed to the Company by the factor. The amount of limit used is shown in the financial statements as a contingent (off-balance sheet) liability.

5.2. Insurance agreements

To insure their property and facilities, the companies of the Group have concluded the following agreements:

- Insurance agreement concluded by Sopockie Towarzystwo Ubezpieczeń ERGO HESTIA SA for the period from 1 August 2016 to 31 July 2017, providing for insurance protection of Ceramika Nowa Gala SA, Ceramika Gres SA and Ceramika Nowa Gala II Sp. z o.o. The policy covers: insurance of construction equipment and machines, insurance of electronic equipment, insurance of machines and equipment against damage, insurance of profit lost as a result of damage to machines and equipment, insurance of property against all risks, insurance of profit lost as a result of all risks along with additional clauses.
- Agreement concluded with Towarzystwo Ubezpieczeń i Reasekuracji Allianz Polska SA for the period from 21 March 2016 to 20 March 2017, providing for third-party liability insurance of members of governing bodies of Ceramika Nowa Gala SA,

Ceramika Gres SA, Ceramika Nowa Gala II Sp. z o.o. and Energia Park Trzemoszna Sp. z o.o.

- Agreement concluded with Powszechny Zakład Ubezpieczeń SA for the period from 22 March 2016 to 21 March 2017, providing for third-party liability insurance of Ceramika Nowa Gala SA, Ceramika Gres SA and Ceramika Nowa Gala II Sp. z o.o. The insurance covers production of ceramic tiles and the other economic activities specified in the National Court Register.
- Transport insurance agreements covering: insurance of property in domestic and international transport and third-party liability insurance of the carrier in domestic and international traffic and of the forwarder, concluded with Generali Towarzystwo Ubezpieczeń SA for the period from 19 June 2016 to 18 June 2017, covering Ceramika Nowa Gala SA, Ceramika Gres SA and Ceramika Nowa Gala II Sp. z o.o. (only with respect to insurance of property in domestic and international transport).
- Open account insurance agreement concluded by Ceramika Nowa Gala SA with Sopockie Towarzystwo Ubezpieczeń ERGO HESTIA SA for the period from 29 January 2016 to 28 January 2017.
- Trade credit insurance agreement concluded by Ceramika Nowa Gala SA with Atradius Credit Insurance NV SA Oddział w Polsce for the period from 1 July 2015 to 31 June 2017.
- Insurance agreement concerning an open account for less than two years (non-marketable risk) concluded by Ceramika Nowa Gala SA with Korporacja Ubezpieczeń Kredytów Eksportowych SA for an indefinite time starting on 1 July 2014.
- Open account insurance agreement concluded by Ceramika Gres SA with Sopockie Towarzystwo Ubezpieczeń ERGO HESTIA SA for the period from 1 December 2016 to 30 November 2017.
- Insurance agreement concerning an open account for less than two years (non-marketable risk) concluded by Ceramika Gres SA with Korporacja Ubezpieczeń Kredytów Eksportowych SA for an indefinite time starting on 1 July 2014.

The companies of the Group hold also motor insurance policies covering their vehicles and forklifts.

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

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. CONTRACTED LOANS AND GRANTED SURETIES AND GUARANTIES

Note [16] in the consolidated financial statements provides a detailed account of loans which the Group had or repaid in 2016, and which constituted a balance-sheet liability of the Group.

7.1. Loans contracted by Ceramika Nowa Gala SA

7.1.1. Annex to the loan agreement concluded with Bank Pekao SA on 24 September 2013

The deadline for repayment of the overdraft facility in the amount of PLN 9,000 thousand granted to Ceramika Nowa Gala SA by Bank Pekao SA fell on 30 September 2016. On 29

September 2016, the Company signed an annex to the loan agreement which extended the deadline for payment to 30 September 2018, while maintaining the existing collateral and the loan amount.

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

The deadline for repayment of the overdraft facility in the amount of PLN 4,500 thousand granted to Ceramika Nowa Gala SA by mBank SA fell on 13 December 2016. On 6 December 2016, the Company and the bank signed an annex to the loan agreement, extending the deadline for repayment until 27 February 2018, while maintaining the existing collateral. At the same time, the Company decreased its existing overdraft limit from PLN 4,500 thousand to PLN 500 thousand, in line with the strategy which assumes debt reduction.

7.1.3. Loan agreement with Bank Pekao SA concluded on 9 February 2017 (an event after the balance sheet date)

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

7.1.4. Repayment of a working capital loan granted to the Issuer by Bank Handlowy SA

On 22 April 2016, the Company was supposed to repay a working capital loan granted to it by Bank Handlowy SA. The Company resolved to repay it in total and not to revolve this bank facility.

7.2. Loans contracted by Ceramika Gres SA subsidiary

7.2.1. Annex to the loan agreement concluded with ING Bank Śląski SA on 28 June 2014 (an event after the balance sheet date)

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

7.3. Loans received

No loans were contracted by the Group in 2016.

8. INFORMATION ON GRANTED LOANS AND GUARANTEES

8.1. Loans granted

On 8 February 2016, Ceramika Nowa Gala SA signed an annex under which the loan granted to CNG Luxembourg S.à.r.l. subsidiary was increased by EUR 20 thousand. The amount of the loan granted to the subsidiary (without accrued interest) is currently EUR 45 thousand. The loan bears interest at a rate of 8% per annum. An annex of 30 December 2016 extended the deadline for repayment of the loan until 31 December 2017.

8.2. Guarantees granted

No financial guarantees were granted in 2016.

8.3. Sureties granted

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

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

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

9. ULIZATION OF PROCEEDS FROM ISSUED SECURITIES

No securities were issued in 2016.

10. IMPLEMENTATION OF EARNINGS GUIDANCE

The Group did not publish any earnings guidance in 2016.

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 2015, the Group's equity represented 74% of total assets. The current liquidity ratio decreased compared to 2015 and amounted to 2.03, which is still a safe value, and the Group settled its commitments on an ongoing basis (minor delays occurred as regards certain trade liabilities). The inventory turnover period remained at a level similar to that recorded in 2015. Periods of repayment of both receivables and liabilities were slightly reduced.

A loss recorded by the Group and its negative profitability ratio were largely due to one-off write-offs of assets, related to an ongoing plan of reorganization of the Group's production structure.

Selected economic indicators*

	2016	2015
Current liquidity ratio	2.03	3.14
Current liquidity ratio II	0.84	1.15
Return on assets	-3.63%	0.13%
Return on equity	-4.90%	0.18%
Net return on sales	-5.23%	0.19%
Receivables turnover (in days)	55	77
Liabilities turnover (in days)	65	69
Inventory turnover (in days)	197	221

*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

Investment plans described in section 14.2 will be implemented in total using own funds and contracted investment loans.

13. UNUSUAL EVENTS AFFECTING THE FINANCIAL STATEMENTS OF THE GROUP

The following unusual events occurred in 2016:

- the profit was lower by PLN 13,462 thousand due to production downtime. In the comparable period of 2015, this figure was PLN 9,099 thousand. The increase

results from a decrease in production caused by a reduction in the finished products inventory;
- offsetting the dividend from Ceramika Nowa Gala II Sp. z o.o. subsidiary (see section 33).The transaction affected only the separate financial statements and was eliminated from the consolidated financial statements;
- payment of the dividend to shareholders (see section 35): PLN 4,689 thousand;
- entering into a non-recourse factoring agreement by the parent company – a decrease in the amount of receivables for this reason as at the balance sheet date is: PLN 11,281 thousand (see section 5.1);
- write-downs of property, plant and equipment: PLN 6,174 thousand;
- write-downs of inventories: PLN 1,592 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 to its operations. As sales of tiles on the commercial construction market are an important item in the Group's sales, this segment of the construction industry has also a major impact on the demand for our products. 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

In 2017, after a few years of limited investment, the Company plans to reorganize the production structure in the Group. The most important elements of this plan include moving production from CNG II to the other two plants belonging to the Group. Following the reorganization, production carried out so far in three plants will be carried out in two ones, which will significantly simplify production processes and reduce costs by PLN 2.7 million per annum. Consolidation of production will be coupled with modernization of the remaining plants.

For many years, the share of large format tiles in CNG Group's revenue has been steadily growing – from 24% in 2011 to 43% in 2016 in terms of quantities (square meters of surface of sold tiles) and from 40% to 60%, respectively, in terms of value. During this period, the sales of small format tiles decreased by 2.2 million sq. m. Modernization will start with investment in the plant of CNG SA, which will allow us to increase the share of large formats in sales and extend the product offering. Works in this respect will cost approx. PLN 13 million, to be spent in 2017, and will be covered with own funds and loans.

Part of the machines and equipment from the plant of CNG II, with a book value of PLN 4.5 million, will be moved to the other plants of the Group. The book value of equipment which will be no longer useful due to the planned operations is PLN 5.2 million. This amount will be written off in 2016.

No group lay-offs are expected due to the reorganization.

The changes will result in a decrease in the production capacity by 1.6 million sq. m. per year, to 6.6 million sq. m., which should not affect sales volumes, as the production capacity has not been fully utilized and its maintenance has been burdensome.

Following the reorganization, CNG II will still have a production hall with an area of 6,300 sq. m. The decision on the further use of this real property will be made at a later date.

The Group is also preparing investment at the area belonging to Ceramika Gres SA subsidiary and the area adjacent to it, owned by CNG II. Land and facilities owned by the

Group enable its development in this location.

The investment plans include the construction of a central warehouse of products (outlays in this respect are estimated at PLN 12 million) and a central warehouse of raw materials. The investment is aimed at: reducing the cost of operations by PLN 1.2 million per annum, reducing storage losses, improving production parameters and providing more flexible logistics services to customers. Due to the aforementioned reorganization operations the construction of the warehouses is not scheduled for 2017.

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 2016.

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

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

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

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

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

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

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

Mr. Zbigniew Polakowski acts as a proxy in Ceramika Nowa Gala SA and Ceramika Nowa Gala II 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	EPT	CNG Lux	Total
Waldemar Piotrowski	720	84	210	0	26	1,040
Paweł Górnicki	492	54	174	0	26	746
Zbigniew Polakowski	139	74	60	40	-	313
Total	**1,351**	**212**	**444**	**40**	**52**	**2,099**

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. INFORMATION ON A REMUNERATION POLICY REQUIRED UNDER RULE VI.Z.IV OF "CODE OF BEST PRACTICE OF WSE LISTED COMPANIES 2016"

The Group does not have a formal remuneration policy specifying its long-term objectives and rules for measuring its effectiveness. Remuneration amounts in the companies of the Group are determined in accordance with applicable laws (in particular the Labor Code), with due account of the market competitiveness of remuneration provided for a given job.

20. 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.

21. THE COMPANY'S SHARES HELD BY THE MANAGING AND SUPERVISORY PERSONS

According to the information available to the Company, no change occurred in 2016 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 Company that:

- Mr. Waldemar Piotrowski, 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 Meeting of Shareholders;
- Mr. Paweł Górnicki, 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 Meeting of Shareholders;
- Mr. Zbigniew Polakowski, 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 Meeting of Shareholders.

22. INFORMATION ON SIGNIFICANT SHAREHOLDERS

According to the information available to the Company, the following shareholders hold shares authorizing them to at least 5% of votes at the General Meeting of Shareholders. 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	4,687,607	9.99%	4,687,607	9.199%

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

23. 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.

24. INFORMATION ON AGREEMENTS WITH A CERTIFIED AUDITOR

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

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

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

The total remuneration for the aforementioned services amounted to PLN 23.8 thousand.

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

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

- audit of the separate annual financial statements of the Company, the separate annual financial statements of the subsidiaries and the consolidated annual financial statements of the Company as at 31 December 2015.

TPA Horwath Horodko Audit Sp. z o.o. received under the agreements concluded in 2015 remuneration in the amount of PLN 74 thousand plus VAT and reimbursement of the actual costs of the audit. In 2015, TPA Horwath Horodko Audit Sp. z o.o. rendered for Ceramika Nowa Gala SA and its subsidiaries: Ceramika Nowa Gala II Sp. z.o.o. and Ceramika Gres SA, also a validation service involving verification of the accuracy of calculation of the electric power consumption intensity coefficient for 2015 and for 2012-2014. The total remuneration for this rendition amounted to PLN 19 thousand.

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

25.1. Risk factors related to the Group's business

25.1.1. Risk associated with increased production costs

The production plants belonging to the Group consume during the production process significant quantities of natural gas, electricity and raw materials. An increase in the prices of gas, electricity or raw materials may adversely affect the performance of the Group, in particular with respect to gas and electricity, in the case of which the Group is dependent on single suppliers with monopolistic positions. The Group attaches great importance to cost control and reduction at various stages of production. In 2016, the Group managed to take advantage of significant drops in the prices of gas on international markets. Annexes to agreements on gas supply concluded with the existing gas supplier, providing for a change in the margin rate (for more information see section 36), enabled the Group to continue to obtain prices very similar to current stock exchange prices. The situation on global markets is not stable now, which means that the risk of increased prices of this raw material in the medium turn cannot be ruled out. The Group is able to secure the price of part of gas purchases with stock exchange prices and commodity futures contracts with the delivery date of up to one year. At the same time, one of the companies of the Group commenced trading in gas, which enables the Group to purchase gas directly from the market (for more information see section 37).

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

In 2016, the Group recorded a decrease in sales compared to previous years. Furthermore, as previously announced, in order to improve the management of current assets, the quantities of inventories kept in the warehouses of the companies of the Group were reduced. To this end, it was necessary to reduce production to adjust it to sales volumes which were possible to be generated and to the planned inventory levels. This enabled the Group to maintain a safe level of financial liquidity and a further reduction in the debt. As the production capacities of the companies of the Group had not been utilized for a few years, it was resolved to discontinue production in one of the production plants (for more information see section 14.2). As a result, the levels of amounts reducing profit in subsequent years will be significantly lower.

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

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

25.1.4. 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.

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

25.2.1. Risk associated with the macroeconomic and political situation

The economic and political environment in which the Group operates continues to be characterized by a high degree of instability. Forecasts as regards the economic situation of Poland and the European Union are characterized by uncertainty. Indices relating to economic activity of important world economies (including China) remain at unsatisfactory levels. The area of the European Union is of strategic importance as regards reconstituting the Group's exports, as the Group does not sell its products in eastern markets any longer. The situation in Ukraine is still a major threat which is manifested through:

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

There are also potential risks – not materialized yet – arising from the situation described above. These are:

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

25.2.2. Risk associated with competitors' activities

As a result of the economic downturn recorded in recent years and a sharp decline in exports to eastern markets (the conflict in Ukraine), increased competition has been observed in relation to all segments. The Group makes efforts to maintain its position of a leading manufacturer of ceramic stoneware floor tiles. Furthermore, to maintain its competitive edge the Group continuously improves and expands its product portfolio and consolidates its own capacities (see also section 14.2).

25.2.3. 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.

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

The Group sells part of its products on Eastern Europe and Eurasian markets. Regardless of the risks described in section 25.2.1, 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.

25.2.5. Risk associated with the tax system

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

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

The main financial instruments used by the Group include bank loans, cash and short-term deposits. The main purpose of these financial instruments is to raise funds for the Group's business. The companies of the Group 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 is immaterial. The Group did not enter into any transactions involving derivatives. The principle applied by the Group at present and throughout the period covered by the consolidated financial statements is no trade in financial instruments.

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

25.3.1. 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.

25.3.2. Risk associated with foreign exchange rates

The Group carries out import and export transactions in foreign currencies (USD and EUR) on a significant scale. A change in exchange rates against PLN may result in profits lower than expected. Foreign exchange volatility affects the consolidated profit/(loss) by:

- changes in the value of export sales and production costs denominated in PLN, in the part relating to imported raw materials;
- changes in the competitiveness of the Group's offer 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.

25.3.3. Credit risk

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

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

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

25.4. Liquidity risk

The Group uses external funding which determines its liquidity. In order to ensure the availability of funding, the Group maintains the proportion of debt in 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 2017	6-12 months in 2017	in 2018	Subsequent years
Trade and other payables	22,651	22,651	-	-	-
Payments under operating leases*	3,818	1,302	791	1,149	577
Loans eligible for refinancing**	49,500	-	-	49,500	-
Loans to be repaid	5,353	473	4,033	786	62
Total	81,323	24,426	4,823	51,434	639

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

**Amounts resulting from the maximum debt limits granted, regardless of the debt amount at the end of 2016; as at 31 December 2016, the actual debt amount in this group of loans was PLN 19,546 thousand.

In the case of significant agreements classified as operating leases that cannot be terminated or have a defined minimum contractual period of notice, the total amounts that the companies of the Group would have to pay for the period till the expiry of the agreements is PLN 2,005 thousand.

25.5. Analysis of sensitivity of equity instruments to the risks to which these instruments are exposed

Amounts in PLN thousand (PLN '000), except for balances in foreign currencies.

Financial instrument	Currency	Balance in the currency given on the left	Balance in PLN	Risk type	Adopted fluctuation range	Sensitivity level
Foreign currency denominated receivables	EUR	888	3,929	foreign exchange	+/-20%	+/-786
Foreign currency denominated receivables	USD	385	1,612	foreign exchange	+/-20%	+/-322
Foreign currency cash	EUR	683	3,022	foreign exchange	+/-20%	+/-604
Foreign currency cash	USD	287	1,201	foreign exchange	+/-20%	+/-240
Foreign currency denominated liabilities	EUR	1,630	7,214	foreign exchange	+/-20%	+/-1443
Foreign currency denominated liabilities	USD	383	1,602	foreign exchange	+/-20%	+/-320
Loans contracted in foreign currencies	EUR	369	1,633	foreign exchange	+/-20%	+/-327
Variable interest rate loans	EUR	369	1,633	interest rate	+/-3.00%	+/-49
Variable interest rate loans	PLN	23,267	23,267	interest rate	+/-3.00%	+/-698

26. 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.

27. 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.

28. 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, property, plant and equipment account for the greatest share in their value (69% of the total amount of the relevant items). The change in the value of the plant, property and equipment between 2016 and 2015 was due to depreciation charges made during the year, capital expenditures and write-downs of the plant, property and equipment. The investment property, whose value did not change compared to 2015, is an important fixed asset. As at the end of 2016, this item accounted for 6% of total assets.

In the case of current assets, in 2016 – just like in 2015 – inventories accounted for the largest share of those assets (59%). Trade and other receivables accounted as at the end of 2016 for 10% of the value of assets and 22% of the value of current assets. In 2015, these figures were 14% and 29%, respectively. Controlling current assets as a consequence of a decrease in sales (by 6% relative to 2015) allowed for reducing the value of inventories.

As regards equity and liabilities, equity – representing 74% of total assets – was the main item in this group. The amount of equity decreased compared to the end of 2015 due to the payment of the dividend to shareholders of the parent company and a recorded loss. 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 (primarily a provision for deferred tax) in total liabilities and equity decreased from 14% in 2015 to 2% in 2016. The proportion of short-term debt from loans in liabilities and equity increased from 2% in 2015 to 10% in 2016 as a result of reclassification of part of long-term loans to short-term ones. 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 from loans in the financing of the Group's assets decreased and remains at a safe level.

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

In the case of the loans granted to Ceramika Nowa Gala SA by mBank SA, the condition to achieve the level of the profit margin on sales and the net profit margin specified by the bank was not met as at the balance sheet date.

The Company believes that all the loans that need to be renewed in the next 12 months will be renewed, as was the case in earlier periods, but it does not rule out, however, changing the financing bank.

29. 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 2016.

30. 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.

31. 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.

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

Currently, the Group does not operate any ESOPs.

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

On 17 June 2015, the Annual General Meeting of Shareholders of Ceramika Nowa Gala II Sp. z o.o. decided, by way of Resolution No. 3, that the net profit of that company for 2014 in the amount of PLN 10,516,237.60 would be allocated towards the payment of a dividend for the parent company, i.e. Ceramika Nowa Gala SA. The remaining part of the dividend (PLN 7,378,205.60) was offset with other accounts in February 2016.

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

34. PAYMENT OF A DIVIDEND TO CERAMIKA NOWA GALA SA BY ITS SUBSIDIARY

On 22 June 2016, the Annual General Meeting of Shareholders of Ceramika Gres SA decided, by way of Resolution No. 5/2016, that part of the net profit of that company for 2015, in the amount of PLN 951,810.43, would be allocated for the payment of a dividend for the parent company, i.e. Ceramika Nowa Gala SA. The dividend was paid in September 2016.

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

35. PAYMENT OF DIVIDEND

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

36. SIGNING ANNEXES TO COMPREHENSIVE AGREEMENTS ON SALE AND DISTRIBUTION OF NATURAL GAS CONCLUDED WITH RWE POLSKA SA

The companies of the Group signed annexes to comprehensive agreements on sale and distribution of natural gas concluded with RWE Polska SA (details of those agreements were provided in Current Report 9/2015 of 26 August 2015 and in the consolidated financial statements for 2015). In H1 2016, annexes amending the amounts of the seller's margins and extending the duration of the agreements until 31 December 2017 were signed. The other material terms and conditions remained unchanged.

37. LAUNCHING THE OPERATIONS OF A SUBSIDIARY COMPANY BASED ON A LICENCE FOR TRADE IN GAS

On 7 August 2015, by way of a decision of the President of the Energy Regulatory Office, Energia Park Trzemoszna Sp. z o.o. of the Group was granted a licence to trade in gas fuels valid from 2 August 2015 to 31 December 2030. The Group uses this licence to purchase gas for the own use of the companies of the Group. To begin actual activity under the above-mentioned licence it was necessary to obtain a tariff for trade in gaseous fuel approved by the President of the ERO and sign agreements with a Distribution System Operator and a Transmission System Operator. Under the Decision of the President of the ERO of 29 January 2016, Energia Park Trzemoszna Sp. z o.o. was assigned an approved tariff for trading in gas. The company also signed agreements with the Distribution System Operator (in February 2016) and the Transmission System Operator (in March 2016). In March 2016, the company began selling gas.

38. TERMINATION OF THE PERMIT TO OPERATE BY CERAMIKA NOWA GALA II SUBSIDIARY IN THE STARACHOWICE SPECIAL ECONOMIC ZONE

On 18 January 2017, the Management Board of Ceramika Nowa Gala II Sp. z o.o. signed a motion addressed to the Minister of Development and Finance, requesting him to terminate the permit to operate by CNG II in the Starachowice Special Economic Zone, the Końskie subzone, due to reorganization of the production processes and a planned relocation of production from CNG II to the other two factories of the Group (for more information see section 14.2). By his decision of 13 February 2017, the Minister of Development and Finance declared the expiry of the permit to carry out business activity by CNG II in the Starachowice Special Economic Zone.