



Report on the operations of

Ceramika Nowa Gala SA Group

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 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;
- Ceramika Gres SA – a subsidiary;
- CNG Luxembourg S.à.r.l. – a subsidiary;
- Energia Park Trzemoszna Sp. z o.o. – an entity controlled by the subsidiaries.

Except for 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 2017, to PLN 405 thousand. Financial data of this company for 2017, determined in accordance with Polish accounting standards, is as follows: assets: PLN 918 thousand, provisions and liabilities: PLN 109 thousand, revenue: PLN 1,941 thousand, net profit for 2017: PLN 91 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 Ceramika 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). In the reporting period concerned, production was carried out in two plants located in Końskie and in a plant located in Kopaniny in the Końskie powiat, as the production plant of Ceramika Nowa Gala II sp. o.o. was closed down in Q1 2017, and its production was moved to the other two plants of the Group.

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.

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).

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. 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 colors corresponding to the current market trends.

Monotec

A collection with gentle shading, with no drawing. Monotec tiles come in many 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, also in a rectified version.

Vario

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. In 2017, the collection was supplemented with tiles in three new formats: 20x120 cm, 30x120 cm and 60x120 cm.

2.2. Glazed tiles

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 colors: 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 color 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 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.

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.

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.

Ceramika Gres and Milo

In 2018, 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.

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.

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 the 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 graphics are inspired by the appearance of rustic boards. The collection is available in warm shades of beige, brown and grey. It is a perfect choice for rooms arranged both in a rustic style and a modern one.

Corn

The collection is inspired by the image of granite and comes in two colors: grey and graphite. The tiles are made in the traditional 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.

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.

Fuego

The pattern resembles worn cement surface, with graphics divided into 10 faces. The tiles are manufactured using the digital printing technology, in the size of 40x40 cm. Their surface is smooth and satin. Cream and grey tiles are available.

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.

Vintage

A stone-like collection. The tiles are made in the digital printing technology and have a microgranilia structure. Three colors are available: beige, brown and grey. The stone look is emphasized by the tiles' structure. The tiles can be combined with patchwork decors.

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.

Alberon

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 floor look.

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.

Ponte

The collection is inspired by stained wood. The tiles are made in the digital printing technology and have a matt surface. Adorned with a delicate structure and 12 different digitally printed decors. Three colors – cream, beige and brown perfectly reproduce the look of natural wood. The tiles have the R10 anti-slip parameter.

Mixstone

A stone-like pattern with a deep and distinct structure which emphasizes the tile's character. The tiles come in cool shades of cream and brown as well as grey and graphite. The significantly varied drawing and the distinct character of the tiles are softened by decors with delicate worn patchwork. The tiles have the R10 anti-slip parameter.

33x33 cm

Glazed stoneware tiles in the size of 33x33 cm make up a substantial part of the product offering 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 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).

	2017		2016	
Unglazed tiles	77,452	49%	71,096	42%
Glazed tiles	72,251	46%	91,975	54%
Decors and step tiles	5,868	4%	7,690	4%
Other sales	1,037	1%	221	0%
	156,609	100%	170,982	100%

3.2. Quantitative sales structure

	2017		2016	
Unglazed tiles	2,523	thousand sq. m.	2,246	thousand sq. m.
Glazed tiles	3,137	thousand sq. m.	3,821	thousand sq. m.
	5,660	thousand sq. m.	6,067	thousand sq. m.

A decrease in sales was recorded in 2017. In terms of value, sales decreased by 9%, and by 7% in quantitative terms. These declines were attributable mainly to glazed tiles, and were not offset by an increase in the sales of unglazed tiles. 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	126,736	81%	139,638	82%
EXPORTS	29,873	19%	31,344	18%
	156,609	100%	170,982	100%

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

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

5.1. Insurance agreements

To insure their property and facilities, the companies of the Group have 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.
- Open account insurance agreement concluded by Ceramika Gres SA with Sopockie Towarzystwo Ubezpieczeń ERGO HESTIA SA for the period from 1 December 2017 to 30 November 2018.
- 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 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 2017, and which constituted a balance-sheet liability of the Group.

7.1. Loans contracted by Ceramika Nowa Gala SA

7.1.1. 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 7.1.7).

7.1.2. 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.

7.1.3. 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.

7.1.4. 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.

7.1.5. 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.

7.1.6. 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.

7.1.7. Annex to the investment loan agreement concluded on 9 February 2017 with Bank Pekao SA (an 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 7.1.1).

7.1.8. Annex to the overdraft facility agreement concluded with mBank on 15 December 2004 (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.

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 9 February 2018, 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 October 2018 to 31 October 2019, 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 2017.

8. INFORMATION ON GRANTED LOANS AND GUARANTEES

8.1. 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. The loan amount is eliminated in the consolidated financial statements.

8.2. Guarantees granted

No financial guarantees were granted in 2017.

8.3. Sureties granted

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). 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.

9. ULIZATION OF PROCEEDS FROM ISSUED SECURITIES

No securities were issued in 2017.

10. IMPLEMENTATION OF EARNINGS GUIDANCE

The Group did not publish any earnings guidance in 2017.

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 2017, the Group's equity represented 71% of total assets. The current liquidity ratio decreased slightly as compared to 2016 and was 1.93. The Group settled its commitments on an ongoing basis (minor delays occurred as regards certain trade liabilities). The inventory turnover period was longer than that recorded in 2016. Periods of repayment of both receivables and liabilities were at the levels similar to those recorded in 2016.

Due to losses incurred by the Group, 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 14.2) as well as modernization of the production lines in the parent company's plant.

Selected economic indicators*

	2017	2016
Current liquidity ratio	1.93	2.03
Current liquidity ratio II	0.65	0.84
Return on assets	-2.27%	-3.63%
Return on equity	-3.19%	-4.90%
Net return on sales	-3.51%	-5.23%
Receivables turnover (in days)	57	55
Liabilities turnover (in days)	68	65
Inventory turnover (in days)	238	197

*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

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.

13. UNUSUAL EVENTS AFFECTING THE FINANCIAL STATEMENTS OF THE GROUP

The following unusual events occurred in 2017:

- The Group reorganized its structure, which involved closing down the production plant of one of the subsidiary companies (for more details see section 14.2) 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 implemented in the latter plant. The plan was aimed at expanding 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 6,620 thousand. In the comparable period of 2016, this figure was PLN 13,462 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 33) 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 affects only the separate financial statements and was eliminated from the consolidated 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 821 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, the GDP growth rate 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 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 Group's standing in 2018.

14.2. Strategy and development of the Group

In 2017, after a few years of limited investment, the Company reorganized the production process in the Group. 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 7.1). 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, have been moved to the other plants of the Group. The book value of equipment which is no longer useful due to the planned operations is 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.

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 2017 except for those described in section 15.2.

16. 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 due to Mr. Jacek Tomasiak's resignation 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.

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	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

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

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

No 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 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.

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 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 Otworthy Fundusz Emerytalny Aviva BZ WBK	5,834,364	12.44%	5,834,364	12.44%
Nationale-Nederlanden Otworthy 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.

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 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.

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 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 Group is able to secure the price of part of gas purchases with commodity futures contracts with the delivery date of up to one year.

25.1.2. 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.

25.1.3. 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 companies of the Group monitor prevailing market trends and adjust their product portfolio to the tastes and requirements of customers. Furthermore, a major modernization of the

machines used in the plant of the parent company was carried out in 2017, which enabled introducing new products, in particular technical stoneware tiles and glazed ones on colored mass, including larger tiles – in the size of 60x120 cm and similar formats.

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

25.2.1. 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 Group 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 Group, 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.

25.2.2. Risk associated with competitors' activities

The sharp decrease in exports onto Eastern markets (conflict in Ukraine), recorded in a few past years, was one of the reasons for increased competition on the domestic market, in all market 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 14.2). The Group analyses the aforementioned processes and intends to develop, in coming years, a plan of a more extensive modernization of its production and sales capacities.

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 funding sources with variable interest rates, an increase (decrease) in base rates (see also section 14.1) 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.

25.3.4. 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 2018	6-12 months in 2018	in 2019	Subsequent years
Trade and other payables	21,731	21,731	-	-	-
Payments under operating leases*	3,650	1,310	794	841	704
Loans eligible for refinancing**	49,500	-	49,000	500	-
Loans to be repaid	9,653	1,245	1,245	4,349	2,814
TOTAL	84,534	24,287	51,040	5,689	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 at the end of 2017; as at 31 December 2017, the actual debt amount in this group of loans was PLN 24,710 thousand. The amounts as at the balance sheet date do not account for the prolongation described after the balance sheet date (see section 7.2.1)

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 2,562 thousand.

25.3.5. 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	1,000	4,171	foreign exchange	+/-20%	+/-834
Foreign currency denominated receivables	USD	369	1,287	foreign exchange	+/-20%	+/-257
Foreign currency cash	EUR	1,773	7,395	foreign exchange	+/-20%	+/-1,479
Foreign currency cash	USD	127	441	foreign exchange	+/-20%	+/-88
Foreign currency denominated liabilities	EUR	1,180	4,921	foreign exchange	+/-20%	+/-984
Foreign currency denominated liabilities	USD	289	1,005	foreign exchange	+/-20%	+/-201
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	28,050	28,050	interest rate	+/-3.00%	+/-842

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. 53% of total assets. As regards their structure, property, plant and equipment account for the greatest share in their value (71% of the total amount of the relevant items). The change in the value of tangible fixed assets between 2017 and 2016 was mainly due to depreciation charges made during the year as well as capital expenditures. The investment property, whose value did not change compared to 2016, is an important fixed asset. As at the end of 2017, this item accounted for 3% of total assets.

In the case of current assets, in 2017 – just like in 2016 – inventory accounted for the largest share of those assets (66%), and its value increased relative to 2016. Trade and other receivables accounted as at the end of 2017 for 10% of the value of assets and 21% of the value of current assets. In 2016, these figures were 10% and 22%, respectively.

As regards equity and liabilities, equity – representing 71% of total assets – was the main item in this group. The amount of equity decreased compared to the end of 2016 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. The amount of foreign exchange differences on translation is due to conversion from EUR to PLN of the financial statements of CNG Luxembourg S.à.r.l. subsidiary.

The proportion of long-term debt in total liabilities and equity increased from 2% in 2016 to 4% in 2017. This increase was mainly due to investment loans contracted for modernization works (for more details see section 7.1). The proportion of short-term debt resulting from contracted loans (in liabilities and equity) remained at a level similar to that recorded in 2016: 10% in 2016, 11% in 2017.

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

After the balance sheet date, the Group and the banks signed annexes extending the duration of key loan agreements (see events after the balance sheet date in the Group's financial statements).

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 2017.

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. 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.

34. 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. subsidiary 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 relocation of production from CNG II to the other two factories of the Group (for more information see section 14.2 in the report on the operations of the Group). 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 within the Starachowice Special Economic Zone.

35. DECISION TO INITIATE BY THE COMPANY A REVIEW OF STRATEGIC OPTIONS RELATED TO THE FURTHER DEVELOPMENT OF ITS 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.



Statement on non-financial information for 2017

Końskie, 26 March 2018

1. Legal grounds governing the preparation of "Statement on non-financial information"

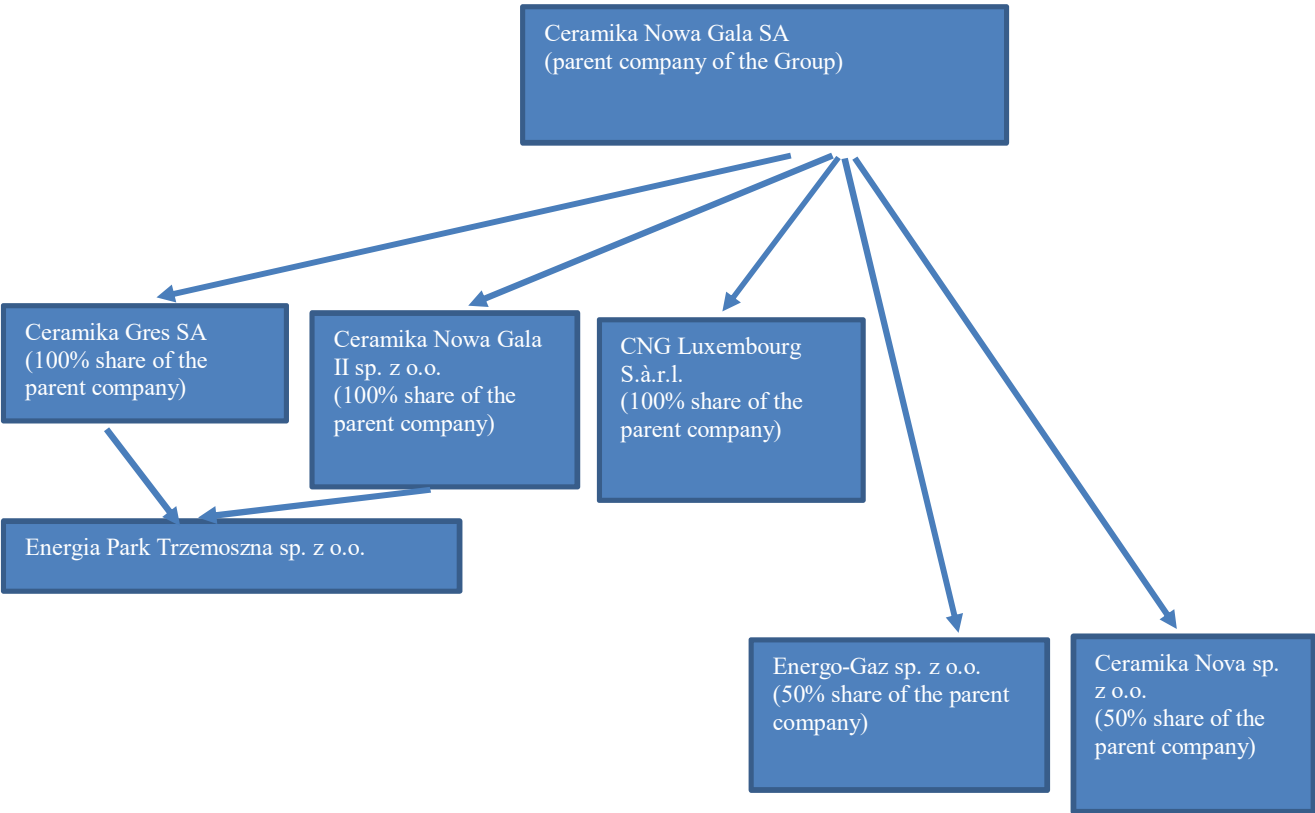
The Statement on non-financial information was drawn up in accordance with Article 49b of the Accounting Act.

2. Business model and key non-financial indicators related to the Group's business

2.1. Ceramika Nowa Gala SA Group

Ceramika Nowa Gala SA is the parent company of the Group. The core business of Ceramika Nowa Gala SA, Ceramika Gres SA and Ceramika Nowa Gala II sp. z o.o. consists in the production and sale of ceramic stoneware tiles. The tiles are made of mineral raw materials (minerals). In 2016, production took place in two factories located in Końskie and in one factory located in the village of Kopaniny in the Końskie powiat. In Q1 2017, the production plant of Ceramika Nowa Gala II Sp. z o.o. subsidiary was closed down and the production carried out there until then was moved to the other two factories of the Group. 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.

Figure 1. Organizational structure of the Group



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). The core business of Energo-Gaz sp. z o.o. consists in the handling of a siding (the siding is owned by Ceramika Nowa Gala SA and an entity not related to it – joint ownership). Ceramika Nova sp. z o.o. has never commenced any operations and holds no assets.

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

2.2. Business model of the Ceramika Nowa Gala Group

The companies of the Ceramika Nowa Gala Group specialize in the manufacture of ceramic tiles, both glazed (also on colored mass) and unglazed ones. These are mainly floor tiles. The tiles are sold under two brands: Nowa Gala and Ceramika Gres.

The Nowa Gala brand is addressed to the medium and premium segments, in which the end customer requires an adequate combination of aesthetic values with functionality, durability and ease of maintenance of tiled surfaces. The B2B commercial segment is an important sales channel for this brand. The applied production technology (mass-colored technical stoneware tiles and glazed stoneware tiles on colored mass) enables obtaining adequate technical parameters, required by institutional clients (e.g. the abrasiveness class or anti-slip class).

Products sold under the Ceramika Gres brand include mainly glazed stoneware tiles on white mass, produced using the digital printing technology and offered mainly in the economic segment, in which a competitive price level is important. A significant part of the products sold in this segment are tiles in smaller formats – 30x30 or 40x40 cm. DIY chains are a very important distribution channel for this brand.

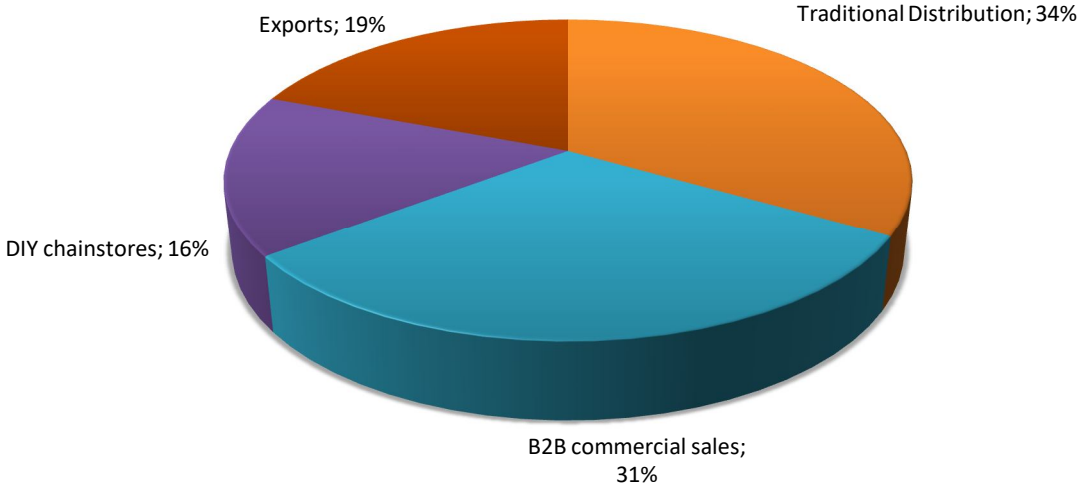
As regards the domestic market, sales addressed to retail customers, effected via specialized wholesalers cooperating with the Group, are of great importance to both brands. These wholesales may have their own chains of showrooms where ceramic tiles are sold or be an indirect channel that renders logistic services to independent showrooms. The key forms of marketing and advertising activities in this channel include adequate presentation (display) of the company's products in showrooms and their sale. To this end displays with tiles, boxes with examples of arrangements and adequate printed materials (catalogues, brochures, advertising leaflets, etc.) are used. The corporate website is an additional source of information about the product offering.

Exports account for almost 20% of the Group's sales, The Group offers abroad the same products as it does in Poland. Local representatives, more familiar with the specific characteristics of a given region, can play an important role on selected markets.

Table 1 Sales structure by type

Product type	2017	2016
Unglazed tiles	49%	42%
Glazed tiles	46%	54%
Decorative elements	4%	4%
Other sales	1%	0%
	100%	100%

Figure 2 Proportion of customer groups in revenue



In both factories of the Group, a complete cycle of ceramic tile production is carried out in the single firing technology, which consists of raw material milling, ceramic granulate production, tile pressing, glazing (in the case of some products) and firing. The production process is continuous and automated. In the plant of Ceramika Nowa Gala SA, some of the tiles are subjected to mechanical treatment (polishing, honing, calibration), and part of them is used to produce decorative elements which complement the offer.

Key suppliers of the Group include those supplying 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 Group ranks 5th among Polish manufacturers of ceramic tiles in terms of production capacity. According to available data for 2016, the estimated share of the Group in the entire domestic ceramic tile market is 7%. Major domestic competitors include: the Cersanit SA group (including the Opoczno brand), the Paradyż group, the Ceramika Końskie group, the Tubądzin group, Cerrad and Polcolorit. As regards the domestic ceramic tile market, no manufacturer's share exceeds 30%.

Ceramika Nowa Gala SA seeks to maintain its position of a distinguished manufacturer of high quality ceramic stoneware tiles. This mission is pursued through:

- application of modern technological solutions and materials of the highest quality,
- partnership approach to customers and suppliers cooperating with the Group,
- launching new products which meet changing tastes and expectations of customers.

2.3. Key non-financial performance indicators related to the business of the Ceramika Nowa Gala SA Group

The Ceramika Nowa Gala SA Group finds important the following non-financial indicators related to:

- product quality (and its impact on relations with customers),
- environmental impact in terms of the volume of generated waste,
- employment structure.

2.3.1. Product quality

Care for the quality and safety of use of the product are of key importance to the Group. The use of modern technological solutions and appropriate materials translates into better quality of ceramic tiles produced.

A dedicated process enables quick examination and verification of received complaints. Where the complaint is found well grounded, steps are taken under applicable law to settle claims in consultation with the client as quickly as possible. Obviously, the overriding goal of the companies of the Group is to maintain the production quality at a level that minimizes the number and value of complaints.

Table 2 Ratio of the volume of reported qualitative complaints to the sales volume in sq. m.

	2017	2016
Sales volume in sq. m. thousand	5,660	6,067
Quantity of goods covered by complaints in sq. m. thousand	23	33
Ratio of the volume of reported complaints (in sq. m. thousand) to the sales volume (in sq. m. thousand)	0.41%	0.54%
Total number of reported complaints	1,376	1,757

Ceramic tiles produced by the Group have the relevant quality and safety certificates, which are available on the website of the parent company - Ceramika Nowa Gala SA (<http://www.nowa-gala.pl>). All products of the Group are covered by warranty on general terms, and in the case of products sold under the Nowa Gala brand, a 5-year manufacturer's warranty may be granted at the customer's request.

2.3.2. Volume of generated waste

The following indicators are of key importance to a manufacturer of ceramic tiles: carbon dioxide emissions and the mass of generated waste relative to the sales volume in sq. m. In 2017, Ceramika Nowa Gala SA, Ceramika Gres SA and Ceramika Nowa Gala II had systems which were, under applicable regulations, participants of the EU ETS, whereby in the case of Ceramika Nowa Gala II its system was removed from the EU ETS in March 2017 due to discontinuation of production in this company's plant. The main source of CO₂ emissions in the systems operated by the companies of the Group is natural gas combustion in production systems.

Table 3 Weight of generated waste and CO₂ emissions

Waste type	Weight of generated waste in tonnes	
	2017	2016
Defective ceramic products after heat treatment	7,675	8,092
<i>in kg per sq. m. of sold products</i>	<i>1.36</i>	<i>1.33</i>
Sludge from sewage treatment plants in the companies' plants	4,109	4,124
<i>in kg per sq. m. of sold products</i>	<i>0.73</i>	<i>0.68</i>
Paper and cardboard packaging	771	967
<i>in kg per sq. m. of sold products</i>	<i>0.14</i>	<i>0.16</i>
Plastic packaging	78	89
<i>in kg per sq. m. of sold products</i>	<i>0.02</i>	<i>0.02</i>
Packaging made of wood	1,559	2,081
<i>in kg per sq. m. of sold products</i>	<i>0.28</i>	<i>0.35</i>
CO ₂ emissions	32,768	32,196
<i>in kg per sq. m. of sold products</i>	<i>5.79</i>	<i>5.31</i>

2.3.3. Employment structure

As at 31 December 2017, the Group had 552 employees (536 full-time equivalents).

Table 4 Number of employees in each company of the Group in FTEs

Company	2017	2016	Change
Ceramika Nowa Gala SA	363	321	+13%
Ceramika Gres SA	165	165	0%
Ceramika Nowa Gala II Sp. z o.o.	7	55	-87%
Energia Park Trzemeszna Sp. z o.o.	1	1	+0%

The decrease in the number of employees in Ceramika Nowa Gala II sp. z o.o. is due to closing down this company's plant. The employees were transferred to the other companies of the Group or resigned from work.

In 2017, the Group's employees working on the basis of employment contracts for an indefinite time constituted 75% of the total number of employees of the Group, while those employed on the basis of fixed-term contracts constituted 23% of the total number of employees.

Table 5 Employment structure in the Group by employment contract

	2017			2016		
	Contract for an indefinite time	Contract for a definite time	Mandate contract	Contract for an indefinite time	Contract for a definite time	Mandate contract
Women	109	33	10	117	20	10
Up to 30 years of age	3	12	-	5	8	-
31-40 years of age	50	12	4	60	5	6
41-50 years of age	38	6	3	38	4	2
over 50 years of age	18	3	3	14	3	2
Men	304	92	4	337	69	26
Up to 30 years of age	22	39	-	31	25	-
31-40 years of age	115	23	-	130	20	10
41-50 years of age	100	20	-	109	15	4
over 50 years of age	67	10	4	67	9	12
Total by employment contract type	413	125	14	454	89	36

Table 6 Employment structure in the Group by positions in FTEs

	2017			2016		
	Managerial staff	Specialists	Other	Managerial staff	Specialists	Other
Women	11	59	71	11	59	68
Up to 30 years of age	0	11	4	-	10	3
31-40 years of age	4	35	22	6	35	25
41-50 years of age	5	7	32	4	9	29
over 50 years of age	2	6	13	1	5	11
Men	62	22	311	68	24	312
Up to 30 years of age	0	2	59	1	3	52
31-40 years of age	29	10	99	31	12	106
41-50 years of age	27	5	87	30	7	87
over 50 years of age	6	5	66	6	2	67
Total by positions held	73	81	382	79	83	380

As regards the entire Group, managerial positions held by women account for 15% of the total number of employees holding such positions, while women working as specialists account for 73% of the total number of employees holding such positions. This structure is due to the fact that the Group is production-oriented, and most of managerial positions are related to managing the various production stages.

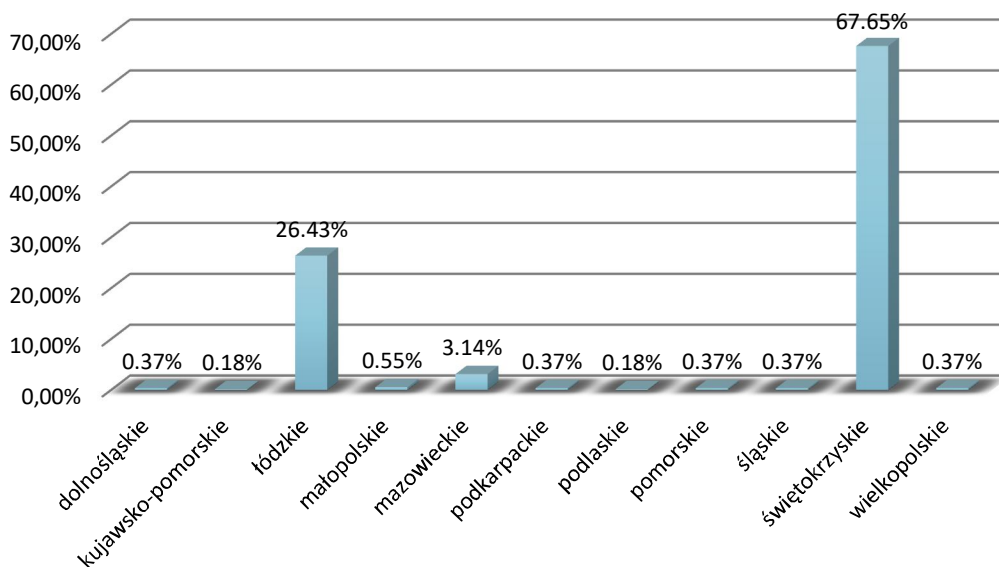
3. Description of the entity's policy as regards social, employee and environmental issues, as well as those related to respect for human rights and corruption counteracting, and a description of the results of implementation of this policy

Due to the limited resources suited to the size of the companies of the Group, they do not have specialized staff or departments that could deal with the development, implementation and observance of a formal policy in the areas mentioned in the title. Nonetheless, the companies of the Group take action in each of these areas and identify risks related to them.

3.1. Social issues

The Ceramika Nowa Gala Group does not have a formalized policy with respect to social issues, but its impact on the social environment is significant, especially in the region in which its production plants operate. The Group influences the local environment as employees from the Świętokrzyskie Voivodeship constitute 68% of the total number of employees. It employs also people from the neighboring Łódzkie Voivodeship, who constitute 26% of the staff. Furthermore, in the case of part of employees working in the Group's plants both adult family members are employed. Such an employment structure entails the risk of making employees dependent on their employer. It should be noted that the reorganization of the third production plant of Ceramika Nowa Gala II sp. z o.o. and the relocation of production to Ceramika Nowa Gala SA did not lead to collective redundancies, and most of the employees of CNG II were offered similar positions in Ceramika Nowa Gala SA or Ceramika Gres SA. Besides people employed directly in the Group's plants, part of suppliers and customers cooperating with Ceramika Nowa Gala operate directly in the region where the Group's plants are located.

Figure 3 Employment structure in the Group in 2017 by voivodeship



3.2. Employee issues

The Ceramika Nowa Gala Group does not have a formalized policy regarding employee issues. Employee issues are regulated in the companies of the Group by the Labor Regulations, Regulations of the Company's Social Benefit Fund and generally binding legal provisions. The Group observes the labor law and internal regulations regarding the recruitment process, working conditions, which include work time, pay, holidays as well as occupational health and safety. The employer cares about the protection of women who are on maternity leave - once the leave ends, they have a guaranteed job in the Group, and the working time is adjusted to the requirements of childcare, among others through task-oriented work time or flexible working hours. The Group offers extended packages of benefits for existing employees and former ones who retired or are on a disability pension and have not entered into any work contract, family members of employees and children of deceased employees, pensioners – if they were dependent on them. Financial resources from the Company's Social Benefit Fund are earmarked, among others, for the co-financing of various forms of rest, rehabilitation stays, sanatorium stays for employees' children, non-returnable material help in the form of "allowances" for people in difficult life, family or material circumstances, in case of individual random events or long-term illness. Employees receive also co-financing for employee trips, cultural and educational activities (tickets to the cinema, theater) and sports and leisure (tickets to the swimming pool), cash benefits for holidays or Christmas gifts for children. Violations of the above-mentioned regulations (internal or external ones) may result in disputes (including those pending before court) with employees who feel disadvantaged. There are also a number of public institutions authorized to verify compliance with employee rights and their enforcement, and to impose penalties.

As a manufacturer of high quality ceramic tiles, the Group is exposed to the risk of outflow of employees dealing with technological solutions, launching new products and creating new designs. The Group protects itself against this risk by making employees' remuneration, pay rises and bonuses dependent on their competences. The remuneration system and employment conditions are shaped taking into account the type and quality of performed work and the level of salaries in the market. The Group has an internal labor market which promotes career development and promotion within the Group, enabling employees to

participate in recruitment processes. The Group, as an employer, strives to make the offer addressed to employees competitive and tailored to their needs and skills. The Group also supports employees' development through specialist and sector-specific training courses corresponding to their positions. These measures are implemented through on-site and away training, run by external consulting companies, and through on-line training (webcasts). Due to its production-oriented business, the Group attaches great importance to improving the skills of its direct employees and those supervising the production process. In 2017, a program of implementing selected LEAN management techniques was launched in the Group's plants. This program has been continued in 2018.

3.3 Natural environment issues

The Ceramika Nowa Gala Group has no formalized policy regarding the natural environment. Nonetheless, all companies of the Group comply with all legal requirements regarding environmental protection, imposed on them under applicable law. For example, each production plant has an integrated permit and complies with its all recommendations and regulations. Those companies of the Group that have production plants seek to reduce - through adequate production management - their environmental impact, e.g. through adequate waste management (waste generation reduction through ongoing control of the production process, reuse of part of waste in production, use of sewage treatment plants, including those operating in a closed water circulation) and its segregation (each production department has a dedicated space for storing the various types of waste, which, if required, is collected and utilized by specialist external companies). Furthermore, materials used to pack ceramic tiles, such as: boxes, film hoods and pallets, although they are not returnable packaging, are recycled by recycling organizations cooperating with the Group's plants. The quantities of generated waste are given in section 2.3.2.

Emissions of carbon dioxide (CO₂) are an important environmental impact component of a group manufacturing ceramic tiles. In 2017, Ceramika Nowa Gala SA, Ceramika Gres SA and Ceramika Nowa Gala II had systems which were, under applicable regulations, participants of the EU ETS, whereby in the case of Ceramika Nowa Gala II its system was removed from the EU ETS in March 2017 due to discontinuation of production in this company's plant. The main source of CO₂ emissions in the systems operated by the companies of the Group is natural gas combustion in production systems. The EU ETS is a key element of the EU policy aimed at counteracting climate change and its basic tool for reducing greenhouse gas emissions. This is the first and so far the largest carbon dioxide emission market in the world. CO₂ emission volumes are presented in section 2.3.2.

Due to the low level of harmfulness and practically no toxicity of waste generated by the Group's plants, the risk of causing significant damage to the environment (including hazard to human health and life) is negligible. Nevertheless, violations of the regulations may result in disputes (including those pending before the court) with third parties (e.g. owners of real property adjacent to the production plants) that feel aggrieved. There are also a number of public institutions authorized to verify compliance with environmental protection regulations and their enforcement, and to impose penalties in this respect.

3.4 Issues regarding respect for human rights and counteracting corruption

The Group does not have a formalized policy regarding respect for human rights and counteracting corruption. However, the Ceramika Nowa Gala SA Group is guided in its business by the principles of respect for and dignity of every human being. It complies with generally applicable laws and generally accepted principles of social coexistence regarding such issues. It counteracts discrimination in employee relations as far as possible. Employees of Ceramika Nowa Gala SA and the companies forming the Group are subject to labor regulations, in which each of the companies as an employer undertakes to treat employees equally in terms of

establishing and terminating employment relationships, employment conditions, promotion and access to training in order to improve professional qualifications, regardless of age, gender, disability, race, religion, nationality, political conviction, trade union membership, ethnicity, sexual orientation, and regardless of the form of employment – for a definite or indefinite time, full or part time. The Group, as an employer, treats employees equally as regards establishing employment relationships, which means non-discrimination in any way, directly or indirectly for the reasons described above. In the Ceramika Nowa Gala Group, any undesirable behavior of a sexual nature or relating to the employee's sex, leading to violation of the employee's dignity, and in particular to creating an intimidating, hostile, humiliating, degrading or outrageous atmosphere against them, is forbidden.

The Group, as an employer, is responsible for occupational health and safety, therefore it, among other things: organizes work in such a way as to ensure safe and hygienic working conditions, ensures compliance with regulations and rules regarding occupational health and safety, equips its employees with work clothing and footwear as well as personal protective equipment and personal hygiene products and designates a suitable place for their storage. To ensure the employees' safety, the Group, as an employer, does not allow an employee to perform work without being provided with the form of personal protective equipment required for a given position. Furthermore each employee is trained as regards the rules for using, maintaining and storing personal protection equipment. In 2016, 44 employees were working in the Group in harmful conditions due to the noise level, while in 2017, this figure was 38.

As regards the Group's relations with customers or suppliers, there may occur the risk of corruption. In order to minimize the occurrence of corruption, the Group has introduced agreements on the prohibition of competition during the employment relationship and on the protection of information constituting the trade secret. The employees cannot:

- conduct an activity competitive to the Group's business;
- take up employment under an employment relationship or under other legal relationships in entities competitive to the Group or being the employer's counterparties;
- provide services, directly or indirectly, to the employer's competitors or contractors;
- be paid by competitive entities or ones being the employer's counterparties;
- perform any functions in the bodies of the employer's competitors or counterparties.

Employees of the Group are also obliged to keep secret all circumstances and information which they have become aware in connection with the performance or on the occasion of performing duties they have been entrusted.

Furthermore, the abovementioned non-competition agreement obliges employees of the Group not to accept or demand any property or personal benefits for themselves or for any third party, including promises of obtaining such benefits in the future. No small gifts or benefits of a small value are considered to be property or personal benefits, provided that they are of a customary, non-binding nature, are not inappropriate, do not violate good manners, and their transfer or promise to be transferred does not involve any demand from the giver.

Violation of the rules described in this section can also entail the risk of losing the Group's good reputation. However, due to the relatively limited scale of the Group's business, such a risk and its possible consequences should be considered minor.

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