Report on the operations of

Ceramika Nowa Gala SA

for the period from 1 January 2017 to 31 December 2017

Końskie, 26 March 2018

1. RULES FOR THE PREPARATION OF THE ANNUAL FINANCIAL STATEMENTS

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

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

2. INFORMATION ON THE KEY PRODUCTS

Products and goods sold by the Company can be divided into four categories:

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

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).

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 colours. 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 colours 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 colours. The collection includes also polished tiles. In 2017, the collection was supplemented with large tiles: 20x120 cm, 30x120 cm and 60x120 cm.

Basis

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

Monotec

A monochrome collection with gentle shading. Monotec tiles come in many colours, 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

Application of a decorating technology using micronized granules results in a varied and unique drawing on tiles, while preserving homogeneity in the colour 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. In 2017, the collection was supplemented with tiles in three new formats: 20x120 cm, 30x120 cm and 60x120 cm.

2.2. Glazed tiles

Glazed tiles offered by Ceramika Nowa Gala until the end of 2016 were manufactured in two production facilities belonging to companies of the Group. Since Q1 2017, production has been taking place in the plant belonging to the parent company and in that of Ceramika Gres SA subsidiary.

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. The tiles come in the following colours: light and dark beige, brown as well as light and dark grey.

Trend Stone

A collection of tiles whose design has been inspired by natural stones with minimalist appearance. Both the graphics and the colour range correspond to modern trends. Tiles in sizes of 60x60 cm, 30x60 cm and 30x30 cm can be complemented with a wide selection of mosaics used as decorative elements.

Lumina

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

Atelier

Tiles in this collection come in warm and bright colours. 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.

Marmo Design

This product line consists of six designs inspired by classic marbles and modern cement. The tiles are polished and come in two sizes: 30x60 cm and 60x60 cm. The series includes patterns imitating marble: Frost White (white), Golden Beige (beige), Silver Grey (grey), Imperial Graphite (graphite), Magic Black (black) and the Aquamarina series imitating concrete surface, available in five colours: white, light grey , dark grey, light beige and dark beige). Various decorative elements, such as hexagons, octagons, strips, mosaics, printed decors and a wide colour range, make it possible to create home and other spaces in line with current trends and one’s own taste. The collection is distinguished by high resistance to dirt and its glossiness. Marmo Design products are a guarantee of a luxurious and trendy interior.

Flamenco

Cotto tiles in the size of 33x33 cm, coming in three colours - natural “brick”, sand and grey. In each colour there are 40 graphics with different tonality, which makes the tiles resemble a handmade material, fired in a traditional oven. The tiles have a matte surface and an R11 C anti-slip parameter. The collection is adorned with a wide range of decorative elements: patchworks, hexagons and small bricks with which interesting arrangements can be created.

Ebro

Tiles in this collection imitate concrete and are available in the following sizes: 30x60 cm, 60x60 cm and 60x120 cm, each in four colours. The series is adorned with digitally printed decors in the size of 60x60 cm. Although the collection has been produced since the late 2017, it will be available for sale in 2018.

In 2018, among others owing to the investment in the plant of Ceramika Nowa Gala SA, the Group’s product offering will be extended with new items. The new products will include primarily stoneware tiles on coloured mass, mainly large ones – in the size of 60x120 cm and similar sizes.

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 Company’s production facility provided with modern equipment for processing stoneware tiles.

2.4. Tiles polished for the purposes of Ceramika Gres SA subsidiary

As part of cooperation between the companies of the Group, Ceramika Nowa Gala SA renders to Ceramika Gres SA subsidiary services involving polishing of certain product lines. The process is organized as follows: Ceramika Nowa Gala SA purchases from Ceramika Gres SA stoneware tiles in the form of a semi-finished product, processes them in its own facility in which the tiles are polished, and then sells the finished product back to Ceramika Gres SA. Those sales are recognized in the separate financial statements as sales of glazed tiles.

2.5. Ceramic powder

Ceramic powder is a semi-finished product from which ceramic tiles are made in the pressing and firing processes. The powder is produced by mixing, milling and drying mineral raw materials. Ceramika Nowa Gala SA produces high quality ceramic powder in a wide range of colours both for its own purposes and for sale, mainly to Ceramika Nowa Gala II Sp. z o.o. subsidiary, where it was processed to produce ceramic tiles. As production in the plant of CNG II subsidiary has been discontinued, no ceramic powder was sold in 2017.

3. DATA ON SALES AND SELLING MARKETS

3.1. Percentage sales structure

Amounts in PLN thousand (PLN '000).

	2017		2016	
Unglazed tiles	77,965	67%	74,395	56%
Glazed tiles	25,224	22%	37,771	28%
Decors and step tiles	5,178	4%	6,777	5%
Ceramic powder	-	-	6,120	5%
Other sales	8,479	7%	8,786	7%
	116,846	**100%**	**133,849**	**100%**

3.2. Quantitative sales structure

	2017		2016	
Unglazed tiles	2,519	thousand sq. m.	2,316	thousand sq. m.
Glazed tiles	680	thousand sq. m.	1,048	thousand sq. m.
Ceramic powder	-	tonnes	11,529	tonnes

A decrease in sales was recorded in 2017. In terms of value, sales decreased by 13%, and by 5% in quantitative terms. These declines were attributable mainly to glazed tiles, and were not offset by an increase in the sales of non-glazed tiles. Obviously the decline in the sales value was also due to the discontinuation of sales of ceramic powder to Ceramika Nowa Gala II subsidiary. This situation is partially due to production disturbances associated with discontinued production in the plant of Ceramika Nowa Gala II, as well as the ongoing modernization of the production lines in the plant belonging to Ceramika Nowa Gala SA.

3.3. Sales by selling markets

Amounts in PLN thousand (PLN '000).

	2017		2016	
Domestic market	97,572	84%	113,623	85%
Exports	19,274	16%	20,226	15%
	116,846	**100%**	**133,849**	**100%**

Lower sales were recorded both as regards the domestic market and exports, yet the percentage decline on the domestic market was three times higher than that on foreign ones.

Customers of the Company's products are diversified. Except for the subsidiary, to which tiles, raw materials and services are sold, the share of no customer exceeded 10% of revenue, therefore the Company is not dependent on one or several external customers.

4. SUPPLY SOURCES

In 2017, Ceramika Gres SA which supplied semi-products (tiles to be polished) and advertising materials, including displays, was the major supplier.

Besides the subsidiary, key suppliers of the Company include those supplying gas and electricity, as well as producers and distributors of materials used in production (feldspars, clays, mineral pigments, enamels, etc.). The Company 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 ORGANIZATIONAL RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES

Information on the structure of the Group and transactions with related parties is provided in the financial statements (Note 21 in the separate financial statements).

6. INFORMATION ON SIGNIFICANT AGREEMENTS AND CONCLUDED INSURANCE AGREEMENTS

Assuming 10% of the Company's equity at the time of the transaction as the criterion for recognizing an agreement to be significant, the Company did not enter into significant agreements in 2017. Insurance agreements entered into by the Company are presented below.

6.1. Insurance agreements

To insure its property and facilities, the Company has concluded the following agreements:

- Insurance agreement concluded with Sopockie Towarzystwo Ubezpieczeń ERGO HESTIA SA for the period from 1 November 2017 to 31 October 2018, providing for insurance protection of Ceramika Nowa Gala SA, Ceramika Gres SA and Ceramika Nowa Gala II Sp. z o.o. The insurance policy provides for the following types of insurance: 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 2017 to 20 March 2018, providing for third-party liability insurance of members of the 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 2017 to 21 March 2018, 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 1 July 2017 to 30 June 2018, 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 2018 to 30 November 2018.
- 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 2017 to 30 June 2019.

- Open account insurance agreement (non-marketable risk) concluded by Ceramika Nowa Gala SA with Korporacja Ubezpieczeń Kredytów Eksportowych SA for an indefinite time starting on 1 July 2014.

The Company holds also motor insurance policies covering its vehicles and forklifts.

7. 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.

8. CONTRACTED LOANS AND GRANTED SURETIES AND GUARANTIES

Note [16] in the financial statements provides a detailed account of loans held or repaid, which constituted a balance-sheet liability of the Company in 2017.

8.1. Loans

8.1.1. Loan agreement with Bank Pekao SA concluded on 9 February 2017

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. The debt as at the balance sheet date amounted to EUR 432 thousand (see also section 8.1.7).

8.1.2. Annex to the revolving credit facility agreement concluded with mBank SA on 28 October 2002

The deadline for repayment of the revolving credit facility in the amount of PLN 3,640 thousand granted to the Company by mBank SA fell on 29 June 2017. On 26 June 2017, Ceramika Nowa Gala SA signed an annex to the revolving credit facility agreement which extended the deadline for its repayment until 28 June 2019, while maintaining the existing collateral. At the same time, the Company decreased its existing overdraft limit from PLN 3,640 thousand to PLN 3,540 thousand. The agreement provides for repayment of the revolving credit facility in monthly instalments of PLN 100 thousand.

8.1.3. Signing annexes to loan agreements concluded with mBank SA

On 27 July, the Company and mBank SA signed annexes to the following agreements: overdraft facility agreement, investment credit agreement and an cooperation agreement as regards letters of credit, modifying the levels of ratios which give a view of the Company's financial position.

8.1.4. Annex to the overdraft facility agreement concluded with Bank Polska Kasa Opieki SA on 24 September 2013

Following the Company's assessment by Bank Pekao SA, Annex 3 was signed on 24 July 2017 under which the loan price parameters remained unchanged. The decision applies to the period from 1 October 2017 to 30 September 2018.

8.1.5. Annex to the non-recourse factoring agreement No. 40/2016 of 5 August 2016

On 1 August 2017, Ceramika Nowa Gala SA signed Annex 2 to non-recourse factoring agreement No. 40/2016 of 5 August 2016, reducing thereby the maximum limit of financing from PLN 25,000 thousand to PLN 15,000 thousand.

8.1.6. Loan agreement concluded with mBank SA on 3 October 2017

In order to refinance capital expenditure made to purchase non-current assets, Ceramika Nowa Gala SA contracted, in October 2017, a five-year investment loan in the amount of EUR 680 thousand. The deadline for payment of the last instalment falls on 28 February 2022.

8.1.7. Annex to the investment loan agreement concluded on 9 February 2017 with Bank Pekao SA (event after the balance sheet date)

As the credit limit was underused, Ceramika Nowa Gala SA and Bank Pekao SA signed, on 29 January 2018, an annex to the loan agreement to reduce the amount of the investment loan from EUR 912 thousand to EUR 642 thousand (see also section 8.1.1).

8.1.8. Annex to the overdraft facility agreement concluded on 15 December 2004 with mBank SA (event after the balance sheet date)

On 26 February 2018, Ceramika Nowa Gala SA and mBank SA signed an annex to the overdraft facility agreement to extend the deadline for the repayment of the loan from 27 February 2018 to 27 February 2019, while maintaining the existing collateral and the maximum amount of financing of PLN 500 thousand. The bank’s margin was increased from 0.9 p.p. to 1.3 p.p.

8.2. Loans received

No loans were contracted by the Company in 2017.

9. INFORMATION ON GRANTED LOANS AND GUARANTEES

9.1. Loans granted

In October 2017, Ceramika Nowa Gala SA increased, by way of another annex, the amount of the loan granted to CNG Luxembourg S.a.r.l. subsidiary by EUR 30 thousand, and extended the deadline for its repayment until 31 December 2018. The increased loan amount (without accrued interest) is EUR 75 thousand.

9.2. Guarantees granted

No financial guarantees were granted in 2017.

9.3. Sureties granted

Due to the refinancing of the working capital loan by Ceramika Gres SA subsidiary (see also section 7.2.1 in the report on the operations of the Group), 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). The surety bonds are subject to remuneration charged at market rates.

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

10. ULIZATION OF PROCEEDS FROM ISSUED SECURITIES

No securities were issued in 2017.

11. IMPLEMENTATION OF EARNINGS GUIDANCE

The Company did not publish any earnings guidance in 2017.

12. ASSESEMENT OF FINANCIAL RESOURCES MANAGEMENT

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 its liabilities, with due account of a margin of safety.

Bank loans are an important element of the structure of financing the Company's assets.
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 the Company of the material conditions of loan agreements or deterioration in the Company's standing putting loan repayment at risk.

As at the balance sheet date, the levels of ratios required by the banks were within acceptable ranges.

At the end of 2017, the Company's equity represented 82% of total assets. The current liquidity ratio was 2.78, and the Company settled its commitments on an ongoing basis (minor delays occurred as regards certain trade liabilities). The inventory turnover period and the period of liability repayment were longer than those recorded in 2016, whereas the period of repayment of receivables was at a level similar to that recorded in 2016.

Due to losses incurred by the Company, the profitability ratios are negative. This is primarily due to lower sales, whereby the decrease in sales resulted to a certain extent from production reorganization (see also section 15.2) as well as modernization of the production lines in the plant belonging to Ceramika Nowa Gala SA.

Selected economic ratios*

	2017	2016
Current liquidity ratio	2.78	3.18
Current liquidity ratio II	0.78	1.21
Return on assets	-3.21%	-2.75%
Return on equity	-3.92%	-3.23%
Net return on sales	-5.62%	-4.31%
Receivables turnover (in days)	50	46
Liabilities turnover (in days)	71	53
Inventory turnover (in days)	208	172

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

13. ASSESSMENT OF FEASIBILITY OF INVESTMENT PLANS

Having significantly modernized the production lines in the Company's plant in 2017, only minor replacement investments are planned for the next year. The Company will be able to finance all of them with its own financial resources.

14. UNUSUAL EVENTS AFFECTING THE FINANCIAL STATEMENTS OF THE COMPANY

The following unusual events occurred in 2017:

- The Group was reorganizing its structure, which involved closing down the production plant of one of the subsidiary companies (for more details see section 15.2) and moving part of the machines and equipment from this plant to the remaining companies of the Group, mostly to the production plant of Ceramika Nowa Gala SA. At the same time, an investment plan was being implemented in the parent company's plant to expand the production capacity with respect to larger-format tiles, including those manufactured using the double charge technology. As a result of the works carried out, the production in this plant was temporarily discontinued. Since H2 2017, once the assembly and commissioning of new equipment were completed, the plant has been operating with no disturbances.

Due to production downtime, the profit was lower by PLN 4,582 thousand. In the comparable period of 2016, this figure was PLN 7,337 thousand.

- Capital expenditure for modernization of the plant of Ceramika Nowa Gala SA amounted to PLN 11,000 thousand;
- Payment of dividend to shareholders (see also section 32) in the amount of PLN 4,689 thousand;
- Payment of dividend in the amount of PLN 1,878 thousand by Ceramika Gres SA subsidiary to Ceramika Nowa Gala SA. The transaction is accounted for only in the separate financial statements.
- Write-down of assets for deferred income tax due to unused tax losses, which reduced the profit by PLN 1,319 thousand;
- Inventory write-off in the amount of PLN 291 thousand.

15. EXTERNAL AND INTERNAL FACTORS IMPORTANT TO THE DEVELOPMENT OF THE COMPANY AND ITS BUSINESS DEVELOPMENT PROSPECTS

15.1. Economic situation

Due to the dependence of the demand for tiles on the economic situation, GDP growth rate and the development of the construction industry in Poland – which is the main selling market for the Company – are of great importance to its operations. As sales of tiles on the commercial construction market are an important item in the Company's sales, this segment of the construction market has also a major impact on the demand for our products. Given the continuing economic recovery, both in Poland and in the EU countries which are major importers of the Company's products, the economic situation should have a positive impact on the Company's standing in 2018.

15.2. Strategy and development of the Group for which the Company is its parent company

In 2017, after a few years of limited investment, the production process in the Group was reorganized. One of important elements of this plan was moving production from CNG II to the other two plants belonging to the Group. Following the reorganization, production carried out before in three plants is carried out in two ones, which has significantly simplified production processes and reduced costs. Production consolidation was coupled with modernization in the plant of CNG SA to increase the share of large formats in sales and extend the product offering. Works in this respect cost approx. PLN 11 million, spent in 2017, and were paid for with own funds and loans (see also section 8.1). New or modernized production lines were launched and commissioned in 2017. Owing to this modernization, new products, mainly technical stoneware tiles and glazed ones on coloured mass will be put on the market, with a significant proportion of larger formats – 60x120 cm and similar ones.

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

There were no group lay-offs due to the reorganization.

The changes resulted in a decrease in the production capacity by 1.6 million sq. m. per annum (the decrease from the level recorded in March 2017), to 6.6 million sq. m., which should not affect sales volumes, as the production capacity was not fully utilized and its maintenance was burdensome.

Following the reorganization, CNG II still has 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.

In 2018, it is planned to merge Ceramika Nowa Gala SA and Ceramika Nowa Gala II sp. z o.o. in accordance with Article 492(1)(1) and Article 516(6) read together with Article 516(5) of the Code of Commercial Partnerships and Companies, by transferring all assets of Ceramika Nowa Gala II sp. z o.o. (target company) to Ceramika Nowa Gala SA (surviving company – combination by acquisition), with no increase in the share capital of the surviving company.

Due to changes on the market, works are being carried out to develop and implement a new sales strategy.

16. 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 2017 except for those described in section 15.2.

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

On 14 July 2017, the Extraordinary General Meeting of the Issuer's Shareholders appointed Mr. Marek Gabryjelski member of the Supervisory Board in connection with resignation by Mr. Jacek Tomasik from the function of member of the Supervisory Board, announced on 2 June 2017.

Furthermore, on 14 July 2017, the Company's Supervisory Board appointed an Audit Committee. All members of the Issuer's Supervisory Board were appointed members of the Audit Committee, i.e.:

- Marek Gabryjelski – Chairperson of the Audit Committee;
- Paweł Marcinkiewicz – member of the Audit Committee;
- Grzegorz Ogonowski – member of the Audit Committee;
- Łukasz Żuk - member of the Audit Committee;
- Wojciech Włodarczyk - member of the Audit Committee.

18. 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.

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

19.1. 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	360	84	210	-	25	679
Paweł Górnicki	246	54	174	-	25	499
Zbigniew Polakowski	96	74	60	60	-	290
Total	**702**	**212**	**444**	**60**	**50**	**1,468**

19.2. 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
Marek Gabryjelski	CNG SA	22
Jacek Tomasik	CNG SA	24
Total		256

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

The Company does not have a formal remuneration policy specifying its long-term objectives and rules for measuring its effectiveness. Remuneration amounts in the Company 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.

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

No such transactions occurred as at the last day of the reporting year.

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

According to the information available to the Company, no change occurred in 2017 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.

23. INFORMATION ON SIGNIFICANT SHAREHOLDERS

According to the information available to the Company, the shareholders specified below hold shares authorizing them to at least 5% of votes at the General Meeting of Shareholders. The following information is based on communications provided to the Company by the shareholders.

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 (former AMPLICO OFE)	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	9.99%
VALUE Fundusz Inwestycyjny Zamknięty with Sub-fund 1	2,509,980	5.35%	2,509,980	5.35%

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.

24. 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.

25. 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 2017 was carried out under an agreement concluded on 24 July 2017. The agreement concerns audit of the separate financial statements of the Company for 2017, the consolidated financial statements of the Company for 2017, a review of the separate semi-annual financial statements as at 30 June 2017 and a review of the consolidated semi-annual financial statements as at 30 June 2017. The total net remuneration payable to the audit firm under the aforementioned agreement is PLN 62 thousand. BDO Sp. z o.o. is also entitled to total net remuneration of PLN 36 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 2017, 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 2017 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 20.3 thousand.

In 2016, the financial statements of the Group 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 concerned 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 was PLN 44 thousand. BDO Sp. z o.o. received also 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 was 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.

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

26.1. Risk factors related to the Company's business

26.1.1. Risk associated with increased production costs

The Company's production plant consumes, 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 Company, in particular with respect to gas and electricity, in the case of which the Company is dependent on single suppliers with monopolistic positions. The Company attaches great importance to cost control and reduction at various stages of production. In 2017, the downward tendency in prices of raw materials recorded in recent years slowed down. The situation on global markets is not stable now, which means that the risk of increase in prices of raw materials, even in the short turn, cannot be ruled out. The Company is able to secure the price of part of gas purchases with commodity futures contracts with delivery dates of up to one year.

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

The Company 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 colours 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 Company to modify formulations used by it. The Company hedges against this risk by developing alternative formulations, using substitute ingredients.

26.1.3. 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 Company monitors prevailing market trends and adjusts its product portfolio to the tastes and requirements of customers. Furthermore, a major modernization of the Company's machines was carried out in 2017, which enabled introducing new products, in particular technical stoneware tiles and glazed ones on coloured mass, including larger tiles - 60x120 cm and similar formats.

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

26.2.1. Risk associated with the macroeconomic and political situation

Despite the continuing economic recovery, both in Poland and in the most important countries of the European Union, the economic and political environment in which the Company operates continues to be characterized by a high degree of instability. The ever stronger inflationary processes in the global economy and the tightening of the monetary policy by the major central banks lead to a systematic increase in the world's most important interest rates. In the case of the Company, the risk of inflation growth may translate into a faster cost growth rate (increase in prices of raw materials, pressure on wage growth, increase in financing costs, etc.), which cannot be followed by a rapid increase in prices (due to the high level of competitiveness in the industry). Furthermore, rising interest rates may significantly weaken the above mentioned continuing economic recovery. 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.

26.2.2. Risk associated with competitors' activities

In the last few years, the level of competition on the domestic market increased in all its segments. Moreover, increased investment activity can be seen in the ceramic tile industry. This activity is due to the need to modernize the existing machines of major competitors, ongoing consolidation processes, the need to modernize the product offering (including the launch of large tile production) and new producers entering the market. This process is further enhanced by historically low financing costs. This situation may weaken the competitiveness of the Company's product offering and, consequently, its market position. A short-term response to this state of affairs was the 2017 modernization (see section 15.2 of the report on the Issuer's operations). The Company analyses the aforementioned processes and intends to develop, in coming years, a plan of a more extensive modernization of its production and sales capacities.

26.2.3. 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 Company 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. Such a situation could adversely affect the level of sales and the performance of the Company.

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

The Company sells part of its products on Eastern Europe and Eurasian markets. Regardless of the risks described in section 26.2.1, 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.

26.2.5. 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 Company 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.

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

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

The main risks arising from financial instruments held by the Company 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 Company in relation to financial instruments have been discussed in the introduction to the financial statements.

26.3.1. Interest rate risk

At present, the assets and liabilities recognized in the financial statements are not subject to fluctuations due to changes in interest rates. However, due to the fact that the Company uses funding sources with variable interest rates, an increase (decrease) in base rates (see also section 15.1) or an increase (decrease) in margins used by financial institutions may result in an increase (decrease) in financial expenses. The Company does not use cash flow hedges against changes in interest rates.

26.3.2. Risk associated with foreign exchange rates

The Company 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 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 Company's offer on 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 Company 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 Company. 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.

26.3.3. 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.

26.3.4. Liquidity risk

The Company uses external funding which determines its liquidity. In order to ensure the availability of funding the Company 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 2018	from 6 to 12 months in 2018	in 2019	Subsequent years
Trade and other payables	19,285	19,285	-	-	-
Payments under operating leases*	3,753	1,605	720	723	704
Loans eligible for refinancing**	9,500	-	9,000	500	-
Loans to be repaid	9,653	1,245	1,245	4,349	2,814
Total	**42,191**	**22,136**	**10,965**	**5,572**	**3,518**

*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 as at the end of 2017, i.e. PLN 0.00.

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 expiry of the agreements is PLN 2,466 thousand.

26.4. 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	623	2,600	foreign exchange	+/-20%	+/-520
Foreign currency denominated receivables	USD	346	1,207	foreign exchange	+/-20%	+/-241
Foreign currency cash	EUR	707	2,951	foreign exchange	+/-20%	+/-590
Foreign currency cash	USD	93	325	foreign exchange	+/-20%	+/-65
Foreign currency denominated liabilities	EUR	1,085	4,527	foreign exchange	+/-20%	+/-905
Foreign currency denominated liabilities	USD	213	741	foreign exchange	+/-20%	+/-148
Loans contracted in foreign currencies	EUR	1,514	6,317	foreign exchange	+/-20%	+/-1,263
Variable interest rate loans	EUR	1,514	6,317	interest rate	+/-3.00%	+/-190
Variable interest rate loans	PLN	3,340	3,340	interest rate	+/-3.00%	+/-100

27. DESCRIPTION OF SIGNIFICANT OFF-BALANCE SHEET ITEMS

The description of significant off-balance sheet item has been provided in the separate financial statements.

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

None of 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 a receivable of the Company would not be written off.

29. 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.

30. STATEMENT ON NON-FINANCIAL INFORMATION FOR 2017

The Issuer as a company does not meet the requirements concerning the preparation of a statement on non-financial information specified in Article 49b of the Accounting Act, nonetheless the Group for which the Company is its parent company has prepared a statement on non-financial information as part of the report on operations of the Group.

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

Currently, the Company does not operate any ESOPs.

32. PAYMENT OF DIVIDEND

On 10 May 2017, the General Meeting of Shareholders resolved to pay a dividend from available accumulated profit from previous years. The amount of the dividend per share was

PLN 0.10, thus the total amount paid out was PLN 4,689,362.10. The dividend was paid on 46,893,621 shares on 14 June 2017.

33. DECISION TO INITIATE BY THE COMPANY A REVIEW OF STRATEGIC OPTIONS RELATED TO THE FURTHER DEVELOPMENT OF THE BUSINESS

On 24 March 2017, the Management Board resolved that the Company would initiate a review of strategic options related to the further development of the Company's business. At this stage, the Management Board will consider various strategic options, in particular, seeking a strategic investor for the Company, entering into a strategic alliance, effecting a transaction with a different structure, as well as not taking action by the Company with respect to finding an investor, entering into a strategic alliance or effecting any transaction. No decisions regarding the choice of a specific strategic option have been taken by the Management Board yet, and it is not certain whether such a decision will be taken in the future and when it will be taken. There were no material changes in this regard as at the balance sheet date.

Signatures

These financial statements were drawn up and signed on **26 March 2018** and will be published on 26 March 2018.

Management Board	Chief Accountant