Separate annual financial statements of

Ceramika Nowa Gala SA

for the period from 1 January 2016 to 31 December 2016

Końskie, 23 March 2017

Introduction

Reporting Entity

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

Composition of the managing and supervisory bodies

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

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

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

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

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

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

Business description

The core business of the Company consists in 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 are also polished. The Company manufactures also supplementary decorative elements sold within one joint offer. The Company sells also ceramic stoneware tiles manufactured by other companies of the Group.

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

Signatures

These financial statements were drawn up and signed on **23 March 2017** and will be published on 24 March 2017.

Management Board Chief Accountant

Separate statement of profit and loss and other comprehensive income

for the period from 1 January 2016 to 31 December 2016

Amounts in PLN thousand (PLN '000)

	Note	2016	2015
Revenues	[1]	**133,849**	**147,592**
Cost of sales	[1] [2]	114,521	131,210
Gross profit		**19,328**	**16,382**
Other income	[3]	31	383
Selling and administrative expenses	[2]	24,412	23,404
Other expenses	[4]	1,961	763
Profit before interest and tax		**-7,014**	**-7,402**
Finance income	[5]	1,155	16,249
Finance expenses	[6]	784	1,150
Profit from continued operations before tax		**-6,643**	**7,697**
Income tax expense	[7]	-872	-1,230
Profit from continued operations after tax		**-5,771**	**8,927**
Profit from discontinued operations after tax		-	-
Net profit/(loss)		**-5,771**	**8,927**
Other comprehensive income – none			
Total comprehensive income		**-5,771**	**8,927**
Net profit attributable to			
shareholders of the parent company		-5,771	8,927
non-controlling interests		-	-
		-5,771	**8,927**
Total comprehensive income attributable to			
shareholders of the parent company		-5,771	8,927
non-controlling interests		-	-
		-5,771	**8,927**

	Unit	Note	2016	2015
Annualized profit/(loss)	PLN thousand		-5,771	8,927
Weighted average number of shares	thousand shares		46,894	46,894
Basic earnings/(loss) per share from continued operations	PLN	[8]	-0.12	0.19
Weighted average diluted number of shares	thousand shares		46,894	46,894
Diluted earnings/(loss) per share from continued operations	PLN	[8]	-0.12	0.19

Separate statement of financial position

as at 31 December 2016

Amounts in PLN thousand (PLN '000)

Assets	Note	31.12.2016	31.12.2015
Non-current assets			
Intangible assets	[9]	340	420
Property, plant and equipment	[10]	37,182	41,177
Investments in subsidiaries	[21] [21d]	78,241	77,944
Other financial assets	[21d]	121	121
Deferred tax assets	[11]	6,628	7,046
Total non-current assets		**122,512**	**126,708**
Current assets			
Inventory	[12]	54,050	60,993
Trade and other receivables	[13]	16,756	43,678
Receivables from current income tax		-	-
Loans to subsidiaries	[21d]	-	116
Other financial assets		-	-
Cash and cash equivalents	[14]	16,309	2,603
Other current assets		171	155
Total current assets		**87,286**	**107,545**
Non-current assets classified as held for sale in accordance with IFRS 5		-	-
Total assets		**209,798**	**234,253**

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Separate statement of financial position (contd.)

Amounts in PLN thousand (PLN '000)

Equity and liabilities	Note	31.12.2016	31.12.2015
Equity			
Share capital	[15a]	46,894	46,894
Reserves	[15b]	137,475	133,237
Revaluation reserve	[15d]	-	-
Other reserves	[15e]	-	-
Treasury shares	[15f]	-	-
Retained earnings	[15c]	-5,771	8,927
Total equity		**178,598**	**189,058**
Non-current liabilities			
Borrowings	[16]	848	5,613
Provision for deferred income tax	[17]	2,876	4,165
Provision for employee benefits		-	-
Other provisions		-	-
Total non-current liabilities		**3,724**	**9,778**
Current liabilities			
Trade and other payables	[18]	16,627	23,681
Current tax liability		-	-
Borrowings	[16]	4,506	4,245
Provision for employee benefits	[20]	1,007	1,483
Advances from related parties		-	-
Other provisions	[19]	5,336	6,008
Total current liabilities		**27,476**	**35,417**
Liabilities associated with assets classified as held for sale in accordance with IFRS 5		-	-
Total liabilities		**31,200**	**45,195**
Total equity and liabilities		**209 798**	**234 253**
Book value (in PLN thousand)		178,598	189,058
Number of shares (in thousand shares)		46,894	46,894
Book value per share (in PLN)		3.81	4.03
Diluted number of shares (in thousand shares)*		46,894	46,894
Diluted book value per share (in PLN)		3.81	4.03

Separate cash flow statement

for the period from 1 January 2016 to 31 December 2016

Amounts in PLN thousand (PLN '000)

	Note	2016	2015
Operating activities			
Net profit/(loss)		**-5,771**	**8,927**
Amortization and depreciation		7,910	7,770
Dividend income		-952	-16,010
Interest revenue and expenses		72	71
Exchange rate gains/(losses)		55	119
Gain/(loss) on disposal of intangible and tangible non-current assets		152	131
Movement in provisions, write-downs, prepayments and accruals		-1,166	1,907
Income tax expense		-872	-1,230
Other adjustments*		621	755
Cash flow from operations before movements of working capital		**49**	**2,440**
Movement in inventory	[12] [23a]	6,942	-1,610
Movement in receivables	[23b]	13,678	-5,941
Movement in liabilities	[23c]	4,259	13,901
Cash flow from operations before tax		**24,928**	**8,790**
Interest received from operating activities		1	30
Interest paid on operating activities		-3	-4
Income tax paid		-	-85
Net cash flows from operating activities		**24,926**	**8,732**
Investing activities			
Proceeds from disposal of tangible and intangible non-current assets		24	87
Received loan repayments		2,000	-
Interest received on investing activities		2,047	360
Dividends received		2,169	3,140
Purchase of tangible and intangible non-current assets		-3,662	-1,930
Loans granted and additional equity contributions		-4,273	-
Purchase of financial assets		-	-
Net cash from investing activities		**-1,695**	**1,657**

*the amount of an allowance for impairment of investment in the CNG Luxembourg S.à.r.l. subsidiary and allowances related to property, plant and equipment

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Separate cash flow statement (contd.)

Amounts in PLN thousand (PLN '000)

	Note	2016	2015
Financing activities			
Proceeds from borrowings		-	505
Dividends to shareholders		-4,689	-4,689
Repayment of borrowings		-4,567	-9,775
Interest paid pertaining to financing activities		-275	-315
Net cash from financing activities		**-9,531**	**-14,274**
Net cash from financing activities		**13,700**	**-3,885**
Cash and cash equivalents at the beginning of the period		2,603	6,591
Exchange rate differences		6	-103
Cash and cash equivalents at the end of the period		**16,309**	**2,603**
Structure of cash and cash equivalents:	[14]		
Unrestricted cash		16,305	2,595
Restricted cash		4	8
		16,309	**2,603**

Separate statement of changes in equity

for the period from 1 January 2016 to 31 December 2016

Amounts in PLN thousand (PLN '000)

	Share capital	Reserves	Other reserves	Revaluation reserve	Treasury shares	Retained earnings	Total equity
As at 1 January 2015	**46,894**	**139,786**	**-**	**-**	**-**	**-1,859**	**184,821**
Total comprehensive income*	-	-	-	-	-	8,927	8,927
Coverage of loss from previous years	-	-1,859	-	-	-	1,859	-
Distribution of profit from previous years	-	-	-	-	-	-	-
Payment of dividend	-	-4,690	-	-	-	-	-4,690
Redemption of treasury shares	-	-	-	-	-	-	-
Buy-back of treasury shares	-	-	-	-	-	-	-
As at 31 December 2015	**46,894**	**133,237**	**-**	**-**	**-**	**8,927**	**189,058**
As at 1 January 2016	**46,894**	**133,237**	**-**	**-**	**-**	**8,927**	**189,058**
Total comprehensive income*	-	-	-	-	-	-5,771	-5,771
Coverage of loss from previous years	-	-	-	-	-	-	-
Distribution of profit from previous years	-	4,238	-	-	-	-4,238	-
Payment of dividend	-	-	-	-	-	-4,689	-4,689
Redemption of treasury shares	-	-	-	-	-	-	-
Buy-back of treasury shares	-	-	-	-	-	-	-
As at 31 December 2016	**46,894**	**137,475**	**-**	**-**	**-**	**-5,771**	**178,598**

*In 2016, the amounts of comprehensive income were allocated to the following equity items: net loss in the amount of PLN 5,771 thousand decreased the amount of the current portion of retained earnings. In 2015, the amounts of comprehensive income were allocated to the following equity items: net profit in the amount of PLN 8,927 thousand increased the amount of the current portion of retained earnings.

Financial highlights

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

- as for balance sheet data, the average exchange rates of the NBP were used: 4.2615 PLN/EUR as at 31 December 2015 and 4.424 PLN/EUR as at 31 December 2016;
- as regards 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: 4.1848 PLN/EUR in 2015; 4.3757 PLN/EUR in 2016.

The average exchange rates of the NBP for USD, used for translating the monetary items, were as follows: 4.1793 PLN/USD as at 31 December 2016 and 3.9011 PLN/USD as at 31 December 2015.

Individual data	in PLN thousand		in EUR thousand	
	2016	2015	2016	2015
Net sales	133,849	147,592	30,589	35,269
Profit/(loss) from operating activities	-7,014	-7,402	-1,603	-1,769
Profit/(loss) before tax	-6,643	7,697	-1,518	1,839
Net profit/(loss)	-5,771	8,927	-1,319	2,133
Net cash flows from operating activities	24,926	8,732	5,696	2,087
Net cash flows from investing activities	-1,695	1,657	-387	396
Net cash flows from financing activities	-9,531	-14,274	-2,178	-3,411
Net cash flows (total)*	13,706	-3,988	3,132	-953
Total assets	209,798	234,253	47,423	54,970
Liabilities and provisions for liabilities	31,200	45,195	7,052	10,605
Non-current liabilities	3,724	9,778	842	2,294
Current liabilities	27,476	35,417	6,211	8,311
Equity	178,598	189,058	40,370	44,364
Share capital	46,894	46,894	10,600	11,004
Number of shares	46,893,621	46,893,621	-	-
Profit/(loss) per share (in PLN/EUR)	-0.12	0.19	-0.03	0.05
Diluted profit/(loss) per share (in PLN/EUR)	-0.12	0.19	-0.03	0.05
Book value per share (in PLN/EUR)	3.81	4.03	0.86	0.95
Diluted book value per share (in PLN/EUR)	3.81	4.03	0.86	0.95
Declared or paid dividend per share (in PLN/EUR)	0.1	0.1	0.02	0.02

*Balance sheet movement in cash, taking into account the movement in revaluation from exchange rate differences.

Accounting principles

Compliance with International Financial Reporting Standards

These separate financial statements of Ceramika Nowa Gala SA have been 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 applied for the first time during the reporting period, had an impact only on 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 separate financial statements, the opportunity of an early application of standards and interpretations published before the balance sheet date and before their effective date was not exercised. As at the balance sheet date, the following standards and interpretations issued by the International Accounting Standards Board had not entered into force yet.

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. Once effective, IFRS 15 will replace the guidance on revenue recognition defined in IAS 18 "Revenue", IAS 11 "Construction Contracts" and the guidance provided for in related Interpretations. Under the new standard, the entity shall recognize 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 specific aspects of revenue recognition. It also requires disclosure of a wide range of information.

The standard will be applicable to annual periods beginning on 1 January 2018 or after that date. The standard has been approved to be used in the European Union Member States.

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

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 defined previously in IAS 39. Furthermore, the requirements for the recognition of impairment of financial assets have been significantly changed in such a way that it will be required to use an expected credit loss model instead of the incurred credit loss model required previously by IAS 39.

The standard will be applicable to annual periods beginning on 1 January 2018 or after that date. The standard has not been approved yet to be used in the European Union Member States.

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 changes will be specified, however, at the first time adoption of the standard.

IFRS 16 "Leases"

The standard introduces a single model of recognizing by the lessee in the balance sheet virtually all kinds of lease agreements. The standard eliminates the classification into finance leases (recognized in the balance sheet) and operating leases (off-balance ones). Under the new regulations each lease agreement will result in obtaining by the lessee an intangible asset (the right to use a given asset) and it will generate a financial liability. New intangible assets will be amortized and the costs incurred in this respect will be recognized in the operating profit. New liabilities will be, as financial liabilities, measured at amortized cost. Such measurement will entail finance costs in the statement of comprehensive income. The leassee will report such agreements virtually in the same way as he does now in accordance with IAS 17.

The standard will be applicable to annual periods beginning on 1 January 2019 or after that date. The standard has not been approved yet to be used in the European Union Member States.

The Company is now a party to a number of short-term lease contracts that meet the definition of operating lease. The following can be expected in the statement of comprehensive income as a result of applying the new standard: a decrease in the cost of third-party services, an increase in depreciation costs and an increase in finance costs. As regards the statement of financial position, application of the standard will increase the value of intangible assets and contractual debt. Changes in numbers will be determined in the future, at the time of the first application of the standard.

IFRS 14 "Deferred balance of regulated activity"

The standard allows a first-time adopter of the International Financial Reporting Standards to continue to use the previously adopted accounting principles on regulated activity, taking into account some minor changes. The standard requires 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 the IFRS and subsequent financial statements. Specific disclosures are also required.

The standard has been approved by the International Accounting Standards Board to be applied to annual periods beginning on 1 January 2016 or after this date. The standard in its present form will not be approved to be applied in the European Union Member States.

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

Its entry into force has been postponed for an indefinite time. The amendments have not been approved to be applied in the European Union Member States.

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

Amendments to IFRS 2 "Share-based Payment"

The amendments require an entity to recognize share-based transactions settled in cash, share-based payments (including withholding tax liabilities) and reclassify a transaction settled in cash to a transaction settled in equity instruments.

The amendments have been approved to be applied to annual periods beginning on 1 January 2018 or after that date. The amendments have not been approved yet to be applied in the European Union Member States.

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

Amendments to IAS 7: Disclosure Initiative

The amendments extend disclosures regarding changes in an entity's liabilities arising from financial activities and availability of cash and cash equivalents recognized in the cash flow statement. The amendments aim at providing users of financial statements with more complete information on changes in a given entity's debt.

The amendments have been approved to be applied to annual periods beginning on 1 January 2017 or after that date. The amendments have not been approved yet to be applied in the European Union Member States.

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

Amendments to IAS 12: Recognition of deferred tax assets for unrealized losses

The amendments clarify the method od recognizing deferred income tax assets with respect to losses on debt instruments measured at fair value.

The amendments have been approved to be applied to annual periods beginning on 1 January 2017 or after that date. The amendments have not been approved yet to be applied in the European Union Member States.

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

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments concern entities whose activities are predominately connected with insurance and introduce an opportunity to defer the application of IFRS 9 by such entities.

The amendments have been approved to be applied to annual periods beginning on 1 January 2018 or after that date. The amendments have not been approved yet to be applied in the European Union Member States.

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

Amendments to IAS 40: Transfers of Investment Property

The amendments clarify the conditions of transfers to, or from, investment property.

The amendments have been approved to be applied to annual periods beginning on 1 January 2018 or after that date. The amendments have not been approved yet to be applied in the European Union Member States.

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

Amendments arising from a review of IFRSs (2014-2016 cycle)

The amendments concern, in particular, the removal of exemptions from IFRSs and specify whether an entity is allowed to apply measurement at fair value separately for each investment in associates and joint ventures.

The amendments have been approved to be applied in part to annual periods beginning on 1 January 2017 or after that date, and in part to annual periods beginning on 1 January 2018 or after that date. The amendments have not been approved yet to be applied in the European Union Member States.

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

IFRIC Interpretation 22—Foreign Currency Transactions and Advance Consideration

The interpretation clarifies the rules for specifying the transcation date for the purpose of determining the exchange rate in the case of advance consideration received in a foreign currency. In this situation the received advance consideration is recognized before the recognition of assets, costs or revenues related to the transaction.

The interpretation has been approved to be applied to annual periods beginning on 1 January 2018 or after that date. The amendments have not been approved yet to be applied in the European Union Member States.

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

Changes to the accounting policies

In the previous years, advances for fixed assets under construction were recognized as property, pland and equipment assets, while advances for the supply of raw materials and materials were recognized as inventory items. Having re-examined the regulations provided for in IFRS 1, the Management Board resolved to change this method of presentation and recognize both items in other receivables. The following table shows the amounts reclassified in 2016 and in comparable data for 2015.

Amounts in PLN thousand (PLN '000)

	Property, plant and equipment		Inventory		Trade and other receivables	
	31.12.16	31.12.15	31.12.16	31.12.15	31.12.16	31.12.15
Amount reclassified in the separate financial statements	-1,027	-297	-772	-450	1,800	747

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 kept in this currency.

Measurement basis

Measurement for the purposes of the separate 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 is composed of the following business entities:

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

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

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 consolidated financial statements at cost less a possible write-down for impairment. The carrying amount of the shares in Energo-Gaz Sp. z o.o. is PLN 31 thousand, and the share of Ceramika Nowa Gala SA in its equity amounted, as at 31 December 2016, to PLN 359 thousand. Financial data of this company for 2016, determined in accordance with Polish accounting standards, is as follows: assets: PLN 812 thousand, provisions and liabilities: PLN 93 thousand, revenue: PLN 1,811 thousand, net profit for 2016: PLN 80 thousand. Transactions concluded with this company are shown in Note [21] and relate mainly to the handling of a siding (the siding is owned by Ceramika Nowa Gala SA and an entity not related to it – joint ownership). The carrying amount of a 50% stake in Ceramica Nova Sp. z o.o., amounting to PLN 2 thousand, is written down in 100% for impairment, and the company has never commenced any operations and holds no assets.

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

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 the National Bank of Poland (NBP) prevailing on the transaction date. As at 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 the NBP, prevailing at that date. The resulting foreign exchange differences are recognized in income or expenses. Non-monetary assets denominated in foreign currencies are shown as at 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 exchange offices – in accordance with the weighted average method.

Borrowing costs

In accordance with IAS 23, borrowing costs attributable directly to the acquisition, construction or production cost of an asset which requires a long time to be made suitable for use, incurred during this period, increase the initial value of this asset component. 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 component.

These borrowing costs and revenue affecting the initial value of assets do not include foreign 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 at the balance sheet date at cost or manufacturing cost, less accumulated depreciation and impairment write-downs.

The acquisition price includes the purchase price, the 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. If necessary, the value of land is written down for impairment.

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

The value of 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, taking into account their expected useful lives and the recoverable value (where warranted), from the date of putting the asset 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 taking into account 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 from 86 to 95 years;
- buildings from 7 to 25 years;
- plant and equipment from 2 to 21 years;
- other non-current assets from 3 to 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 fixed asset, are charged to the expenses of the period in which they were incurred. In the case of major repairs that require replacement of expensive parts, the principles set out in IAS 16 are applied. In accordance with those principles, the value of a fixed asset should be reduced by the non-depreciated value of a replaced component and increased, at the same time, by the purchase price of a new part (such items are accounted for as separate components). The costs of improvements that increase the value of a given fixed asset, as compared to its initial value, increase assets and are depreciated. This applies also to renovation and adaptation of buildings whose condition at the time of acquisition necessitated such costs to be incurred.

Advertising displays for displaying 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 fixed assets and are depreciated over the expected useful life. Other displays are posted to costs at the time they are handed over to a counterparty.

Non-current assets classified as held 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 held for sale. To be classified as non-current assets held 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 of the balance sheet date. As at the date of reclassification of assets to the 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 the profit or loss of a given period.

Intangible assets

Intangible assets acquired from an external business entity in a separate transaction are capitalized at acquisition 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 in the future;
- 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 intangible assets are as follows:

- computer software from 3 to 14 years.

Impairment of property, plant and machinery as well as intangible assets

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

Inventory

Inventories of purchased goods are measured as at the balance sheet date at acquisition cost or realizable net selling price less costs of sale.

Inventories of raw materials intended for production are measured as at 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 manufacture of 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 acquisition cost was lower. The standard cost method is used for the purpose of costing inventories of raw materials and production materials.

Inventories of technical materials (parts, 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 their purchase. The value of the inventory of these materials is not recognized in the balance sheet.

The acquisition cost 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 assumption of normal production capacity utilization. The standard cost includes also normal levels of waste and the value of by-products, determined based on a realizable selling price. Deviations from the standard cost (e.g. ones due to non-utilization of production capacity) are posted directly to profit or loss for the period, adjusting 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. Those expenses are charged directly to profit or loss for the period.

Where the acquisition cost or the technical cost of production of inventories is higher than the anticipated selling price, the Company makes write-offs which are recognized in other operating expenses. The selling price referred to 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 that need 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 fulfillment 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 taking into account discounting, an adjustment to the provision, associated with the change to the discount, is recognized in the income statement as an adjustment to interest.

Lease

The Company does not use assets under finance lease agreements. It is bound, however, by rental agreements for office and storage space, as well as other rental agreements concerning 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 service awards. In accordance with the applicable 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 nor has 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-term 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 from 60 to 90 days, and which are recognized at the amounts initially payable, net of provisions for bad debts. Impairment write-downs of bad debts are made when the collection of the full amount of a receivable is no longer probable.

The amounts of impairment write-downs of receivables are recognized in other operating expenses.

The Company can enter into a non-recourse factoring agreement. Its economic content has to provide that the liquidity risk with respect to a given part of amounts indicated in invoices to be discounted is transferred under the agreement to the factor, while the risk of the counterparty's insolvency is taken over by the insurance company. If the agreement meets the above requirement, only part of the amounts of receivables indicated in invoices to be discounted is recognized in the balance sheet and constitutes a deductible. The Company has an off-balance sheet (due to very low likelihood) commitment to satisfy the factor in case the insurance company refuses to pay compensation for the invoice to be discounted.

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.a.r.l. In the separate financial statements, these assets are measured at acquisition 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 relating to two of them is provided in the description of the Group for which the Company is its parent company, while the third one is a former contractor – Budo-Hurt – whose shares have been received upon conversion of debt into shares). These interests are measured at acquisition cost.

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

- assets measured at fair value, with changes posted to profit or loss;
- assets held to maturity – measured at amortized cost using the effective interest rate method;
- loans and receivables – measured at amortized cost using the effective interest rate method;

- assets held 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 separate statement of financial position and notes to the separate 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 acquisition cost corresponding to the amount 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 debt security. In subsequent periods, loans and borrowings are measured at amortized cost using the effective interest rate method. The statement of comprehensive income accounts for all the effects of applying the amortized acquisition 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. These include also recourse factoring liabilities.

Trade and other liabilities

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

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 bought back by the Company are recognized as a separate negative equity item and are measured at acquisition 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.

Revenues from sale of goods, products, semi-finished products, materials and services are recognized when the significant risks and rewards of 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 taking into account their progress.

Interest income is recognized on an accrual basis, gradually as it accrues, taking into account the effective yield of a given asset.

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

State subsidies, 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 that given grants will be received. Grants are recognized in the 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 in provisions for deferred income tax and 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 above-mentioned differences to be used, except where:

- 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, deferred income tax assets are recognized in the statement of financial position only to the extent that it is probable that the above-mentioned 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 written down, 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 component will be utilized or the liability will be settled, based on tax rates enacted or substantively enacted as of the balance sheet date.

Movement in 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 recognized directly in the equity capital.

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

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

Estimates of the Company concern mainly the established provisions, write-downs of assets, including trade receivables as well as property, plant and equipment, assumptions applied in the impairment test for goodwill, measurement of investment inventories as well as applied depreciation rates. Estimation is also applied to the assessment of the possibility of obtaining compensation from the insurance company in case of receivables covered by non-recourse factoring. Where the estimated risk of lack of possibility of compensation payment is minimal, it is possible to remove receivebles covered by such factoring from the balance sheet. Detailed rules concerning the estimates of the above-mentioned 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 as at each balance sheet date.

Notes to the separate financial statements

[1] The structure of sales revenues and expenses

Amounts in PLN thousand (PLN '000)

	Revenues		Costs		Sales result before tax	
	2016	2015	2016	2015	2016	2015
Products and semi-products	116,411	124,566	97,681	110,204	18,730	14,362
Goods	8,652	14,812	8,598	13,336	54	1,476
Raw materials and other materials	3,279	2,779	3,431	2,811	-152	-32
Other sales (services)	5,507	5,435	4,811	4,859	696	576
	133,849	**147,592**	**114,521**	**131,210**	**19,328**	**16,382**

Sales to related parties are presented in Note [21].

[2] Operating expenses

[2a] Costs by type

Amounts in PLN thousand (PLN '000)

	2016	2015
Raw materials and other materials	36,710	41,834
Gas and electricity	14,051	18,686
Purchased goods and semi-products*	32,896	46,348
Amortization and depreciation	7,910	7,770
Payroll with fringe benefits	20,213	19,449
Third-party services**	13,281	13,166
Representation and advertising	2,818	2,044
Taxes and fees	882	823
Other	1,149	1,121
	129,910	**151,241**
of which:		
Cost of manufacture (and purchase) of products and goods sold***	111,090	128,399
Selling and administrative expenses	24,412	23,404
Movement in inventories of products, semi-products, goods, accruals and prepayments	-5,592	-562
Cost of products used for the Company's purposes	-	-
	129,910	**151,241**

*The Company purchases part of tiles (goods) offered by it from its subsidiaries. Some of them are then resold, and part of them is processed (production of decorative elements, calibration, semi-polishing and formatting of tiles). Separation of commodity trading and production processes is unfounded from given the costs of obtaining such information. Therefore, in this note, the purchase of goods is included in the settlement of costs by type.
**Expenses under lease agreements classified as operating leases, included in third-party services, amounted to: PLN 3,094 thousand in 2016 and PLN 3,117 thousand in 2015.
***Includes the costs of products and semi-products, goods, as well as other sales expenses (Note [1])

[2b] Payroll along with fringe benefits

Amounts in PLN thousand (PLN '000)

	2016	2015
Current salaries	16,843	15,110
Social security contributions paid by the employer and other employee benefits	3,846	3,628
	20,689	**18,738**
Movement in the provision for holiday pay (Note [20])	58	55
Movement in the provision for bonuses	-534	656
	20,213	**19,449**

[3] Other operating income

Amounts in PLN thousand (PLN '000)

	2016	2015
Reimbursement of litigation expenses	3	20
Damages received	19	357
Reversal of write-downs of receivables	4	
Other	5	6
	31	**383**

[4] Other operating expenses

Amounts in PLN thousand (PLN '000)

	2016	2015
Loss on disposal of property, plant and equipment	121	131
Write-downs of receivables	70	89
Donations	6	3
Litigation expenses	1	11
Expenses caused by Force Majeure events	17	19
Inventory shortages	70	171
Discontinuation of products	215	302
Write-down of inventories	1,078	34
Write-downs of property, plant and equipment	379	-
Other	4	3
	1,961	**763**

[5] Finance income

	2016	2015
Interest received	203	239
Dividends received	952	16,010
Gain on exchange rate differences	-	-
	1,155	**16,249**

[5a] Exchange rate differences recognized in profit or loss

Amounts in PLN thousand (PLN '000)

	2016	2015
Exchange rate differences recognized in finance income	-	-
Exchange rate differences recognized in finance expenses	90	58
	90	**58**

[5b] Exchange rate differences recognized in equity

None.

[6] Finance expenses

Amounts in PLN thousand (PLN '000)

	2016	2015
Interest	306	277
Loss on exchange rate differences	90	58
Write-off relating to investment in subsidiaries	248	755
Other finance expenses	140	60
	784	**1,150**

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

	2016	2015
Direct finance costs increasing the value of assets	2	75

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

[7] Income tax

Amounts in PLN thousand (PLN '000)

	2016	2015
Deferred income tax on:		
-deductible tax losses	-72	-377
-difference between book depreciation and tax depreciation	-929	-1,044
-movements of provisions and write-downs	477	281
-other	-348	-29
	-872	**-1,169**
Current income tax	-	-61
Tax amount recognized in equity	-	-
	-872	**-1,230**

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

	2016	2015
Profit before tax	-6,643	7,697
Ongoing operating expenses which are permanently non-deductible	2,751	2,163
Dividend received from a subsidiary	-952	-16,010
Other permanent differences	255	-321
	-4,589	**-6,472**
Tax rate	19%	19%
Income tax recognized in the income statement	**-872**	**-1,230**

[8] Basic and diluted earnings per share

When calculating the weighted average number of shares, treasury shares held by the parent company or a subsidiary thereof are deducted. To calculate diluted earnings per share, potential dilutive shares (if any) are taken into account.

	Unit	2016	2015
Annualized profit/(loss)	PLN thousand	-5,771	8,927
Weighted average number of shares	thousand shares	46,894	46,894
Earnings/(loss) per share from continued operations	PLN	-0.12	0.19
Weighted average diluted number of shares	thousand shares	46,894	46,894
Diluted earnings/(loss) per share from continued operations	PLN	-0.12	0.19

[9] Intangible assets

	Computer software	Other	Total
Net value as at 1 January 2015	**496**	**-**	**496**
Additions due to acquisition	6	-	6
Amortization for the period*	-82	-	-82
Net value as at 31 December 2015	**420**	**-**	**420**
Net value as at 1 January 2016	**420**	**-**	**420**
Amortization for the period*	-80	-	-80
Net value as at 31 December 2016	**340**	**-**	**340**
of which:			
at acquisition/manufacturing cost	340	-	340
at a revalued amount	-	-	-
As at 31 December 2015			
Gross value	2,376	9	2,385
Accumulated depreciation and impairment	1,956	9	1,965
Net value	**420**	**-**	**420**
As at 31 December 2016			
Gross value	2,376	-	2,385
Accumulated depreciation and impairment	2,036	-	2,045
Net value	**340**	**-**	**340**
Amount of pledges and mortgages used as collateral for loans	-	-	-
Contractual commitments 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] Property, plant and equipment

	Land and buildings	Plant and equipment	Fixed assets under construction and advances therefor	Other	Total
Net value as at 1 January 2015	**9,733**	**30,911**	**5,128**	**1,711**	**47,483**
Additions	-	5,458	1,614	567	7,639
Sale or withdrawal from use	-	-1,352	-	-405	-1,757
Change in accumulated depreciation due to sale or withdrawal from use	-	1,220	-	305	1,525
Depreciation for the period	-1,609	-5,432	-	-647	-7,688
Initial measurement	-	-	-6,025	-	-6,025
Other movements	-	-	-	-	-
Net value as at 31 December 2015	**8,124**	**30,805**	**717**	**1,531**	**41,177**
Net value as at 1 January 2016	**8,124**	**30,805**	**717**	**1,531**	**41,177**
Additions	95	2,460	4,369	1,246	8,170
Impairment loss charged to profit or loss		-146	-233	-	-379
Sale or withdrawal from use	-	-704	-	-279	-983
Change in accumulated depreciation due to sale or withdrawal from use	-	601	-	227	828
Depreciation for the period	-1,021	-6,059	-	-750	-7,830
Initial measurement			-3,801		-3,801
Other movements	17	-17	-	-	-
Net value as at 31 December 2016	**7,215**	**26,940**	**1,052**	**1,975**	**37,182**
of which:					
at acquisition/manufacturing cost	7,215	26,940	1,052	1,975	37,182
at a revalued amount	-	-	-	-	-
Gross value and accumulated depreciation					
As at 31 December 2015					
Gross value	23,948	111,064	728	4,729	140,469
Accumulated depreciation and impairment	15,824	80,259	11	3,198	99,292
Net value	**8,124**	**30,805**	**717**	**1,531**	**41,177**
As at 31 December 2016					
Gross value	24,060	112,802	1,296	5,696	143,854
Accumulated depreciation and impairment	16,845	85,862	244	3,721	106,672
Net value	**7,215**	**26,940**	**1,052**	**1,975**	**37,182**
Additional information					
Amount of pledges and mortgages used as collateral for loans	16,500	16,367	-	-	32,867
Contractual commitments to acquire fixed assets	-	5,849	-	-	-

[11] Income tax assets

Amounts in PLN thousand (PLN '000)

	31.12.2016	31.12.2015
Income tax assets arising from:		
- deductible tax losses	2,867	2,796
- created provisions and write-offs	3,761	4,250
	6,628	**7,046**

[12] Inventory

[12a] Inventory structure

Amounts in PLN thousand (PLN '000)

	31.12.2016	31.12.2015
Products and semi-products	35,261	38,481
Goods	5,141	8,312
Raw materials and other materials	13,648	14,200
Other	-	-
	54,050	**60,993**
Total amount of allowance on inventories	2,122	1,092
Value of inventories pledged as collateral for liabilities	7,000	14,500

[12b] Additional information

Amounts in PLN thousand (PLN '000)

	2016	2015
Cost of inventories sold	109,710	126,351
Inventories written off as expenses	1,207	34
Reversal of write-offs posted to income	-129	-
	110,788	**126,385**

[13] Trade receivables and other receivables

[13a] Receivables structure

Amounts in PLN thousand (PLN '000)

	31.12.2016	31.12.2015
Trade receivables	14,266	29,392
Other receivables	2,490	14,286
	16,756	**43,678**
Receivables due	7,011	7,991
Receivables with deferred payment	9,745	35,687
	16,756	**43,678**
Receivables in PLN	12,974	40,367
Receivables in EUR	2,405	1,777
Receivables in USD	1,376	1,534
	16,756	**43,678**
Write-down of receivables	6,511	6,244
Receivables used as collateral for loans	412	1,655

Trade receivables are non-interest bearing receivables which mature usually within 60 or 90 days. Most of receivables are insured. Receivables bought under non-recourse factoring are removed from the balance sheet when the cash is received.

[13b] Additional information – movement in the balance of write-downs of receivables

Amounts in PLN thousand (PLN '000)

	2016	2015
Opening balance	**6,244**	**5,789**
Write-downs posted to operating expenses	-	183
Reversal of write-downs posted to operating income	-4	-94
Write-downs used	-	-
Change in measurement due to foreign exchange differences	271	367
Closing balance	**6,511**	**6,244**

[13c] Age structure of receivables

Amounts in PLN thousand (PLN '000)

As at	Gross receivables	Write-downs of receivables	Net receivables	Receivables paid on time	Overdue receivables				
					up to 3 months	from 3 to 6 months	from 6 to 12 months	over 12 months	Total
31.12.2016	23,267	6,511	16,756	9,745	4,721	2,243	47	-	7,011
31.12.2015	49,922	6,244	43,678	35,687	6,135	1,856	-	-	7,991

[14] Cash

Cash consists only of cash in hand and at bank. The amount of restricted cash includes PLN 4 thousand allocated to the Company's social benefit fund and cash deposited on a brokerage account at BOŚ brokerage house.

[15] Equity components

[15a] Share capital

Share capital is composed of: the nominal price of all issued and subscribed 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 up.

[15b] Capital reserves

Capital reserves are created in accordance with the Code of Commercial Companies. Capital reserves consist of: the share premium 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 capital reserves was also affected by a share buyback carried out by the Company. The capital reserves accounted also for the effects of the incentive scheme measurement. Capital reserves are established e.g. to cover future losses.

[15c] Retained earnings

Retained earnings include profit or loss for the current period, gains or losses from previous years that have not been distributed by way of a resolution of general shareholders' meetings of the Company.

[15d] Revaluation reserve

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

[15e] Reserve capital

Reserve capital is created in accordance with a resolution of the general shareholders' meeting.

[15f] Treasury shares

This item may account for treasury shares of the Company, bought back in accordance with resolutions of the general shareholders' meeting, to be redeemed or for any other purpose. These shares are measured at acquisition cost which includes also any costs attributable directly 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 as at 31.12.2016	Debt as at 31.12.2015	Collateral	Notes
mBank SA	PLN	WIBOR 1M +0.65%	29.06.2017	3,720	4,040	Registered pledge on finished products, blank promissory note; assignment of rights under the insurance policy; pledge on fixed assets	Working capital loan
mBank SA	PLN	WIBOR O/N + 0.95%	27.02.2018	-	-	Global assignment of receivables, blank promissory note, pledge on two production lines	Overdraft facility, an unused but available funding limit of PLN 500 thousand
mBank SA	EUR	EURIBOR 1M +1.42%	04.03.2016	-	112	Blank promissory note, registered pledge on purchased plant and equipment	Investment loan. The loan was repaid in 2016
mBank SA	EUR	EURIBOR 1M +1.8%	25.01.2019	1,634	2,330	Blank promissory note, registered pledge on purchased plant and equipment	Investment loan
Bank Pekao SA	PLN	WIBOR 1M +1.0%	30.09.2018	-	3,376	Capped mortgage on real property belonging to the Company and on property belonging to its subsidiary, along with the assignment of rights under the insurance policy, representations of Ceramika Nowa Gala SA and Ceramika Nowa Gala II Sp. z o.o. of submission to enforcement, a power of attorney granted to the bank with respect to the bank account	Overdraft facility, an unused but available funding limit of PLN 9,000 thousand
Bank Handlowy w Warszawie SA	PLN	WIBOR 3M +0.9%	22.04.2016	-	-	Registered pledge on finished products and assignment of rights under the insurance policy	Working capital loan repaid in total in 2016
Closing balance				**5,354**	**9,858**		
of which:							
short-term loans				848	4,245		
long-term loans				4,506	5,613		

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

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

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

[17] Provision for deferred income tax

Amounts in PLN thousand (PLN '000)

	31.12.2016	31.12.2015
Provision for deferred income tax in respect of:		
- difference between book depreciation and tax depreciation	2,771	3,700
- interest and fees	4	355
- other	101	110
	2,876	**4,165**

[18] Trade and other payables

Amounts in PLN thousand (PLN '000)

	31.12.2016	31.12.2015
Trade liabilities	12,015	19,609
Other liabilities	4,612	4,072
	16,627	**23,681**
Liabilities due	2,808	8,018
Liabilities with deferred payment	13,819	15,663
	16,627	**23,681**
Liabilities in PLN	8,924	16,086
Liabilities in EUR	6,110	7,148
Liabilities in USD	1,593	447
	16,627	**23,681**

Liabilities 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 at 1 January 2016	**504**	**5,236**	**268**	**6,008**
Created	244	6,930	82	7,256
Utilized	-98	-7,562	-268	-7,928
Reversed	-	-	-	-
As at 31 December 2016	**650**	**4,604**	**82**	**5,336**

[20] Provisions for employee benefits

	Holiday pay	Annual bonuses	Total
As at 1 January 2016	**727**	**756**	**1,483**
Created	171	422	593
Utilized	-113	-956	-1,069
Reversed	-	-	-
As at 31 December 2016	**785**	**222**	**1,007**

[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		Liabilities payable to related parties	
	2016	2015	2016	2015	31.12.16	31.12.15	31.12.16	31.12.15
Subsidiaries	27,148	32,483	37,756	48,156	4,558	6,255	573	5,649
Associates	-	-	323	520	-	-	30	29
	27,148	**32,483**	**38,079**	**48,676**	**4,558**	**6,255**	**603**	**5,678**

Trade receivables and liabilities arising from transactions with related parties become due no later than 90 days of the date of the transaction. Other transactions with related parties or concluded 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	
	2016	2015	2016	2015	2016	2015	2016	2015
Acquisition of treasury shares from related parties without compensation (number of shares)	-	-	-	-	-	-	-	-
Taking up/purchase of shares in related parties and contributions*	-	-	4,185*	-	-	-	-	-
Revaluation write-down of shares in associates**			-32	-755	-	-	-	-
Dividends received***	-	-	952	16,010	-	-	-	-
Interest accrued with respect to related parties	-	-	205	208	-	-	-	-
Interest paid by related parties	-	-	2,047	360	-	-	-	-
Loans repaid by related parties			2,000	-	-	-	-	-
Loans granted to related parties	-	-	88	-	-	-	-	-
Revaluation write-down of loans granted to related parties	-	-	-224	-	-	-	-	-
Off-balance sheet items								
Sureties granted	-	-	-	21,000	-	-	-	-
Expiration of granted sureties	-	-	-967	-21,000	-	-	-	-

*Refers to contributions to Ceramika Nowa Gala II Sp. z o.o. subsidiary
**Refers to shares taken up in CNG Luxembourg S.à.r.l. subsidiary
***Dividends from subsidiary companies: Ceramika Nowa Gala II Sp. z o.o. and Ceramika Gres SA

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

[21c] Balance on other accounts with related parties

Amounts in PLN thousand (PLN '000)

	Subsidiaries		Associates		Members of the Management Board, Supervisory Board and the proxy	
	31.12.16	31.12.15	31.12.16	31.12.15	31.12.16	31.12.15
Shares in CNG held by related parties (number of shares)	-	-	-	-	11,170,396	11,170,396
Contributions to related parties	4,185	-	-	-	-	-
Loans granted to related parties	-	2,107	-	-	-	-
Accrued interest on loans granted	-	2,018	-	-	-	-
Receivables from dividend payment	-	12,870	-	-	-	-
Off-balance sheet items						
Performance bonds from related parties	3,056	4,160	-	-	-	-
Loan guarantees from related parties	21,000	21,000	-	-	-	-

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

No provisions for bad debts from related parties were 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	
	2016	2015	2016	2015	2016	2015	2016	2015
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	24,721	-	-	24,625	24,594	96	127
Contributions to the capital of Ceramika Nowa Gala II Sp. z o.o.	4,185	-	-	-	-	-	4,185	-
Loan granted to Ceramika Nowa Gala II Sp. z o.o.	-	2,000	-	1,857	-	-	-	3,857
Loan granted to CNG Luxembourg S.à.r.l.	199	107	25	9	224	-	-	116
Subsidiaries (total)	**102,443**	**100,166**	**647**	**2,488**	**24,849**	**24,594**	**78,241**	**78,060**
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

	Management Board and the proxy		Supervisory Board	
	2016	2015	2016	2015
Salaries and other current benefits (paid)	1,447	839	301	296
Future payments in shares	-	-	-	-
Movement in provisions	-606	606	-	-
Charge to profit for the period	**841**	**1,445**	**301**	**296**

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] Inventory

Amounts in PLN thousand (PLN '000)

	2016	2015
Balance sheet movement in inventories	6,943	-1,611
Other items	-1	1
Movement in inventories in the cash flow statement	**6,942**	**-1,610**

[23b] Trade receivables and other receivables

Amounts in PLN thousand (PLN '000)

	2016	2015
Balance sheet movement in trade receivables and other receivables	**26,922**	**-7,104**
Movement in the advance for fixed assets under construction	731	215
Movement in receivables from the investment property	-1,105	-679
Movement in receivables from dividend	-12,870	1,627
Movement in receivables in the cash flow statement	**13,678**	**-5,941**

[23c] Trade and other liabilities

Amounts in PLN thousand (PLN '000)

	2016	2015
Balance sheet movement in trade and other liabilities	**-7,054**	**852**
Tax offset	-	1,020
Offset with accounts due to received dividend	11,653	11,243
Movement in investment liabilities	-340	786
Movement in liabilities in the cash flow statement	**4,259**	**13,901**

[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. Only one operating segment was identified in the consolidated financial statements.

[25] Payment of dividend

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

[26] Declared dividend

As at the date of publication of these statements, no dividend to be paid in 2017 was declared. The Group's development strategy for 2014-2016 assumes that at least 30% of the consolidated net profit of the Group will be allocated annually for dividend, but no more, however, than PLN 0.1 per share.

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

On 17 June 2015, the Annual General Meeting of Shareholders of Ceramika Nowa Gala II Sp. z o.o. subsidiary resolved that the net profit of that company for 2014 in the amount of PLN 10,516,237.60 would be allocated for the payment of a dividend to the parent company, i.e. Ceramika Nowa Gala SA. The remaining part of the dividend (PLN 7,378,205.60) was offset with other accounts in February 2016.

[28] Payment of a dividend to Ceramika Nowa Gala SA by its subsidiary

On 22 June 2016, the Annual General Meeting of Shareholders of Ceramika Gres SA decided that part of the net profit of that company for 2015, in the amount of PLN 951,810.43, would be allocated for the payment of a dividend for the parent company, i.e. Ceramika Nowa Gala SA. The dividend was paid in September 2016.

[29] Significant events after the balance sheet date

[29a] Loan agreement with Bank Pekao SA concluded on 9 February 2017

In order to purchase 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.

[30] 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 based on, 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 constitutes the total amount of loan and borrowing liabilities, less the cash balance. As regards invested capital, this is the sum of the value of net fixed assets and 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)

	31.12.2016	31.12.2015
Non-current assets	122,512	126,708
Net current assets	59,810	72,128
Total capital invested	**182,322**	**198,836**
Total net debt arising from loans and borrowings	-10,955	7,255
Debt ratio	**-0.06**	**0.04**
	2016	**2015**
Profit/(loss) from operating activities	-7,014	-7,402
Amortization and depreciation	7,910	7,770
EBITDA	896	368
Interest	306	277
EBITDA-to-interest coverage ratio	**2.93**	**1.33**

In spite of dividend payment in 2016, the net debt was significantly reduced by controlling the level of the current assets (reduction in the level of inventories and disposal of part of receivables under a non-recourse factoring agreement) and owing to limited investment in non-current assets. As a result, the debt ratio was below zero – cash held exceeded the debt due to loans. A lower operating loss increased the interest coverage ratio relative to 2015, and allowed it to remain at a safe level.

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

[31] Information on agreements with a certified auditor

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

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

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

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

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

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

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

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

Risk factors and off-balance sheet liabilities

1. Risk factors related to the Company's business

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, in particular with respect to gas and electricity, in the case of which the Company is dependent on single suppliers with monopolistic positions. The Company attaches great importance to cost control and reduction at various stages of production. In 2016, the Company managed to take advantage of significant drops in the prices of gas on international markets. An annex to the agreement on gas supply concluded with the existing gas supplier, providing for a change in the margin rate (described in section 31 of the report on the Issuer's operations), enabled the Company to continue to obtain prices very similar to current stock exchange prices. The situation on global markets is not stable now, which means that the risk of increased prices of this raw material in the medium turn cannot be ruled out. The Company is able to secure the price of part of gas purchases with stock exchange prices and commodity futures contracts with delivery dates of up to one year.

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

In 2016, the Company recorded a decrease in sales compared to previous years. Furthermore, as previously announced, in order to improve the management of current assets the Company decreased the quantities of inventories kept in its warehouse. To this end, it was necessary to reduce production to adjust it to sales volumes which were possible to be generated and to the planned inventory levels. This enabled the Company to maintain a safe level of financial liquidity and a further reduction in the debt. As the production capacities of the companies of the Group had not been utilized for a few years, it was resolved to discontinue production in the plant of Ceramika Nowa Gala II subsidiary. Most of the production carried out in the closed plant of CNG II will be moved to the production plant of CNG SA. Thus the levels of amounts reducing profit in subsequent years will be significantly lower.

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

The Company uses high-quality raw materials to produce ceramic tiles. In order to obtain high quality ceramics it is necessary to use ingredients with a low level of impurities. For 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 Company to modify formulations used by it. The Issuer 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 a failure to match the product range with the tastes of buyers increases as the offer is extended with new designs. To reduce this risk the Company monitors prevailing market trends and adjusts its product portfolio to the tastes and requirements of customers.

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

2.1. Risk associated with the macroeconomic and political situation

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

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

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

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

2.2. Risk associated with competitors' activities

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

2.3. Risk of increased competition from manufacturers of finishes other than ceramic tiles

Ceramic tiles for wall and floor cladding are one of the most popular finishes. The Company competes to some extent with manufacturers of other materials such as natural stone, wood and – since recently – also glass. There is a risk that in the future new or existing finishes will become an attractive substitute for ceramic tiles. Such a situation could adversely affect the level of sales and the performance of the Company.

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

The Company sells part of its products on Eastern Europe and Eurasian markets. Regardless of the risks described in section 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 have not been defined clearly enough, giving rise to a risk related to their ambiguous interpretation.

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

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

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

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

3.1. Interest rate risk

At present, the assets and liabilities recognized in the financial statements are not subject to fluctuations due to changes in interest rates. However, due to the fact that the Company uses funding sources with variable interest rates, an increase (decrease) in base rates, or an increase (decrease) in margins used by financial institutions may result in an increase (decrease) in finance 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 (USD and EUR) on a significant scale. A change in exchange rates against PLN may result in profits lower than expected. Foreign exchange volatility affects the profit/(loss) by:

- changes in the value of export sales and production costs denominated in PLN, in the part relating to imported raw materials;
- changes in the competitiveness of the Company’s offer on export markets;
- changing costs of raw and other materials, as well as energy and services purchased in Poland, whose prices depend, either directly or indirectly, on currency exchange rates;
- realized foreign exchange differences arising between the date of sale or purchase and the date of payment of receivables or liabilities;

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

The risk of foreign exchange volatility is largely offset, as the Company carries out foreign transactions involving both export and import. Trade transactions in foreign currencies (import and export) are part of the normal course of business pursued by the Company. Therefore, future cash flows from such transactions are subject to the risk of change in their value resulting from foreign exchange volatility, and the available instruments hedging against the foreign exchange risk are limited due to uncertainty prevailing on 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 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.

3.4. Liquidity risk

The Company uses external funding which determines its liquidity. In order to ensure the availability of funding, the Company maintains the proportion of debt in funding at a safe level (see also the comment in Note [16] and in Note [30]).

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

Amounts in PLN thousand (PLN '000)

Class of liabilities	Total	up to 6 months in 2017	from 6 to 12 months in 2017	in 2018	Subsequent years
Trade and other payables	16,627	16,627	-	-	-
Payments under operating leases*	3,205	1,189	678	923	414
Loans eligible for refinancing**	9,500	-	-	9,500	-
Loans to be repaid	5,353	473	4,033	786	62
Total	**34,685**	**18,289**	**4,711**	**11,209**	**476**

*Concerns the most significant lease agreements involving office space and warehouse space, as well as car and forklift rental agreements.
**Amounts resulting from the maximum debt limits granted, regardless of the debt amount as at the end of 2016.

In the case of significant agreements classified as operating leases that cannot be terminated or have a defined minimum contractual period of notice, the total amounts that the Company would have to pay for the period till the expiry of the agreements is PLN 1,747 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	544	2,405	foreign exchange	+/-20%	+/-481
Foreign currency denominated receivables	USD	329	1,376	foreign exchange	+/-20%	+/-275
Foreign currency cash	EUR	180	796	foreign exchange	+/-20%	+/-159
Foreign currency cash	USD	83	348	foreign exchange	+/-20%	+/-70
Foreign currency denominated liabilities	EUR	1,381	6,110	foreign exchange	+/-20%	+/-1,222
Foreign currency denominated liabilities	USD	381	1,593	foreign exchange	+/-20%	+/-319
Loans contracted in foreign currencies	EUR	369	1,633	foreign exchange	+/-20%	+/-327
Variable interest rate loans	EUR	369	1,633	interest rate	+/-3.00%	+/-49
Variable interest rate loans	PLN	3,721	3,721	interest rate	+/-3.00%	+/-112

4. Off-balance sheet liabilities

4.1. Contract for the purchase of plant and equipment

Due to the planned modernization of the production plant of Ceramika Nowa Gala SA, contracts with Italian suppliers have been signed. The future obligation to purchase plant and equipment under these contracts amounts to PLN 5,849 thousand (see also Note [10]).

4.2. Non-recourse factoring liabilities

As at the balance sheet date, contingent (off-balance sheet) liabilities under a non-recourse factoring agreement (for more details see section 5.1 of the consolidated report on the operations) signed by the Company amounted to PLN 11,281 thousand.

5. Sureties and guarantees

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

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

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

Information required from energy companies pursuant to Article 44 of the Energy Law.

On 9 June 2016, by way of a decision of the President of the Energy Regulatory Office, Ceramika Nowa Gala SA was granted a licence to trade in electricity valid for the period from 13 June 2016 to 13 June 2026. The business covered by the licence was actually launched in December 2016 and involves trading in (purchasing and selling) electricity on the Polish Power Exchange. The table below includes financial data concerning trading in energy, required under the Energy Law. Due to an insignificant value of transactions carried out in 2016 the data is given in PLN.

Profit and loss account with respect to electricity trading

for the period from 13 June 2016 to 31 December 2016

Amounts in PLN

	2016
Revenues	**104**
Cost of sales	104
Gross profit	**-**
Other income	-
Selling and administrative expenses	12,623
Other expenses	-
Profit before interest and tax	**-12,623**
Finance income	-
Finance expenses	-
Profit/(loss) before tax	**-12,623**
Income tax expense	-
Net profit/(loss)	**-12,623**

Structure of selling and administrative expenses by type

Amounts in PLN

	2016
Fees and banking services	1,100
Other financial services	3
Experts' opinions and technical advisory	2,500
Salaries with overheads allocated to the energy business	3,900
Training of employees	5,000
Legal and judicial fees	120
	12,623

Due to a low proportion of the energy business in the Company's overall business, it is not carried out based on balance sheet items dedicated specially to this business. As a result, no separate balance sheet for the energy business can be presented. Cash in the investment account at the brokerage house through which the Company purchases and sells energy on the Polish Power Exchange is the only asset which can be clearly attributed to this business as at 31 December 2016. This cash amounts as at the balance sheet date to PLN 8,716.

The data presented above is subject to audit by a chartered auditor pursuant to Article 44(3a) of the Energy Law. The data for 2016 was audited by BDO Sp. z o.o.