Separate annual financial statements of

Ceramika Nowa Gala SA

for the period of 1 January–31 December 2014

Końskie, 19 March 2015

Introduction

Reporting Entity

These annual separate financial statements have been drawn up by **Ceramika Nowa Gala SA** in Końskie, 1 Ceramiczna Street. Ceramika Nowa Gala SA is registered as a public limited company and was established in Poland in accordance with the Commercial Companies Code, entered in the National Court Register under KRS number 0000011723. These financial statements are subject to approval by the General Shareholders Meeting. The data included in the financial statements have been rounded to the nearest thousand.

Composition of the managing and supervisory bodies

The composition of the managing and supervisory bodies of the Company has remained unchanged since 2013. The Supervisory Board of Ceramika Nowa Gala SA is composed of the following:

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

The Management Board of the Company is composed of the following:

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

Business description

The core business of the Company consists of the production and sale of ceramic stoneware tiles. The tiles are made of mineral raw materials (minerals) in an automated continuous process. Part of the tiles is polished. The Company produces also supplementary decorative elements sold as a part of a joint offer. The Company also sells ceramic stoneware tiles manufactured by other companies in the Group.

Products are primarily sold via a network of wholesalers who cooperate with the Company, both in Poland and foreign markets. These products are used as finishing material in the construction industry: flooring, facade and wall cladding.

Signatures

These financial statements were prepared and signed on **19 March 2015** and will be published on 23 March 2015.

Management Board Chief Accountant

Separate statement of profit and loss and other comprehensive incomes

for the period of 1 January–31 December 2014

Amounts in PLN thousand (PLN '000).

	Note	2014	2013
Revenues	[1]	**145,278**	**159,017**
Cost of sales	[1][2]	135,905	141,439
Gross profit on sales		**9,373**	**17,578**
Other income	[3]	73	209
Selling and administrative expenses	[2]	23,666	26,016
Other expenses	[4]	1,522	2,801
Profit before interest and tax		**-15,742**	**-11,030**
Finance income	[5]	11,811	45,712
Finance expenses	[6]	891	1,588
Profit from continued operations before tax		**-4,822**	**33,094**
Income tax expense	[7]	-2,963	-2,143
Profit from continued operations after tax		**-1,859**	**35,237**
Profit from discontinued operations after tax		-	-
Profit for the year		**-1,859**	**35,237**
Costs pertaining to purchase from treasury shares		-	-2
Total comprehensive income		**-1,859**	**35,235**
Profit after tax attributable to			
shareholders of the parent company		-1,859	35,237
non-controlling interests		-	-
		-1,859	**35,237**
Total comprehensive income attributable to			
shareholders of the parent company		-1,859	35,235,
non-controlling interests		-	-
		-1,859	**35,235**

	Entity	Note	2014	2013
Annualized profit (loss)	PLN thousand		-1,859	35,237
Weighted average number of shares	thousand pcs		46,894	46,941
Basic earnings (loss) per share from continued operations	PLN	[8]	-0.04	0.75
Weighted average diluting number of shares	thousand pcs		46,894	46,941
Diluted earnings (loss) per share from continued operations	PLN	[8]	-0.04	0.75

Separate statement of financial position
as of 31 December 2014

Amounts in PLN thousand (PLN '000).

Assets	Note	31.12.2014	31.12.2013
Non-current assets			
Intangible assets	[9]	496	176
Property, plant and equipment	[10]	47,566	49,563
Investments in related entities	[21][32][21d]	78,859	101,664
Other financial assets	[21d]	121	121
Deferred tax assets	[11]	6,937	4,472
Total non-current assets		**133,979**	**155,996**
Current assets			
Inventories	[12]	59,724	69,353
Trade and other receivables	[13]	36,150	42,974
Receivables from current income tax		874	1,275
Loans granted to subsidiaries	[21d]	107	406
Other financial assets		-	-
Cash and cash equivalents	[14]	6,591	1,079
Other current assets		342	190
Total current assets		**103,788**	**115,277**
Assets classified as available for sale in accordance with IFRS 5		-	-
Total assets		**237,767**	**271,273**

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Separate statement of financial position (contd.)

Amounts in PLN thousand (PLN '000).

Equity and liabilities	Note	31.12.2014	31.12.2013
Equity			
Share capital	[15a][34][31]	46,894	56,114
Reserves	[15b]	139,786	123,456
Revaluation reserve	[15d]	-	-
Other reserves	[15e]	-	-
Treasury shares	[15f][31][33]	-	-538
Current portion of retained earnings	[15c]	-1,859	35,237
Total equity		**184,821**	**214,269**
Non-current liabilities			
Borrowings	[16]	13,575	5,070
Provision for deferred income tax	[17]	5,225	5,724
Provision for employee benefits		-	-
Other provisions		-	-
Total non-current liabilities		**18,800**	**10,794**
Current liabilities			
Trade and other payables	[18]	22,829	30,001
Current tax liability		-	-
Borrowings	[16]	5,546	11,165
Provision for employee benefits	[20]	772	826
Advances from related parties		-	-
Other provisions	[19]	4,999	4,218
Total current liabilities		**34,146**	**46,210**
Liabilities associated with assets classified as available for sale in accordance with IFRS 5		-	-
Total liabilities		**52,946**	**57,004**
Total liabilities and equity		**237,767**	**271,273**
Book value (PLN thousand)		184,821	214,269
Number of shares (thousand pcs)*		46,894	46,894
Book value per share (PLN)		3.94	4.57
Diluted number of shares (thousand pcs)*		46,894	46,894
Diluted book value per share (PLN)		3.94	4.57

*excluding treasury shares held by the Company or its subsidiary

Separate cash flow statement

for the period of 1 January–31 December 2014

Amounts in PLN thousand (PLN '000).

	Note	2014	2013
Operating activities			
Net profit (loss)		**-1,859**	**35,237**
Depreciation and amortization		7,491	7,743
Dividend income		-11,243	-45,470
Interest income and expenses		648	1,177
Foreign exchange gains (losses)		-49	17
Gain (loss) on disposal of intangible and tangible non-current assets		106	18
Movement of provisions, write downs, prepayments and accruals		576	1,008
Income tax expense		-2,963	-2,143
Other adjustments		-	454*
Cash flow from operations before movements in working capital		**-7,293**	**-1,190**
Movement of inventory	[12][23a]	9,629	-3,144
Movement of receivables	[23b]	5,378	10,754
Movement of liabilities	[23c]	4,664	15,466
Gross cash flow from operations		**12,378**	**21,117**
Received interest from operating activities		-	15
Interest paid on operating activities		-5	-24
Income tax paid		206	-849
Net cash flows from operating activities		**12,579**	**20,258**
Investing activities			
Proceeds from disposal of tangible and intangible non-current assets		49	22
Received loan repayments		587	-
Purchase of tangible and intangible non-current assets		-4,927	-2,972
Loans granted		-252	-106
Acquired financial assets		-834	-
Net cash from operating activities		**-5,377**	**-3,056**

*amount of a write down on a loan granted

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Separate cash flow statement (contd.)

Amounts in PLN thousand (PLN '000).

	Note	2014	2013
Financing activities			
Proceeds from borrowings		5,869	9,354
Dividends to shareholders		-3,751	-
Purchase of treasury shares		-	-632
Repayment of borrowings		-3,036	-25,638
Interest paid pertaining to financing activities		-887	-1,415
Net cash flows from financing activities		**-1,805**	**-18,331**
Net cash flows from financing activity		**5,397**	**-1,129**
Cash and cash equivalents at the beginning of the period		1,079	2,192
Exchange rate differences		115	16
Cash and cash equivalents at the end of the period		**6,591**	**1,079**
Structure of cash and cash equivalents	[14]		
Unrestricted cash		6,576	1,061
Restricted cash		15	18
		6,591	**1,079**

Separate statement of changes in equity

for the period of 1 January– 31 December 2014

Amounts in PLN thousand (PLN '000).

	Share capital	Reserves	Reserve capital	Revaluation reserve	Treasury shares	Current portion of retained earnings	Total equity
As of 1 January 2013	**57,038**	**124,337**	**5,450**	-	**-1,688**	**-5,473**	**179,664**
Total comprehensive income*	-	-	-	-	-2	35,237	35,235
Coverage of loss from previous years	-	-5,473	-	-	-	5,473	-
Division of profit from previous years	-	-	-	-	-	-	-
Adopted dividend	-	-	-	-	-	-	-
Redemption of treasury shares	-924	-858	-	-	1,782	-	-
Buyback of treasury shares	-	5,450	-5,450	-	-630	-	-630
As of 31 December 2013	**56,114**	**123,456**	**-**	**-**	**-538**	**35,237**	**214,269**
As of 1 January 2014	**56,114**	**123,456**	**-**	**-**	**-538**	**35,237**	**214,269**
Total comprehensive income*	-	-	-	-	-	-1,859	-1,859
Coverage of loss from previous years	-		-	-	-	-	-
Division of profit from previous years	-	31,486	-	-	-	-31,486	-
Adopted dividend	-	-	-	-	-	-3,751	-3,751
Redemption of treasury shares	-9,220	-15,156	-	-	24,376	-	-
Purchase of treasury shares	-	-	-	-	-23,838	-	-23,838
As of 31 December 2014	**46,894**	**139,786**	**-**	**-**	**-**	**-1,859**	**184,821**

*In 2014, the amounts of comprehensive income were attributed to the following equity items: net loss in the amount of PLN 1,859 thousand decreased the value of the current portion of retained earnings. As for 2013 data, net profit in the amount of PLN 35,235 thousand increased the amount of the current portion of retained earnings, while the costs of purchase of treasury shares in the amount of PLN 2 thousand were included (in minus) in the treasury shares item.

Financial highlights

Euro exchange rates are used to translate the items in the following table:

- as for balance sheet data, the average exchange rates of NBP were used: 4.1472 PLN/EUR as of 31 December 2013 and 4.2623 PLN/EUR as of 31 December 2014
- as for data derived from the statement of comprehensive income and the cash flow statement, the following exchange rates, which constituted the arithmetic average of the NBP rates, prevailing on the last day of each month in the reporting period, were used: 4.211 PLN/EUR in 2013 and 4.1893 PLN/EUR in 2014.

The average exchange rates of NBP for USD, used to translate the currency items were as follows: 3.012 PLN/USD as of 31 December 2013 and 3.5072 PLN/USD as of 31 December 2014.

Separate data	PLN thousand		EUR thousand	
	2014	2013	2014	2013
Net revenues from the sale of products, goods and materials	145,278	159,017	34,678	37,762
Profit (loss) before interests and tax	-15,742	-11,030	-3,758	-2,619
Profit (loss) before tax	-4,822	33,094	-1,151	7,859
Net profit (loss)	-1,859	35,237	-444	-389
Net cash flows from operating activities	12,579	20,258	3,003	4,811
Net cash flows from investing activities	-5,377	-3,056	-1,284	-726
Net cash flows from financing activities	-1,805	-18,331	-431	-4,353
Net cash flows (total)*	5,512	-1,113	1,316	-264
Total assets	237,767	271,273	55,784	65,411
Liabilities and provisions for liabilities	52,946	57,004	12,422	13,745
Non-current liabilities	18,800	10,794	4,411	2,603
Current liabilities	34,146	46,210	8,011	11,142
Equity	184,821	214,269	43,362	51,666
Share capital	46,894	56,114	11,002	13,531
Number of shares	46,893,621	56,114,378	-	-
Basic profit (loss) per share (PLN/EUR)	-0.04	0.75	-0.01	0.18
Diluted profit (loss) per share (PLN/EUR)	-0.04	0.75	-0.01	0.18
Book value per share (PLN/EUR)	3.94	4.57	0.92	1.10
Diluted book value per share (PLN/EUR)	3.94	4.57	0.92	1.10
Declared or paid dividend per share (PLN/EUR)	0.08	-	0.02	-

*balance sheet movement of cash while accounting for the movement of revaluation from exchange rate differences

Accounting principles

Compliance with International Financial Reporting Standards

These separate financial statements of Ceramika Nowa Gala SA are prepared in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS).

Standards, interpretations or amendments thereto, which entered into force and were used for the first time during the reporting period, impacted the extent of the presented disclosures. They did not affect the measurement of financial statement items and their application did not entail restating the comparative amounts.

While preparing these financial statements, the opportunity of an early application of published standards and interpretations before their effective date was not exercised. As of the balance sheet date, the following standards and interpretations issued by the IAS Board had not yet entered into force or adopted to be used in the European Union.

IFRS 9 'Financial Instruments'

IFRS 9 is a new standard concerning financial instruments. The standard introduces new requirements for the classification and measurement of financial assets and liabilities. In terms of hedge accounting, changes were made to simplify and increase the flexibility of the basic model previously defined in IAS 39. Furthermore, the requirements for the recognition of impairment of financial assets have been significantly changed such that it will be required to use an expected credit loss model instead of the incurred credit loss model previously required by IAS 39.

The standard will be applicable to annual periods beginning on 1 January 2018 or a date thereafter.

Application of the standard may have an impact on the financial statements of the Company, in particular, by changing the identified groups of financial assets and the amounts of recognized impairment losses on financial assets (mainly trade receivables). The detailed scope of any change will be specified at the time of the standard being adopted for the first time.

IFRS 15 'Revenue from Contracts with Customers'

The standard establishes a single model of accounting treatment of all revenue arising from contracts with customers, mandatory for all reporting units. IFRS 15 replaces the guidance on revenue recognition defined in IAS 18 'Revenue', IAS 11 'Construction Contracts' and related interpretations. Under the new standard, the entity recognizes revenue when (or as) it satisfies a performance obligation, i.e. when the customer obtains control over the goods or services covered by this commitment. IFRS 15 also includes a much more restrictive guidance on the specific aspects of revenue recognition. It also requires the disclosure of a wide range of information.

The standard will be applicable to annual periods beginning on 1 January 2017 or a date thereafter.

Application of the standard may have an impact on the financial statements of the Company, but the detailed scope of any change will be specified at the first time adoption of the standard.

IFRS 14 'Regulatory Deferral Accounts'

The standard allows the first-time adopter of the IFRS to continue using the previously adopted accounting principles on regulated activity, accounting for certain minor changes. The standard requires the separate presentation of deferred balances arising from regulated activity in the statement of financial position and changes in these balances in the statement of profit or loss and other comprehensive income. This applies both to the first financial statements after the transition to IFRS and subsequent financial statements. Specific disclosures will also be required.

The standard will be applicable to annual periods beginning on 1 January 2016 or a date thereafter.

Application of the standard would have no impact on the financial statements of the Company.

Amendments to IFRS 10 and IAS 28—'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'

The changes are designed to eliminate the contradiction between the requirements of IAS 28 and those of IFRS 10 and clarify that the recognition of gain or loss in transactions involving an associate or joint venture depends on whether sold or contributed assets constitute a business.

The amendments will be applicable to annual periods beginning on 1 January 2016 or a date thereafter.

Application of the amendments to the standards would have no impact on the financial statements of the Company.

Amendments to IFRS 11 'Accounting for Acquisitions of Interests in Joint Operations'

The amendment provides guidance on the accounting treatment of acquisitions of interests in joint operations constituting a business as defined in IFRS 3 'Business Combinations'.

The amendments will be applicable to annual periods beginning on 1 January 2016 or a date thereafter.

Application of the amendments to the standards would have no impact on the financial statements of the Company.

Amendments to IAS 16 and IAS 38 'Clarification on Acceptable Methods of Depreciation and Amortization'

The amendments prohibit the use of depreciation on the basis of income with respect to tangible fixed assets. In the case of intangible assets, this method can only be used in the two specified cases.

The amendments will be applicable to annual periods beginning on 1 January 2016 or a date thereafter.

Application of the amendments to the standards would have no impact on the financial statements of the Company.

Amendments to IAS 16 and IAS 41 'Agriculture: Bearer Plants'

The amendments introduce a definition of crops and require accounting biological assets that meet this definition as tangible fixed assets in accordance with IAS 16. Yields obtained from crops will continue to be accounted for in accordance with IAS 41.

The amendments will be applicable to annual periods beginning on 1, January 2016 or a date thereafter.

Application of the amendments to the standards would have no impact on the financial statements of the Company.

Amendments to IFRS 10, IFRS 12 and IFRS 28 'Investment Entities: Applying the Consolidation Exceptions'

The amendments clarify the requirements for investment entities and introduce certain simplifications in the preparation of their consolidated financial statements (in particular, exemptions from the preparation of the consolidated financial statements).

The amendments will be applicable to annual periods beginning on 1 January 2016 or a date thereafter.

Application of the amendments to the standards would have no impact on the financial statements of the Company.

Amendments to IAS 1 in the framework of the Disclosure Initiative

The purpose of the amendment is to clarify the use in disclosures to financial statements of one's own judgments, including the impact of the concept of materiality on the number of presented disclosures.

The amendments will be applicable to annual periods beginning on 1 January 2016 or a date thereafter.

Application of the amendments to the standards would have no impact on the financial statements of the Company.

Amendments to IAS 27 'Equity Method in Separate Financial Statements'

The amendments restore the possibility of applying the equity method to measure investments in affiliated companies in the separate financial statements.

The amendments will be applicable to annual periods beginning on 1 January 2016 or a date thereafter.

Application of the amendments to the standards would have no impact on the financial statements of the Company. The Company intends to continue to use the historical cost method in its separate financial statements.

Amendments to IFRSs (2012–2014 series)

Amendments to IFRSs adopted in 2012–2014 include a number of modifications to IFRS 5, IFRS 7, IAS 19 and IAS 34.

These amendments will be applicable to annual periods beginning on 1 January 2016 or a date thereafter.

Application of the amendments to the standards would have no impact on the financial statements of the Company.

Functional currency

The Polish zloty is the primary currency used in the economic environment in which the Company operates. The books of the Company are maintained in this currency.

Measurement basis

Measurement for the purposes of the financial statements is performed in accordance with the historical cost principle, unless standards require the adoption of a different method.

Going concern principle

The financial statements of the Company are prepared on a going concern basis, unless there are circumstances that make this assumption unfounded.

Structure of the Group for which the Company is its parent company

The Ceramika Nowa Gala Group consists of its parent company Ceramika Nowa Gala SA and the following subsidiaries controlled by it: Ceramika Nowa Gala II Sp. z o.o. (Poland), Ceramika Gres SA (Poland) and CNG Luxembourg S.à.r.l. (Luxembourg). Ceramika Nowa Gala II was established in the first half of 2004. Ceramika Nowa Gala SA holds all shares in this company (100% capital). All shares were directly taken up within a number of share placements. Ceramika Nowa Gala SA took over Ceramika Gres SA on 24 August 2007 by purchasing 100% of this company's shares. CNG Luxembourg S.à.r.l. was established on 17 September 2010 and operates under the laws of Luxembourg. Ceramika Nowa Gala is its sole founder and shareholder. In 2013, the subsidiaries Ceramika Nowa Gala II sp. z o.o. and Ceramika Gres SA acquired shares in a newly established company, Energia Park Trzemoszna Sp. z o.o. The company was registered in the National Court Register in August 2013. Its share capital amounts to PLN 6 thousand and was fully paid in cash by the two abovementioned shareholders. Besides the paid-up capital, the company has no other assets and does not conduct active operations. The statements of the subsidiaries are consolidated using the full consolidation method, accounting for any applicable exclusion and conversion to the presentation currency, i.e. the Polish zloty.

Ceramika Nowa Gala SA has a significant impact on its two associated companies: Energo-Gaz, a limited liability company in Końskie (50% share) and Ceramika Nova, a limited liability company in Końskie (50% share). Shares in the aforementioned associated companies were recognized in the presented financial statements at cost less possible impairment losses. The carrying amount of the shares in Energo-Gaz is PLN 31 thousand, and the share of Ceramika Nowa Gala SA in its equity amounted as to PLN 276 thousand as of 31 December 2014. Financial data of this company for 2014, determined in accordance with Polish accounting standards, are as follows: assets are PLN 642 thousand, provisions and liabilities amount to PLN 89 thousand, revenue is PLN 2,226 thousand and PLN 34 thousand is the net profit for 2014. Transactions concluded with this company are shown in Note [21] and mainly relate to the handling of a siding (the siding is owned by Ceramika Nowa Gala and is an entity not related to it, i.e. joint ownership). The carrying amount of a 50% stake in Ceramica Nova, amounting to PLN 2 thousand, is written-off 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 initiated.

Transactions in foreign currencies

Transactions in foreign currencies recognized in the financial statements of the Company are translated into the Polish zloty at the average rate of NBP prevailing on the transaction date. As of the balance sheet date, monetary assets and liabilities denominated in foreign currencies (interpreted in accordance with IAS 21) are translated at the average exchange rate of NBP prevailing on that date. The resulting foreign exchange differences are recognized in income or expenses. Non-monetary assets denominated in foreign currencies are shown as of the balance sheet date at the exchange rate prevailing on the transaction date. The measurement of payments in foreign currencies made from bank accounts is made using the FIFO method, and those from foreign exchange offices are in accordance with the weighted average method.

Borrowing costs

In accordance with IAS 23, borrowing costs directly attributable to the acquisition, construction or production cost of an asset, which require a long time to be made suitable for use, incurred during this period, increase the initial value of this asset. Borrowing costs posted to the increased initial value of a given asset are reduced by the revenue generated from the temporary investment of funds allocated for the production of this asset.

These borrowing costs and revenues affecting the initial value of assets do not include exchange rate differences.

Property, plant and equipment

Tangible non-current assets, buildings, plant and equipment, used for the production and delivery of products, provision of services or for management purposes, as well as other similar non-current assets are measured as of the balance sheet at cost or manufacturing cost less accumulated depreciation and impairment losses.

The acquisition price includes the purchase price, cost of transport, installation and other direct costs associated with the delivery of the asset and its adaptation for use.

Land owned by the Company is measured at cost and is not depreciated. Land in perpetual usufruct is classified as a non-current asset and is depreciated. The value of land can be written-off for impairment.

As of the date of transition to IFRS reporting, real property (land and buildings) was measured at the deemed cost, as determined by the appraiser and adjusted by the amount of depreciation accumulated between the date of measurement and the date of transition, as well as the expenditure increasing the value of the measured real property, incurred during this period (no impairment write-off was made). The thus determined initial value serves as the basis for depreciation arising from the expected economic life.

The value of property assets produced in-house includes the cost of materials and direct labour. The costs of production of assets are increased by a reasonable part of the borrowing costs (see the rules on financing costs).

Non-current assets are depreciated on a straight-line basis, accounting for their expected useful lives and the recoverable value (where warranted), since the asset was put into operation. Land is not depreciated, with the exception of land in perpetual usufruct, which is depreciated on a straight-line basis until the end of the period of perpetual usufruct, without accounting for the right to extend this period provided for in law.

The expected depreciation periods for each type of non-current assets are as follows:

- land in perpetual usufruct 84–86 years
- buildings 1–25 years
- plant and equipment 2–21 years
- other non-current assets 1–23 years

The assumed useful lives of non-current assets are reviewed at least once during the financial year.

The costs of routine repairs, renovation, replacement of smaller parts and similar costs, which do not increase the initial useful value of a given non-current asset, are charged to the expenses of the period in which they were incurred. In the case of major repairs that require the replacement of expensive parts, the principles set out in IAS 16 are applied. In accordance with those principles, the value of the non-current asset should be reduced by the non-depreciated value of the replaced component and increased, at the same time, by the purchase price of the new part (such items are accounted for as separate components). The costs of improvements that increase the value of a given non-current asset, as compared to its initial value, increase assets and are depreciated. This also applies to the renovation and adaptation of buildings whose condition at the time of acquisition necessitated such costs to be incurred.

Advertising displays to promote the Company's products in outlets, which despite their transfer outside the Company's seat are at its disposal and remain its property, are entered in the records of non-current assets and depreciated over the expected useful life. Other displays are posted to costs at the time of handed them over to a counter party.

Non-current assets classified as available for sale

Where the Company expects that the sale of a given asset or a group of assets will be more beneficial than their further use, such assets are classified as non-current assets available for sale. To be classified as non-current assets available for sale, assets must be available for prompt sale in their current form and their sale must be highly probable. High probability means that the decision-making bodies of the Company have resolved to sell such assets, and their sale will take place within 12 months from the balance sheet date. As of the date of reclassification of assets to this group, the book value of these assets is compared to their fair value less their selling costs and, where it is greater, the difference is written off by a charge to profit or loss of a given period.

Intangible assets

Intangible assets acquired from an external business entity within a separate transaction are capitalized at purchase or manufacturing cost.

Intangible assets generated in-house concern development and are to be recognized as assets, provided the following conditions are met:

- they are identifiable
- they are likely to generate economic benefits
- development costs can be reliably measured

Capitalized development costs are amortized on a straight-line basis over their useful lives.

The assumed economic useful lives for the various categories of assets are as follows:

- Computer software 3–14 years

Impairment of property, plant and equipment and intangible assets

Where there is evidence indicating the possibility of impairment of property, plant and equipment and intangible assets held, an impairment test is performed. The amounts of impairment losses reduce the carrying value of the assets to which they relate and are recognized in profit or loss.

Inventories

Inventories of purchased goods are measured as of the balance sheet date, depending on which one is lower, at acquisition cost or realizable net selling price less costs of sale.

Inventories of raw materials intended for production are measured as of the balance sheet date at acquisition cost, unless they cannot be used in production or their use in production is not economically viable (the costs of manufacturing products made from these raw materials exceed the realizable net selling price of these products). In this case, the value of these raw materials is reduced, usually to their net resale price, unless the purchase price was lower. The standard cost method is used for the purposes of costing inventories of raw materials and production materials.

Inventories of technical materials (parts or consumables) are recognized at acquisition cost. Their value is reduced if they are no longer useful or have been damaged.

Costs of advertising materials (brochures, samples, gadgets, etc.) are charged to profit or loss at the time of purchase. The value of the inventory of these materials is not recognized in the balance sheet.

The acquisition price includes the purchase price, costs of transport, cargo handling, customs duties and other costs associated with the delivery (if any).

Work in progress and finished goods are measured at their standard technical cost including direct costs and a suitable portion of indirect costs determined under the assumption of normal capacity utilization. The standard cost also includes normal levels of waste and the value of by-products determined on the basis of a realizable selling price. Deviations from the standard cost (e.g. ones due to non-utilization of production capacity) are posted directly to the profit or loss of the period, adjusting for the cost of sold products. The standard cost can change, e.g. in the case of a change in production costs or the manufacturing process. The FIFO method is used for the disposal of inventories of finished products and goods.

The technical costs of manufacture of finished and semi-finished products do not include selling, general and administrative expenses or borrowing costs. These expenses are charged directly to profit or loss for the period.

When the acquisition price or the technical cost of production of inventories is higher than the anticipated selling price, the Group makes write-offs recognized in other operating expenses. The selling price mentioned in the previous sentence should be understood as the price of sale carried out in the ordinary course of business, less the estimated costs of the completion of production and the expenses needed to be incurred to complete the sales transaction.

Provisions

Provisions are created when the Company has a present obligation (legal or constructive) arising from a past event, and it is probable that the fulfilment of this obligation will cause an outflow of funds and the amount of this obligation can be reliably estimated, but the amount itself or its maturity are not specified. If it is believed that the costs covered by the provision will be reimbursed, the reimbursement is recognized as a separate asset, but only when it is virtually certain that this reimbursement will occur (e.g. under an insurance contract). Where the effect of changes in the value of money over time has a significant impact on the amount of the provision, its amount is determined by discounting the expected future cash flows to their present value using a gross discount rate that reflects the current market cost of money and the possible risks specific to a given liability. Where the provision was measured while accounting for discounting, an adjustment to the provision, associated with the change to the discount, is recognized in the income statement as an adjustment to interest.

Leases

The Company does not enter into finance lease agreements. It is bound, however, by rental agreements for office and storage space as well as other rental agreements for technical equipment (including cars and forklifts). In accordance with IAS 17, these agreements can be classified as operating leases.

Post-employment benefit plan

The Company does not operate a pension scheme or long-term benefits plans. In accordance with the existing labour laws, retiring employees are entitled to severance pay equal to their monthly salaries whose expected discounted value is negligible (IAS 19; post-employment benefits).

Derivative financial instruments and hedging instruments

The Company does not hold and has not issued derivative financial instruments.

Other financial instruments

A financial instrument is understood as a contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party to the contract.

The key financial assets and liabilities shown in the financial statements are discussed below.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand as well as short-term deposits with an original maturity of three months.

The cash balance shown in the cash flow statement includes the aforementioned cash and cash equivalents. Balances of outstanding loans in overdraft facilities are recognized as short- or long-term loans, depending on the period in which the Company is entitled to make use of such a limit.

Trade receivables and other receivables

On account of its operating activities, the Company holds trade receivables and other receivables whose maturity period is usually 60–90 days and which are recognized at the amounts initially payable, net of provisions for bad debts. Impairment losses on bad debts are made when the collection of the full amount of a receivable is no longer probable.

The amounts of impairment losses on receivables are recognized in other operating expenses.

Interests or shares in subsidiaries

The Company holds 100% of shares in Ceramika Gres SA, 100% of shares in Ceramika Nowa Gala II Sp. z o.o. and 100% in CNG Luxembourg S.à.r.l. In the separate financial statements, these assets are measured at cost (in accordance with IAS 27; they are not subject to IAS 39).

Interests or shares in other economic operators

The Company has interests of negligible value in three business operators (basic data for two of them are provided in the description of the Group, while the third one is a contractor whose shares have been received upon conversion of debt into shares). These interests are measured at cost.

For the purpose of the measurement of financial assets of the Company, these assets can be grouped into the following categories:

- assets measured at fair value throughout profit or loss
- assets held to maturity and measured at amortized cost using the effective interest rate method

- loans and receivables measured at amortized cost using the effective interest rate method;
- assets available for sale measured at fair value, with the exception of assets for which there is no active market, which may serve as the basis for fair value measurement (such assets are measured at cost).

Currently, the Company has only financial assets of the last two categories. Their amounts are presented in the statement of financial position and notes to the financial statements.

Interest-bearing loans and borrowings

Interest-bearing loans, borrowings and debt instruments are recognized in the statement of financial position as a separate item.

Upon initial recognition, bank loans, borrowings and debt instruments are initially recognized at cost corresponding to the value of received cash or the fair value of assets acquired in exchange for a given instrument, less the costs of obtaining a loan or issuing a security. In subsequent periods, loans and borrowings are measured at an amortized cost using the effective interest rate method. The statement of comprehensive income accounts for all the effects of applying the amortized cost as well as the effects of the removal of a given liability from the statement of financial position or recognition of its impairment. Where there are no significant differences between the measurement at the nominal value and the measurement at amortized cost, or if the effective interest rate cannot be reliably determined, such financial liabilities are measured at their nominal value.

Trade and other payables

On account of its operating activities, the Company has trade and other payables which mature usually within 90 days. Upon the initial recognition at fair value, these liabilities are subsequently measured at an amortized cost using the effective interest rate method, unless the resulting differences are negligible ones.

Equity instruments

Equity instruments issued by the Company are recognized at received net proceeds. The Company issues equity instruments in the form of shares. Treasury shares purchased by the Company are recognized as a separate, negative equity item and are measured at cost.

Revenues

Revenues are recognized in the financial statements in the amount of the probable economic benefits that the Company will obtain as a result of a given transaction, provided the amount of revenues can be measured reliably.

Revenue from sale of goods, products, semi-finished products, materials and services is recognized when the significant risks and rewards of the ownership of the goods and products have passed to the buyer and the amount of revenues and associated costs can be reliably measured. The Company does not provide services that require settlement while accounting for their progress.

Interest incomes are recognized on an accrual basis, accounting for the effective yield of a given asset.

Dividends are recognized when the shareholders' rights to receive them have been determined.

Government grants, including non-monetary grants, are recognized in the financial statements when there is reasonable assurance that the entity meets the conditions related to grants and the given grants will be received. Grants are recognized in financial statements in a way that is commensurate with the related costs or expenditure which the grants are intended to compensate.

Income tax

Tax charges include current corporate income tax and the movement of provisions for deferred income tax or deferred income tax assets. Current tax liabilities were determined in accordance with applicable tax law and based on taxable income.

A provision for deferred income tax is determined for all taxable temporary differences.

Deferred income tax assets are recognized for all deductible temporary differences and unused tax losses carried forward to such an extent that it is probable that future taxable income will allow for the abovementioned differences to be used, except under the following circumstances:

- deferred income tax assets arise from the initial recognition of an asset or liability in a transaction other than a business combination, where at the time of its recognition, they do not affect gross profit or loss, taxable profit or tax loss or net assets
- in the case of deductible temporary differences associated with investments in subsidiaries or associates as well as interests in joint ventures, a deferred income tax asset is recognized in the statement of financial position, only to the extent that it is probable that the abovementioned differences will be reversed in the foreseeable future and sufficient taxable income will be generated to deduct from it the deductible temporary differences.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and is impaired, where it is unlikely that the Group will achieve economic benefits associated with the use of tax assets.

Deferred income tax is calculated using tax rates that the management expects to apply within the period when the asset will be utilized or the liability will be settled on the basis of tax rates enacted, or substantively enacted, as of the balance sheet date.

Movement of provisions for deferred income tax and deferred income tax assets is recognized in profit or loss for the financial year, except where the financial effects of events giving rise to a deferred tax asset or its reversal are directly recognized in the equity capital.

Judgements and assumption made by the management in the course of applying the accounting policy

In the course of applying the accounting principles (policy), great importance was attached to the professional judgment of management, which can significantly affect the amounts recognized in the financial statements.

Estimates of the Company mainly concern the established provisions and write-off on assets, including trade receivables, measurement of inventories as well as applied depreciation rates. Detailed rules concerning the estimates of the abovementioned items were discussed above in the presentation of the accounting principles for the various components of the financial statements. Each estimate is subject to review at least at each balance sheet date.

Notes to the separate financial statements

[1] Structure of sales revenues and cost of sales

Amounts in PLN thousand (PLN '000).

	Revenues		Cost of sales		Gross profit (loss) on sales	
	2014	2013	2014	2013	2014	2013
Products and semi-products	120,220	136,408	111,711	121,805	8,509	14,603
Goods	15,572	16,447	15,278	15,380	294	1,067
Raw materials and other materials	3,817	2,742	3,819	2,690	-2	52
Other sales (services)	5,669	3,420	5,097	1,564	572	1,856
	145,278	**159,017**	**135,905**	**141,439**	**9,373**	**17,578**

For sales to related parties, see Note [21].

[2] Operating expenses

[2a] Costs by their nature

Amounts in PLN thousand (PLN '000).

	2014	2013
Raw materials and other materials	37,962	46,622
Gas and electricity	16,229	18,866
Purchased goods and semi-products*	51,909	55,132
Depreciation and amortization	7,491	7,743
Payroll with fringe benefits	17,822	18,144
Third-party services**	12,647	13,890
Representation and advertising	2,502	2,439
Taxes and fees	1,123	760
Other	1,272	1,540
	148,957	**165,136**
of which		
Cost of manufacture (and purchase) of products and goods sold***	132,086	138,749
Selling and administrative expenses	23,666	26,016
Movement of inventories of products, semi-products, goods, accruals and prepayments	-6,795	371
Cost of products used for the Company's purposes	-	-
	148,957	**165,136**

*The Company purchases part of tiles (goods) offered by it from its subsidiaries. Some of them are then resold, and part of them is being processed (production of decorative elements, calibration, semi-polishing and polishing of tiles). Separation of commodity trading and production processes is unfounded, given the costs of obtaining such information. Therefore, in this note, the purchase of goods is included in the settlement costs by their nature.
**Expenses under lease agreements classified as operating leases included in third-party services amounted to: PLN 1,183 thousand in 2013 and PLN 2,579 thousand in 2014.
***Includes the costs of products and semi-products, goods as well as other sales expenses (Note [1]).

[2b] Payroll with fringe benefits

Amounts in PLN thousand (PLN '000).

	2014	2013
Current salaries	14,464	14,754
Social security contributions paid by the employer and other employee benefits	3,412	3,363
	17,876	**18,117**
Change in provision for holiday pay (Note [20])	29	-6
Movement of provision for bonuses	-83	33
	17,822	**18,144**

[3] Other operating income

Amounts in PLN thousand (PLN '000).

	2014	2013
Reimbursement of litigation expenses	15	2
Past due liabilities	-	20
Damages received	49	45
Reversal of write-downs on inventory measurement	-	132
Other	9	10
	73	**209**

[4] Other operating expenses

Amounts in PLN thousand (PLN '000).

	2014	2013
Loss on disposal of non-financial fixed assets	106	18
Write-downs on receivables	304	1,732
Write-downs on loans granted	-	434
Donations	9	24
Litigation expenses	17	25
Expenses by Force Majeure events	115	84
Inventory shortages	417	120
Liquidation of products	407	364
Write-down on inventories	146	-
Other	1	**-**
	1,522	**2,801**

[5] Finance income

Amounts in PLN thousand (PLN '000).

	2014	2013
Interest received	367	242
Dividend received	11,243	45,470
Gain on foreign exchange differences	201	-
	11,811	**45,712**

[5a] Foreign exchange differences recognized in profit or loss

Amounts in PLN thousand (PLN '000).

	2014	2013
Foreign exchange differences recognized in finance income	201	-
Foreign exchange differences recognized in finance expenses	-	169
	201	**169**

[5b] Foreign exchange differences recognized in equity

None.

[6] Finance expenses

Amounts in PLN thousand (PLN '000).

	2014	2013
Interest	722	1,235
Loss from exchange rate differences	-	169
Other finance expenses	169	184
	891	**1 588**

[6a] Debt service costs increasing the value of assets

Amounts in PLN thousand (PLN '000).

	2014	2013
Direct finance costs increasing the value of assets	56	-

The costs are given in net amounts less income derived from transitional investment of obtained funds.

[7] Income tax

Amounts in PLN thousand (PLN '000).

	2014	2013
Deferred income tax on:		
-deductible tax losses	-1,838	-241
-difference between book depreciation and tax depreciation	-506	-250
-movements of provisions and write-downs	-647	-1,696
-other	28	44
	-2,963	**-2,143**
Current income tax	-	-
Tax amount recognized in equity	-	-
	-2,963	**-2,143**

[7a] Relationship between profit or loss as of the balance sheet date and tax recognized in the income statement

Amounts in PLN thousand (PLN '000).

	2014	2013
Profit before tax	-4,822	33,094
Ongoing operating expenses which are permanently non-deductible	471	1,097
Dividend received from a subsidiary	-11,243	-45,470
Other permanent differences	-	-
	-15,594	**-11,279**
Tax rate	19%	19%
Income tax recognized in the income statement	**-2,963**	**-2,143**

[8] Basic and diluted earnings per share

Earnings per share is calculated by dividing income by the weighted average number of shares in the past 12 months. When calculating the weighted average number of shares, treasury shares held by the Company or a subsidiary thereof are deducted. To calculate diluted earnings per share, potential dilutive shares (if any) are taken into account.

	Entity	2014	2013
Annualized profit (loss)	PLN thousand	-1,859	35,237
Weighted average number of shares*	thousand pcs	46,894	46,941
Basic earnings (loss) per share from continued operations	PLN	-0.04	0.75
Weighted average diluted number of shares*	thousand pcs	46,894	46,941
Diluted earnings (loss) per share from continued operations	PLN	-0.04	0.75

*excluding treasury shares held by the Company or its subsidiary

[9] Intangible assets

Amounts in PLN thousand (PLN '000).

	Computer software	Other	Total
Net value as of 1 January 2013	**302**	**-**	**302**
Additions due to acquisition	53	-	53
Amortization for the period*	-179	-	-179
Net value as of 31 December 2013	**176**	**-**	**176**
Net value as of 1 January 2014	**176**	**-**	**176**
Additions due to acquisition	372	-	372
Amortization for the period*	-52	-	-52
Net value as of 31 December 2014	**496**	**-**	**496**
of which			
cost/manufacturing cost	496	-	496
revalued amount	-	-	-
As of 31 December 2013			
Gross value	1,998	9	2,007
Accumulated depreciation and impairment	1,822	9	1,831
Net value	**176**	**-**	**176**
As of 31 December 2014			
Gross value	2,370	9	2,379
Accumulated depreciation and impairment	1,874	9	1,883
Net value	**496**	**-**	**496**

	Computer software	Other	Total
Amount of pledges and mortgages used as collateral for loans	-	-	-
Contractual obligations to acquire intangible assets	-	-	-

*The total amount of amortization of intangible assets is recognized in "Selling and administrative expenses" in the statement of comprehensive income.

[10] Tangible non-current assets

Amounts in PLN thousand (PLN '000).

	Land and buildings	Plant and equipment	Fixed assets under construction	Other	Total
Net value as of 1 January 2013	**12,826**	**37,144**	**430**	**1,788**	**52,188**
Additions	113	890	2,609	741	4,353
Sale or withdrawal from use	-1	-4,907	-	-2,428	-7,336
Change in accumulated depreciation due to sale or withdrawal from use	1	4,893	-	2,360	7,254
Depreciation for the period	-1,602	-5,117	-	-845	-7,564
Initial measurement			-1,744		-1,744
Other movements	-	2,452	-	-40	2,412
Net value as of 31 December 2013	**11,337**	**35,355**	**1,295**	**1,576**	**49,563**
Net value as of 1 January 2014	**11,337**	**35,355**	**1,295**	**1,576**	**49,563**
Additions	33	726	5,625	950	7,334
Sale or withdrawal from use	-	-524	-	-1 486	-2 010
Change in accumulated depreciation due to sale or withdrawal from use	-	480	-	1 347	1 827
Depreciation for the period	-1,637	-5 126	-	-676	-7 439
Initial measurement			-1 709		-1 709
Other movements	-	-	-	-	-
Net value as of 31 December 2014	**9,733**	**30,911**	**5,211**	**1,711**	**47,566**
<u>of which</u>					
cost/manufacturing cost	9,733	30,911	5,211	1,711	47,566
revalued amount	-	-	-	-	-
<u>Gross value and accumulated depreciation</u>					
As of 31 December 2013					
Gross value	23,877	106,756	1,295	5,103	137,031
Accumulated depreciation and impairment	12,540	71,401	-	3,527	87,468
Net value	**11,337**	**35,355**	**1,295**	**1,576**	**49,563**
As of 31 December 2014					
Gross value	23,948	106,959	5,211	4,567	140,685
Accumulated depreciation and impairment	14,215	76,048	-	2,856	93,119
Net value	**9,733**	**30,911**	**5,211**	**1,711**	**47,566**
<u>Additional information</u>					
Amount of pledges and mortgages used as collateral for loans	16,500	15,947	-	-	32,447
Contractual commitments to acquire fixed assets	-	-	-	-	-

[11] Deferred tax assets

Amounts in PLN thousand (PLN '000).

	31.12.2014	31.12.2013
Deferred tax assets arising from:		
- deductible tax losses	2,418	579
- created provisions and write-offs	4,519	3,893
	6,937	**4,472**

[12] Inventories

[12a] Inventory structure

Amounts in PLN thousand (PLN '000).

	31.12.2014	31.12.2013
Products and semi-products	40,169	43,570
Goods	7,485	11,553
Raw materials and other materials	11,728	13,982
Other	342	248
	59,724	**69,353**
Value of inventories measured at fair value less selling costs	-	-
Total amount of allowance on inventory	1,198	1,064
Value of inventories pledged as collateral for liabilities	14,500	14,500

[12b] Additional information

Amounts in PLN thousand (PLN '000).

	2014	2013
Cost of inventories sold	130,808	139,875
Inventories written off as expenses	146	-
Reversal of write-offs posted to income	-	-132
	130,954	**139,743**

[13] Trade receivables and other receivables

[13a] Receivables structure

Amounts in PLN thousand (PLN '000).

	31.12.2014	31.12.2013
Trade receivables	24,303	29,368
Other receivables	11,847	13,606
	36,150	**42,974**
Receivables due	4,130	7,699
Receivables with deferred payment	32,020	35,275
	36,150	**42,974**
Receivables in PLN	33,259	39,289
Receivables in EUR	1,120	1,502
Receivables in USD	1,771	2,183
	36,150	**42,974**
Write-down on receivables	5,789	6,106
Receivables used as collateral for loans	1,799	1,581

Trade receivables are non-interest bearing receivables which mature usually within 60–90 days. Part of the receivables is insured.

[13b] Additional information: change in the balance of write-downs on receivables

Amounts in PLN thousand (PLN '000).

	2014	2013
Opening balance	**6,106**	**4,568**
Write-downs recognized in operating expenses	265	1,695
Reversal of write-downs recognized in operating income	-	-5
Write-downs used	-964	-91
Change in measurement due to foreign exchange differences	382	-61
Closing balance	**5,789**	**6,106**

[13c] Age structure of receivables

Amounts in PLN thousand (PLN '000).

As of	Gross receivables	Write-downs on receivables	Net receivables	Receivables paid on time	Overdue receivables				
					up to 3 months	3–6 months	6–12 months	over 12 months	Total
31.12.2014	41,939	5,789	36,150	32,020	3,860	51	40	179	4,130
31.12.2013	49,080	6,106	42,974	35,275	7,360	98	241	0	7,699

[14] Cash

Cash consists only of cash in hand and at bank. The amount of restricted cash includes PLN 15 thousand allocated to the Company's social benefit fund.

[15] Equity components

[15a] Share capital

The share capital consists of all issued and subscribed ordinary shares (less the nominal value of all redeemed treasury shares), i.e. 46,893,621 shares whose nominal price is PLN 1. All shares have been paid.

[15b] Reserves

Reserves are created in accordance with the Code of Commercial Companies. The reserves consist of the excess of the issue price of shares over their nominal price, less issuance costs recognized in the capital, gains and losses (in minus) from previous years, transferred to capital reserves by way of a resolution of the shareholders meeting as well as the amounts recognized in equity in accordance with IASs, unless they are included in another category of equity, including net effects of the transition to IASs recognized in the opening balance, resulting from the revaluation of real property. The value of the reserves was also affected by a share buyback carried out by the Company. The reserves also accounted for the effects of the incentive scheme measurement. Reserves are established e.g. to cover future losses.

[15c] Retained earnings

Retained earnings include profit or loss for the current period and gains or losses from previous years that have not been distributed by way of a resolution of the General Shareholders Meeting of the Company.

[15d] Revaluation reserve

Revaluation reserve accounts for the effects of revaluation in accordance with IASs. Depreciation of property carried out due to the transition to IASs and in accordance with IFRS 1 has been recognized in the capital reserve.

[15e] Other reserves

Reserves are created in accordance with the resolution of the shareholders general meeting.

[15f] Treasury shares

This item may account for treasury shares of the Company purchased in accordance with the resolutions of the General Shareholders Meeting to be redeemed or for any other purpose. These shares are measured at cost which includes also costs directly attributable to their acquisition.

[16] Loans, borrowings and debt instruments

Amounts in PLN thousand (PLN '000).

Financing institution	Currency	Effective interest rate	Deadline for repayment	Debt		Collaterals	Notes
				31.12.2014	31.12.2013		
mBank SA	PLN	WIBOR 1M + 0.65%	30.06.2015	4,360	4,680	Registered pledge on finished products, blank promissory note; assignment of rights under insurance policy; pledge on fixed assets	Working capital loan
mBank SA	PLN	WIBOR O/N + 1.15%	27.11.2015	-	2,090	Global assignment of receivables, blank promissory note, pledge on two production lines	Overdraft facility
mBank SA	EUR	EURIBOR 1M + 1.42%	04.03.2016	730	1,311	Blank promissory note; registered pledge on purchased plant and equipment.	Investment loan
mBank SA	EUR	EURIBOR 1M + 1.8%	25.01.2019	1,811	-	Blank promissory note; registered pledge on purchased plant and equipment.	Investment loan
Bank Pekao SA	PLN	WIBOR 1M+ 0.7%	30.09.2016	7,212	6,355	Capped mortgage on property belonging to the Company and on property belonging to its subsidiary, along with the assignment of rights under insurance policy, declarations of Ceramika Nowa Gala SA and Ceramika Nowa Gala II Sp. z o.o. of submission to enforcement, power of attorney granted to the bank with respect to the bank account	Overdraft facility
Bank Handlowy w Warszawie SA	PLN	WIBOR 3M +0.9%	22.04.2016	5,008	1,799	Registered pledge on finished products and assignment of rights under insurance policy	Working capital loan
Closing balance				**19,121**	**16,235**		
of which							
short-term loans				13,575	5,070		
long-term loans				5,546	11,165		

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

In the case of the loans granted to Ceramika Nowa Gala SA by mBank SA, the condition to achieve the level of profit margin on sales and the net profit margin specified by the bank was not met as of the balance sheet date. Despite the failure to comply with the abovementioned condition, the bank, in accordance with the letter of 4 March 2015, does not intend to terminate the loan agreements.

The Company believes that all loans that need to be renewed in the next 12 months will be renewed, as was the case in earlier periods, not ruling out, however, a change of the financing bank.

[17] Provision for deferred income tax

Amounts in PLN thousand (PLN '000).

	31.12.2014	31.12.2013
Provision for deferred income tax with respect to		
- difference between book depreciation and tax depreciation	4,744	5,250
- interest and fees	384	356
- other	97	118
	5,225	**5,724**

[18] Trade and other payables

Amounts in PLN thousand (PLN '000).

	31.12.2014	31.12.2013
Trade payables	18,658	26,645
Other payables	4,171	3,356
	22,829	**30,001**
Payables due	13,393	13,169
Payables with deferred payment	9,436	16,832
	22,829	**30,001**
Payables in PLN	18,893	24,335
Payables in EUR	3,390	5,198
Payables in USD	546	468
	22,829	**30,001**

Payables with deferred payment mature usually within 15–90 days from the date at which they arose.

[19] Other provisions

Amounts in PLN thousand (PLN '000).

	Costs	Bonuses for customers	Other	Total
As of 1 January 2014	**259**	**3 917**	**42**	**4 218**
Created	57	8 311	-42	8 326
Utilized	-131	-7 414	-	-7 545
Reversed	-	-	-	-
As of 31 December 2014	**185**	**4 814**	**-**	**4 999**

[20] Provision for employee benefits

Amounts in PLN thousand (PLN '000).

	Holiday pay	Annual bonuses	Total
As of 1 January 2014	**643**	**183**	**826**
Created	211	454	665
Utilized	-182	-537	-719
Reversed	-	-	-
As of 31 December 2014	**672**	**100**	**772**

[21] Transactions with related parties

[21a] Trade transactions with related parties

Amounts in PLN thousand (PLN '000).

	Sales (net)		Purchases (net)		Receivables from related parties		Payables to related parties	
	2014	2013	2014	2013	31.12.14	31.12.13	31.12.14	31.12.13
Subsidiaries	30,823	33,197	54,816	58,118	2,823	20,639	10,386	14,650
Associates	-	-	332	424	-	-	3	44
	30,823	**33,197**	**55,148**	**58,542**	**2,823**	**20,639**	**10,389**	**14,694**

Trade receivables and payables arising from transactions with related parties are due no later than 90 days from the date of the transaction. Other transactions with related parties or on their behalf are presented below.

[21b] Other transactions with related parties

Amounts in PLN thousand (PLN '000).

	Parent company		Subsidiaries		Associates		Members of the Management Board, Supervisory Board and the proxy	
	2014	2013	2014	2013	2014	2013	2014	2013
Acquisition of treasury shares from related parties without compensation (pcs)			8,983,608		-	-	-	-
Taking up/purchase of shares in related parties and contributions*	-	-	834	-	-	-	-	-
Write-down on shares in associates*			-23,839		-	-	-	-
Refund of contributions	-	-		-3,000	-	-	-	-
Dividends received**	-	-	11,243	45,470				
Interest paid/accrued with respect to related parties	-	-	243	228				
Loans repaid by related parties			491	-	-	-	-	-
Loans granted to related parties	-	-	252	106	-	-	-	-
Off-balance sheet items								
Sureties granted	-	-	21,000	21,000	-	-	-	-
Termination of granted sureties	-	-	-21,000	-25,160	-	-	-	-

*Refers to shares taken up in CNG Luxembourg S.à.r.l.
**Dividend from Ceramika Nowa Gala II Sp. z o.o. subsidiary

The figures presented above do not account for trade transactions referred to in Note [21a].

[21c] Balance of other accounts with related parties

Amounts in PLN thousand (PLN '000).

	Subsidiaries		Associates		Members of the Management Board, Supervisory Board and the proxy	
	31.12.14	31.12.13	31.12.14	31.12.13	31.12.14	31.12.13
Shares in CNG held by related parties (pcs)	-	8,983,608	-	-	11,170,396	11,170,396
Loans granted to related parties	2,107	2,352	-	-	-	-
Accrued interest on loans granted	2,018	1,870	-	-	-	-
Receivables from dividend payment	11,243	12,678	-	-	-	-
Off-balance sheet items						
Performance bonds from related parties	4,160	4,160	-	-	-	-
Loan guarantees from related parties	21,000	21,000	-	-	-	-

The figures above do not account for the accounts arising from trade transactions referred to in [21a].

No provisions for bad debts from related parties have been created.

[21d] Carrying value of shares held and loans granted

Amounts in PLN thousand (PLN '000).

	Value of shares/capital		Cost of acquisition of shares/accrued interest		Impairment write-down		Carrying value of shares/loans	
	2014	2013	2014	2013	2014	2013	2014	2013
Ceramika Nowa Gala II Sp. z o.o.	15,500	15,500	9	9	-	-	15,509	15,509
Ceramika Gres SA	57,838	57,838	613	613	-	-	58,451	58,451
CNG Luxembourg S.à.r.l.	24,721	23,887	-	-	-23,839	-	882	23,887
Loan granted to Ceramika Nowa Gala II Sp. z o.o.	2,000	2,000	2,017	1,817	-	-	4,017	3,817
Loan granted to CNG Luxembourg S.à.r.l.	107	352	-	54	-	-	107	406
Subsidiaries (total)	**100,166**	**99,577**	**2,639**	**2,493**	**-23,839**	**-**	**78,966**	**102,070**
Energo-Gaz Sp. z o.o.	30	30	1	1	-	-	31	31
Ceramika Nova Sp. z o.o.	2	2	-	-	-2	-2	-	-
Associates (total)	**32**	**32**	**1**	**1**	**-2**	**-2**	**31**	**31**
Budo-Hurt SA	90	90	-	-	-	-	90	90
Other (total)	**90**	**90**	**-**	**-**	**-**	**-**	**90**	**90**

[22] Remuneration of the Management Board and Supervisory Board

Amounts in PLN thousand (PLN '000).

	Management Board and the proxy		Supervisory Board	
	2014	2013	2014	2013
Salaries and other current benefits (paid)	839	844	258	230
Future payments in shares	-	-	-	-
Movement in provisions	-	-	-	-
Charge on profit for the period	**839**	**844**	**258**	**230**

The remuneration was given in gross amounts along with fringe benefits paid by the employer.

[23] Reconciliation of changes in selected balance sheet items with the cash flow statement

[23a] Inventories

Amounts in PLN thousand (PLN '000).

	2014	2013
Balance sheet change in inventories	9,629	-1,033
Reclassification of spare parts warehouse	-	-2,111
Change in inventories in the cash flow statement	**9,629**	**-3,144**

[23b] Trade receivables and other receivables

Amounts in PLN thousand (PLN '000).

	2014	2013
Balance sheet change of trade receivables and other receivables	**6,824**	**-1,930**
Change in the investment property	-11	6
Movement of receivables from dividend	-1,435	12,678
Change in receivables in the cash flow statement	**5,378**	**10,754**

[23c] Trade and other payables

Amounts in PLN thousand (PLN '000).

	2014	2013
Balance sheet change in trade and other payables	**-7,172**	**-20,610**
Tax offset	194	240
Offset with accounts due to received dividend or contributions	12,678	35,791
Change in investment liabilities	-1,036	45
Change in payables in the cash flow statement	**4,664**	**15,466**

[24] Operating segments

Along with these separate financial statements, the Company draws up and publishes consolidated financial statements; therefore, the information on operating segments is presented only in the consolidated financial statements.

[25] Payment of dividend

In accordance with Resolution No. 7 adopted by the General Meeting of Shareholders of Ceramika Nowa Gala SA on 30 June 2014, on 15 October 2014, the Company paid a dividend in the amount of PLN 3,751,489.68. This amount was part of the profit for 2013. One share was equal to PLN 0.08 of the dividend.

[26] Declared dividend

As of the date of these consolidated financial statements, no dividend to be paid from the profit for 2014 was declared. The Group's development strategy for 2014–2016 assumes that a minimum of 30% of the consolidated net profit of the Group will be annually allocated for dividend, but no more than PLN 0.1 per share.

[27] Significant events after the balance sheet date

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

- the agreement was concluded by the Ceramika Gres SA subsidiary
- the price to be paid by the subsidiary for received fuel gas will depend on the current tariff
- the debtor's consent for voluntary submission to enforcement of up PLN 2,500 thousand will be used as a performance bond
- where the actual annual purchase of fuel gas is lower than the minimum amount specified in the agreement, the subsidiary will be required to pay the seller liquidated damages in the amount of 75% of the price for uncollected fuel gas
- the agreement has been concluded for an indefinite period
- the Polish zloty is the currency of the agreement
- the value of purchases made under the agreement within 5 years is estimated at approx. PLN 58,137 thousand.

[28] Capital management

The Company manages its capital to be able to continue its operations, including planned investments. In accordance with market practice, the Company monitors its capital on the basis of, among others, the debt ratio and interest coverage ratio. The debt ratio is calculated as the ratio of net debt arising from loans and borrowings to the value of invested capital. Net debt arising from loans, borrowings and other sources of funding means the total amount of loan and borrowing liabilities less the cash balance. As for invested capital, it is the sum of the value of non-current assets and net current assets. Interest coverage ratio is calculated by dividing EBITDA by the interest shown in the statement of comprehensive income for the reporting period. EBITDA stands for earnings before interest, taxes, depreciation and amortization. In the period covered by the financial statements, these ratios were as follows:

Amounts in PLN thousand (PLN '000).

	31.12.2014	31.12.2013
Non-current assets	133,979	155,996
Net current assets	69,642	69,067
Total capital invested	**203,621**	**225,063**
Total net debt arising from loans and borrowings	12,530	15,156
Debt ratio	**0.06**	**0.07**
	2014	**2013**
Profit (loss) from operating activities	-15,742	-11,030
Depreciation and amortization	7,491	7,743

EBITDA	-8,251	-3,287
Interest	722	1,235
EBITDA-to-interest-coverage ratio	**-11.43**	**-2.66**

By controlling the level of the current assets it was possible to decrease the net debt. At the same time, there was a decrease in invested capital, as a result of which the debt ratio remained at the same level as in the previous year. As a result of an operating loss and a negative EBITDA, the interest coverage ratio is negative.

In managing the financing structure, the Management Board takes into account limits on the acceptable debt level specified in loan agreements, which are calculated on the basis of data derived from the consolidated and, not separate, financial statements. As of the balance sheet date, covenants regarding the acceptable level of debt had been met (see also Note [16]).

[29] Offsetting the remaining part of the dividend from the subsidiary

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

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

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

[30] Publication of the new development strategy of the Ceramika Nowa Gala Group for 2014–2016

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

- sales growth at the annual rate of 5% within the period covered
- EBITDA margin increase by the end of 2016 by 7 percentage points until it reaches approx. 17% as a result of carrying out strategic initiatives in three main areas:
  a. increasing the utilization of production capacity (margin increase of 4–5 percentage points)
  b. new technologies (investments in production of unglazed tiles and digital printing should result in a margin increase of 1–2 percentage points)
  c. process optimization (a number of activities, including product offer simplification, purchase consolidation, redundancies and process simplification should result in a margin increase of 3 percentage points)
- shortened supply chain with regard to ceramic tiles distribution
- allocation of a total of PLN 45 million for capital expenditure in the period of 2014–2016, including PLN 10 million for replacements maintenance, PLN 15 million for modernization and new technologies and PLN 20 million for the development of logistics and warehouses
- maintaining the average level of working capital and the average interest debt at the levels from the end of 2013;
- redemption of treasury shares held by the Group (9,220,757 shares representing 16.43% of share capital) in 2014 (see also [31]);

- proposal to introduce a dividend policy assuming an annual allocation of at least 30% of the Group's net consolidated profit for dividend payment, but no more than PLN 0.1 per share.

[31] Adoption by the General Shareholders Meeting of a resolution on the redemption of treasury shares without compensation and decrease in the Company's share capital

On 30 June 2014, the General Shareholders Meeting resolved to decrease the Company's share capital from PLN 56,114,378 to PLN 46,893,621 by the redemption of 9,220,757 shares. The redemption of 8,983,608 shares held by CNG Luxembourg S.à.r.l. subsidiary did not include compensation, which was agreed to by the shareholder in the agreement on the transfer of the ownership of shares, concluded outside the regulated market between the shareholder and the Company (for more information, see [33]). The objective of the redemption of 8,983,608 shares held by the subsidiary and 237,149 shares held by the Company was to organize the Company's shareholding structure and ensure its transparency and stability with regard to the shareholding structure in the future.

[32] Increase in the capital of Luxembourg S.à.r.l. subsidiary

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

[33] Acquisition of Treasury Shares from a Subsidiary Without Compensation

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

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

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

The results of both of these transactions have been mutually compensated directly at the level of the parent company's equities and have not affected the total profit presented in the separate financial statements.

[34] Decrease in the Issuer's authorized share capital

On 16 October 2014, the District Court in Kielce, Commercial Division of the National Court Register, registered a decrease in the Company's authorized share capital. After the registration, the share capital amounts to PLN 46,893,621 and consists of 46.893.621 series A shares.

[35] Information on Agreements with Certified Auditor

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

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

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

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

Risk factors and off-balance sheet liabilities

1. Risk factor related to the activities of the Company

1.1. Risk associated with increased production costs

The production plant belonging to the Company 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, particularly 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 2014, the positive tendency of electricity prices to fall was stopped and reversed. It follows from talks and negotiations that in 2015, electricity prices will be higher than in previous years. The Company has taken active steps to diversify gas suppliers, hoping that such action will lead to a reduction in the purchase costs of raw material.

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

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

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

The Company uses high-quality raw materials to produce ceramic tiles. To obtain high-quality homogeneous ceramics, it is necessary to use ingredients with a low level of impurities. For colours to be vivid, a mass which does not darken after firing needs to be applied. There is a risk of limited availability of raw materials with the required quality (part of the raw materials is imported from eastern Ukraine, in an area which is not, however, covered by the war), and the Company may be forced to modify formulations used by them. The Company hedges against this risk by developing alternative formulations using substitute ingredients.

1.4. Risk associated with changes in consumer preferences

The ceramic tiles market is sensitive to trends, which forces manufacturers to keep up with the varying preferences of consumers. Any mismatch between the offered product range and customers' expectations gives rise to a risk of excessive inventory or being forced to sell products at lower prices. The risk associated with failure to match the product range with buyers' tastes increases as the offer is extended with new designs. To reduce this risk, the Company monitors prevailing market trends and adjusts their product portfolio to the tastes and requirements of customers.

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

2.1. Risk associated with the macroeconomic and political situation

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

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

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

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

2.2. Risk associated with the activities of competitors

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

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 and wood. There is a risk that in the future, new or existing finishes will become an attractive substitute for ceramic tiles. Such a situation could adversely affect the level of sales and the performance of the Company.

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

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

2.5. Risk associated with the tax system

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

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 activities. The Company has also other financial instruments, such as trade receivables and payables that directly arise in the course of its business. The Company also has interests in other business entities, 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 to manage each of these risks. These policies are briefly described below. The magnitude of this risk in the period concerned is shown below as well. The accounting principles applied by the Company in relation to financial instruments have been discussed in the introduction to the financial statements.

3.1. Interest rate risk

At present, the assets and liabilities recognized in the statement of financial position are not subject to fluctuations owing to changes in interest rates. However, because the Company uses financing sources with variable interest rates, an increase (decrease) in base rates or an increase (decrease) in margins used by financial institutions may result in an increase (decrease) in financial expenses. The Company does not use cash flow hedges against changes in interest rates.

3.2. Risk associated with foreign exchange rates

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

- changes in the value of export sales denominated in PLN and production costs denominated in PLN, in the part relating to imported raw materials
- changes in the competitiveness of the Company'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 payables
- unrealized foreign exchange differences on measurement of accounts and other monetary items as of the balance sheet date
- varying intensity of competition associated with prices of imported tiles

The risk of foreign exchange volatility is largely offset as the 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 at the same time, the available instruments hedging against foreign exchange risk are limited due to uncertainty prevailing in export markets. In particular, the level of offsetting expenses and income denominated in foreign currencies has become less predictable.

3.3. Credit risk

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

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

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

3.4. Liquidity risk

The Company uses external financing which determines its liquidity. To ensure the availability of funding, the Company maintains the proportion of debt in financing at a safe level (see also the comment in Notes [16] and [28]).

The table below shows maturity of the different classes of liabilities, beginning from the balance sheet date.

Amounts in PLN thousand (PLN '000).

Class of liabilities	Total	up to 6 months 2015	6–12 months 2015	2016	Subsequent years
Trade and other payables	22,829	22,829	-	-	-
Payments under operating leases*	5,533	1,266	1,308	1,840	1,119
Loans eligible for refinancing**	24,360	4,360	4,500	15,500	-
Loans to be repaid	3,628	189	378	1,486	1,575

Class of liabilities	Total	up to 6 months 2015	6–12 months 2015	2016	Subsequent years
Total	**56,350**	**28,644**	**6,186**	**18,826**	**2,694**

*the most significant lease agreements concerning office space and warehouse space as well as car and forklift rental agreements
**amounts resulting from the maximum debt limits granted, regardless of the debt amount as of the end of 2014

In the case of significant agreements classified as operating leases that cannot be terminated or have a defined minimum contractual period of notice, the total amounts that the Company would have to pay for the period till the dates of expiry of the agreements is PLN 4,136 thousand.

3.5. Analysis of sensitivity of financial 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	263	1,120	foreign exchange	+/-20%	+/-224
Foreign currency denominated receivables	USD	505	1,771	foreign exchange	+/-20%	+/-354
Foreign currency cash	EUR	446	1,902	foreign exchange	+/-20%	+/-380
Foreign currency cash	USD	599	2,102	foreign exchange	+/-20%	+/-420
Foreign currency denominated liabilities	EUR	795	3,390	foreign exchange	+/-20%	+/-678
Foreign currency denominated liabilities	USD	156	546	foreign exchange	+/-20%	+/-109
Loans contracted in foreign currencies	EUR	596	2,541	foreign exchange	+/-20%	+/-508
Variable interest rate loans	EUR	596	2,541	interest rate	+/-3.00%	+/-76
Variable interest rate loans	PLN	16,580	16,580	interest rate	+/-3.00%	+/-497

4. Off-balance sheet liabilities

None as of the balance sheet date.

5. Sureties and guaranties (changes within the reporting period)

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

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