Separate annual financial statements of

Ceramika Nowa Gala SA

for the period from 1 January 2017 to 31 December 2017

Końskie, 26 March 2018

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 Code of Commercial Partnerships and Companies, 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 14 July 2017, the Extraordinary General Meeting of the Issuer's Shareholders, appointed Mr. Marek Gabryjelski member of the Supervisory Board due to Mr. Jacek Tomasik's resignation from the function of member of the Supervisory Board, announced on 2 June 2017. As at the balance sheet date, the Issuer's Supervisory Board was composed as follows:

- 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. Marek Gabryjelski – Member of the Supervisory Board.

The above composition did not change until the date of this Report.

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

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

The Issuer's Management Board is composed as follows:

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

The composition of the Management Board is the same as in 2016.

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). Part of products sold by the Company is produced by its subsidiaries. In previous years, these were products of Ceramika Nowa Gala II or Ceramika Gres, but in Q1 2017, production in the plant of Ceramika Nowa Gala II was discontinued. In 2018, it is planned to merge Ceramika Nowa Gala SA and Ceramika Nowa Gala II sp. z o.o. in accordance with Article 492(1)(1) and Article 516(6) read together with Article 516(5) of the Code of Commercial Partnerships and Companies, by transferring all assets of Ceramika Nowa Gala II sp. z o.o. (target company) to Ceramika Nowa Gala SA (surviving company – combination by acquisition), with no increase in the share capital of the surviving company.

The most important production steps are as follows: milling of raw materials, production of ceramic powder, ceramic tile pressing, glazing (in the case of some products) and firing. The production process is continuous and automated. Part of the tiles is also polished. Supplementary decorative elements are also manufactured and sold within one joint offer.

Products are sold primarily via a network of wholesalers cooperating with the companies, 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 **26 March 2018** and will be published on 26 March 2018.

Management Board

Chief Accountant

Separate statement of profit and loss and other comprehensive income

for the period from 1 January 2017 to 31 December 2017

Amounts in PLN thousand (PLN '000).

	Note	2017	2016
Revenue	[1]	**116,846**	**133,849**
Cost of sales	[1] [2]	99,506	114,521
Gross profit		**17,340**	**19,328**
Other income	[3]	18	31
Selling and administrative expenses	[2]	23,898	24,412
Other expenses	[4]	808	1,961
Profit before interest and tax		**-7,348**	**-7,014**
Finance income	[5]	1,878	1,155
Finance expenses	[6]	899	784
Profit from continued operations before tax		**-6,369**	**-6,643**
Income tax expense	[7]	198	-872
Profit from continued operations after tax		**-6,567**	**-5,771**
Profit from discontinued operations after tax		-	-
Profit for the year		**-6,567**	**-5,771**
Other comprehensive income - none			
Total comprehensive income		**-6,567**	**-5,771**
Net profit attributable to			
shareholders of the parent company		-6,567	-5,771
non-controlling interests		-	-
		-6,567	**-5,771**
Total comprehensive income attributable to			
shareholders of the parent company		-6,567	-5,771
non-controlling interests		-	-
		-6,567	**-5,771**

	Unit	Note	2017	2016
Annualized profit/(loss)	PLN thousand		-6,567	-5,771
Weighted average number of shares	thousand shares		46,894	46,894
Basic earnings/(loss) per share from continued operations	PLN	[8]	-0.14	-0.12
Weighted average diluted number of shares	thousand shares		46,894	46,894
Diluted earnings/(loss) per share from continued operations	PLN	[8]	-0.14	-0.12

Separate statement of financial position
as at 31 December 2017

Amounts in PLN thousand (PLN '000).

Assets	Note	31.12.2017	31.12.2016
Non-current assets			
Intangible assets	[9]	262	340
Property, plant and equipment	[10]	41,792	37,182
Investments in subsidiaries	[21] [21d]	78,212	78,241
Other financial assets	[21d]	121	121
Deferred tax assets	[11]	5,228	6,628
Total non-current assets		**125,615**	**122,512**
Current assets			
Inventory	[12]	56,733	54,050
Trade and other receivables	[13]	16,059	16,756
Receivables from current income tax		-	-
Other financial assets		-	-
Cash and cash equivalents	[14]	6,029	16,309
Other current assets		175	171
Total current assets		**78,996**	**87,286**
Fixed assets classified as held for sale in accordance with IFRS 5		-	-
Total assets		**204,611**	**209,798**

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Separate statement of financial position (contd.)

Amounts in PLN thousand (PLN '000).

Equity and liabilities	Note	31.12.2017	31.12.2016
Equity			
Share capital	[15a]	46,894	46,894
Capital reserves	[15b]	127,015	137,475
Revaluation reserve	[15d]	-	-
Reserve capital	[15e]	-	-
Treasury shares	[15f]	-	-
Retained earnings	[15c]	-6,567	-5,771
Total equity		**167,342**	**178,598**
Non-current liabilities			
Borrowings	[16]	7,165	848
Provision for deferred income tax	[17]	1,674	2,876
Provision for employee benefits		-	-
Other provisions		-	-
Total non-current liabilities		**8,839**	**3,724**
Current liabilities			
Trade and other payables	[18]	19,285	16,627
Current tax liability		-	-
Borrowings	[16]	2,492	4,506
Provision for employee benefits	[20]	1,212	1,007
Other provisions	[19]	5,441	5,336
Total current liabilities		**28,430**	**27,476**
Liabilities associated with assets classified as held for sale in accordance with IFRS 5		-	-
Total liabilities		**37,269**	**31,200**
Total equity and liabilities		**204,611**	**209,798**
Book value (in PLN thousand)		167,342	178,598
Number of shares (in thousand shares)		46,894	46,894
Book value per share (in PLN)		3.57	3.81
Diluted number of shares (in thousand shares)*		46,894	46,894
Diluted book value per share (in PLN)		3.57	3.81

Separate cash flow statement

for the period from 1 January 2017 to 31 December 2017

Amounts in PLN thousand (PLN '000).

	Note	2017	2016
Operating activities			
Net profit/(loss)		**-6,567**	**-5,771**
Amortization and depreciation		8,405	7,910
Dividend income		-1,878	-952
Interest revenue and expenses		199	72
Exchange rate gains/(losses)		-138	55
Gain/(loss) on disposal of intangible and tangible non-current assets		102	152
Movement in provisions, write-downs, prepayments and accruals		308	-1,166
Income tax expense		198	-872
Other adjustments*		-5	621
Cash flow from operations before movements in working capital		**624**	**49**
Movement in inventory	[12] [23a]	-2,683	6,942
Movement in receivables	[23b]	658	13,678
Movement in liabilities	[23c]	3,228	4,259
Cash flow from operations before tax		**1,827**	**24,928**
Interest received from operating activities		-	1
Interest paid on operating activities		-1	-3
Income tax paid		-	-
Net cash flows from operating activities		**1,826**	**24,926**
Investing activities			
Proceeds from disposal of tangible and intangible non-current assets		76	24
Received loan repayments		-	2,000
Interest received on investing activities		-	2,047
Dividends received		1,878	2,169
Purchase of tangible and intangible non-current assets		-13,427	-3,662
Loans granted and additional equity contributions		-104	-4,273
Net cash from investing activities		**-11,577**	**-1,695**

*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

(continued on the next page)

Separate cash flow statement (contd.)

Amounts in PLN thousand (PLN '000).

	Note	2017	2016
Financing activities			
Proceeds from borrowings	[23d]	5,605	-
Dividends to shareholders		-4,689	-4,689
Repayment of borrowings	[23d]	-1,195	-4,567
Interest paid pertaining to financing activities		-198	-275
Net cash from financing activities		**-477**	**-9,531**
Net cash from financing activities		**-10,228**	**13,700**
Cash and cash equivalents at the beginning of the period		16,309	2,603
Exchange rate differences		-52	6
Cash and cash equivalents at the end of the period		**6,029**	**16,309**
Structure of cash and cash equivalents:	[14]		
Unrestricted cash		5,992	16,305
Restricted cash		37	4
		6,029	**16,309**

Separate statement of changes in equity

for the period from 1 January 2017 to 31 December 2017

Amounts in PLN thousand (PLN '000).

	Share capital	Capital reserves	Reserve capital	Revaluation reserve	Treasury shares	Retained earnings	Total equity
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
As at 31 December 2016	**46,894**	**137,475**	**-**	**-**	**-**	**-5,771**	**178,598**
As at 1 January 2017	**46,894**	**137,475**	**-**	**-**	**-**	**-5,771**	**178,598**
Total comprehensive income*	-	-	-	-	-	-6,567	-6,567
Coverage of loss from previous years	-	-5,771	-	-	-	5,771	-
Distribution of profit from previous years	-	-	-	-	-	-	-
Payment of dividend	-	-4,689	-	-	-	-	-4,689
As at 31 December 2017	**46,894**	**127,015**	**-**	**-**	**-**	**-6,567**	**167,342**

*In 2017, the amounts of comprehensive income were allocated to the following equity items: net loss in the amount of PLN 6,567 thousand decreased the amount of the current portion of retained earnings. 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.

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: 4.1709 PLN/EUR as at 31 December 2017 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: 4,2447 PLN/EUR in 2017; 4.3757 PLN/EUR in 2016.

The average exchange rates of the NBP for USD, used for translating the monetary items, were as follows: 3.4813 PLN/USD as at 31 December 2016 and 4.1793 PLN/USD as at 31 December 2016.

Separate data	in PLN thousand		in EUR thousand	
	2017	2016	2017	2016
Net sales	116,846	133,849	27,528	30,589
Profit/(loss) from operating activities	-7,348	-7,014	-1,731	-1,603
Profit/(loss) before tax	-6,369	-6,643	-1,500	-1,518
Net profit/(loss)	-6,567	-5,771	-1,547	-1,319
Net cash flows from operating activities	1,826	24,926	430	5,696
Net cash flows from investing activities	-11,577	-1,695	-2,727	-387
Net cash flows from financing activities	-477	-9,531	-112	-2,178
Net cash flows (total)*	-10,280	13,706	-2,422	3,132
Total assets	204,611	209,798	49,057	47,423
Liabilities and provisions for liabilities	37,269	31,200	8,935	7,052
Non-current liabilities	8,839	3,724	2,119	842
Current liabilities	28,430	27,476	6,816	6,211
Equity	167,342	178,598	40,121	40,370
Share capital	46,894	46,894	11,243	10,600
Number of shares	46,893,621	46,893,621	-	-
Profit/(loss) per share (in PLN/EUR)	-0.14	-0.12	-0.03	-0.03
Diluted profit/(loss) per share (in PLN/EUR)	-0.14	-0.12	-0.03	-0.03
Book value per share (in PLN/EUR)	3.57	3.81	0.86	0.86
Diluted book value per share (in PLN/EUR)	3.57	3.81	0.86	0.86
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 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 should recognize revenue once it has satisfied a performance obligation, i.e. when the customer obtains control over the goods or services covered by this commitment. IFRS 15 includes 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.

The overwhelming majority of the Group's revenue comes, according to the new standard, from contracts for supplies of ceramic tiles or decorative elements. The key and only obligation to be satisfied under such a contract involves the delivery of sold products. In some cases the companies of the Group charge their customers with the cost of arranging the transport of products, but in this case this service cannot be separated from the delivery of tiles, and is rendered along with the delivery. The sale of products takes place at a specific moment – at the time of their delivery and acceptance by the customer (following which the product is under the customer's control), hence it is not revenue to be settled over time. The sales value is clearly specified in the invoice and may be recognized in the accounting records of the companies of the Group once the products have been delivered. Customers that buy contractually agreed quantities of products over a specific period (a quarter or a year) can often count on an extra discount. As at each balance sheet date, the Group estimates in a detailed manner the level of discounts due to customers, and thus calculated amounts decrease the sales result for a given period. Guarantees granted by the Group are compliant with applicable laws and do not entail any additional liabilities. Their costs, if any, are disclosed in accordance with the regulations contained in IAS 37. Therefore the application of the standard will have no effect on the amount of disclosed revenue, but it will, however, result in an increase in the level of detail as regards disclosures related to the sales structure. The final arrangements concerning detailed requirements provided for in the standard will be refined at its first application.

Refinement of the provisions contained in IFRS 15: Revenue from Contracts with Customers

Amendments to the standard were to clarify doubts arising in the course of pre-introductory analyses as regards: identifying the performance obligation, guidelines relating to the application of the standard as regards identification of the customer or agent, revenue from licenses regarding intellectual property and the transitional period when applying the new standard for the first time.

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

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. Such intangible assets will be amortized and the associated costs will decrease the operating profit. Lease liabilities will be, as financial liabilities, measured at amortized cost. Such measurement will entail finance costs in the statement of comprehensive income. The lessee will report such agreements virtually in the same way as it 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 been approved 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 for 2018 as a result of applying the new standard: a decrease in the cost of third-party services by PLN 2.1 million (estimated amounts based on 2017 data), an increase in depreciation costs by PLN 1.6 million (estimated amounts based on 2017 data) and an increase in financial costs by PLN 0.1 million (estimated amounts based on 2017 data). In the case of the statement of financial position the application of the standard will result in an increase in the asset value (intangible assets) – at the end of 2017, this increase was estimated at PLN 3.4 million which will increase debt due to concluded agreements. Ultimate values of the changes will be determined at the time of the first application 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 have been 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 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, in particular, by changing the identified groups of financial assets and the amounts of recognized impairment losses on financial assets (mainly trade receivables). Based on data from the end of 2017 (taking into account the structure of overdue receivables by country) an additional write-down of receivables is estimated at PLN 87 thousand. Ultimate values of the changes will be determined at the time of the first application of the standard.

Amendment to IFRS 9: Prepayment Features with Negative Compensation

The standard has been amended to specify the measurement rules concerning financial assets which can be repaid at an earlier date in accordance with contractual terms, and formally could not meet the requirements of the 'solely payments of principal and interest on the principal amount' criterion, which would exclude their measurement at amortized cost or fair value through other comprehensive income.

The standard will be applicable to annual periods beginning on 1 January 2019 or after that date. The standard has been approved to be used in the European Union Member States.

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

IFRS 14 "Deferred Balance of Regulated Activity"

The standard allows the first-time adopter of the International Financial Reporting Standards to continue to use the previously adopted accounting principles relating to 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 IFRS and subsequent financial statements. Specific disclosures are also required.

The standard has been approved by the IASB to be applied to annual periods beginning on 1 January 2016 or after that 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 consolidated financial statements of the Company.

IFRS 17: Insurance Contracts

The standard supersedes the existing regulations concerning insurance contracts (IFRS 4).

The standard will be applicable to annual periods beginning on 1 January 2021 or after that date. The standard has been approved to be used 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 the entity to recognize share-based transactions settled in cash, share-based payments (including withholding tax liabilities) and reclassify a transaction settled in cash into 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 been approved 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 been approved 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 that a transfer of real property from or to investment property may be effected when, and only when, there has been a change in the manner in which this real property is used.

The amendments have been approved to be applied to annual periods beginning on 1 January 2018 or after that date. The amendments have been approved 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 transaction date for the purpose of determining the exchange rate in the case of advance consideration received in a foreign currency.

In this situation received advance consideration is measured before the recognition of assets, costs or revenue 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 interpretation has not been approved yet to be used in the European Union Member States.

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

IFRIC 23: Uncertainty over Income Tax Treatments

The interpretation specifies how to recognize income tax in financial statements in cases where existing tax provisions may leave room for interpretation and the divergent opinions between the taxpayer and tax authorities.

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

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

Amendment to IAS 28: Investments in Associates and Joint Ventures

The amendment specifies the measurement rules applicable to shares in associates and joint ventures where such shares are not measured in accordance with the equity method.

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

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

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments concern re-measurement of defined benefit plans where these are modified. The amendments to the standard introduce a requirement to apply updated assumptions to determine the current payroll cost and the interest cost for periods after a plan amendment when an entity remeasures its net defined benefit liability (asset).

The amendments have been approved to be applied to annual periods beginning on 1 January 2019 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 (2015-2017 cycle)

As a result of the review of IFRSs, the following standards have been amended:

IFRS 3 Business Combinations, to clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business;

IFRS 11 Joint Arrangements, to clarify that when an entity obtains joint control of a business that is joint operation, it does not remeasure previously held interests in that business;

IAS 12 Income Taxes, specifying that any tax consequences of dividend payment must be recognized in the same manner;

IAS 23 Borrowing Costs, introducing a requirement that when an asset is ready for its intended use or sale, an entity must treat any borrowings made specifically to obtain that asset as part of the funds that it has borrowed generally.

The amendments have been approved to be applied to annual periods beginning on 1 January 2019 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.

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 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 Group is composed of the following business entities whose financial statements are consolidated on a line-by-line basis:

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

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

CNG Luxembourg S.à.r.l. has been established to manage the portfolio of treasury shares of the parent company, purchased in the framework of share buyback programs. Currently, this company does not conduct any other activity, and all treasury shares held by this entity have been transferred to Ceramika Nowa Gala SA and redeemed.

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

Furthermore, Ceramika Nowa Gala SA has a significant impact on its two associated companies: Energo-Gaz Sp. z o.o. based in Końskie (50% share) and Ceramika Nova Sp. z o.o. based in Końskie (50% share). Shares in the aforementioned associated companies were recognized in the consolidated financial statements at cost less a possible write-down for impairment. The carrying amount of the shares in Energo-Gaz Sp. z o.o. is PLN 31 thousand, and the share of Ceramika Nowa Gala SA in its equity amounted, as at 31 December 2017, to PLN 405 thousand. Financial data of this company for 2017, determined in accordance with Polish accounting standards, is as follows: assets: PLN 918 thousand, provisions and liabilities: PLN 109 thousand, revenue: PLN 1,941 thousand, net profit for 2017: PLN 91 thousand. Transactions concluded with this company are 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

Property, plant and equipment: 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 in perpetual usufruct is classified as a non-current asset, measured at cost and 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 1 to 25 years;
- plant and equipment from 2 to 40 years;
- other non-current assets from 2 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 2 to 14 years.

Impairment of property, plant and equipment 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

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

Inventory of raw materials intended for production is measured as at the balance sheet date at acquisition cost, unless it cannot be used in production or its 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 inventory of raw materials and production materials.

Inventory of technical materials (parts, consumables) is 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 inventory 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 inventory is higher than the anticipated selling price, the entity makes write-offs which are recognized in other operating expenses. The selling price 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 may enter into non-recourse factoring agreements. It must follow from their content, in economic terms, that they result in the transfer of liquidity risk with respect to a given part of invoiced amounts to be discounted to the factor, and that 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), less any impairment write-downs.

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 measurement purposes, financial assets of the Company 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 value of received cash or the fair value of assets acquired in exchange for a given instrument, less the costs of obtaining a loan or issuing a 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, if applicable.

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

Revenue

Revenue is 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 revenue can be reliably measured.

Revenue from the sale of goods, products, semi-finished products, materials and services is recognized when the significant risks and rewards of ownership of the goods and *products have passed to the buyer and the amount of revenue 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. Subsidies 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 of provisions for deferred income tax or deferred income tax assets. Current tax liabilities are 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 Company 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 entity's equity capital or affect capital through other comprehensive income.

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.

The Company's estimates concern mainly established provisions, write-downs of assets, including trade receivables, tangible fixed assets and deferred income tax assets, as well as measurement of inventory and applied depreciation rates. As regards write-downs of deferred income tax assets, estimates concerning the recovery of tax losses recorded in previous years are of particular importance. Estimates are used also to assess 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 payment is minimal, it is possible to remove receivables covered by such factoring from the balance sheet, and any liabilities due to the factoring company may be presented as contingent (off-balance sheet) liabilities. 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 revenue and expenses

Amounts in PLN thousand (PLN '000).

	Revenue		Costs		Sales result before tax	
	2017	2016	2017	2016	2017	2016
Products and semi-products	103,657	116,411	86,227	97,681	17,430	18,730
Goods	4,710	8,652	5,472	8,598	-762	54
Raw materials and other materials	3,078	3,279	3,175	3,431	-97	-152
Other sales (services)	5,401	5,507	4,632	4,811	769	696
	116,846	**133,849**	**99,506**	**114,521**	**17,340**	**19,328**

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

[2] Operating expenses

[2a] Costs by type

Amounts in PLN thousand (PLN '000).

	2017	2016
Raw materials and other materials	42,241	36,710
Gas and electricity	16,524	14,051
Purchased goods and semi-products*	16,508	32,896
Amortization and depreciation	8,405	7,910
Payroll with fringe benefits	22,020	20,213
Third-party services**	13,986	13,281
Representation and advertising	2,736	2,818
Taxes and fees	927	882
Other	1,088	1,149
	124,435	**129,910**
of which:		
Cost of manufacture (and purchase) of products and goods sold***	96,331	111,090
Selling and administrative expenses	23,898	24,412
Movement in inventory of products, semi-products, goods, accruals and prepayments	4,206	-5,592
Cost of products used for the Company's purposes	-	-
	124,435	**129,910**

*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 3,204 thousand in 2017 and PLN 3,094 thousand in 2016.
***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).

	2017	2016
Current salaries	17,523	16,843
Social security contributions paid by the employer and other employee benefits	4,293	3,846
	21,816	**20,689**
Movement in the provision for holiday pay (Note [20])	176	58
Movement in the provision for bonuses	28	-534
	22,020	**20,213**

[3] Other operating income

Amounts in PLN thousand (PLN '000).

	2017	2016
Reimbursement of litigation expenses	1	3
Damages received	7	19
Reversal of write-downs of receivables	-	4
Other	10	5
	18	**31**

[4] Other operating expenses

Amounts in PLN thousand (PLN '000).

	2017	2016
Loss on disposal of property, plant and equipment	72	121
Write-downs of receivables	168	70
Donations	-	6
Litigation expenses	-	1
Expenses caused by Force Majeure events	-	17
Inventory shortages	29	70
Discontinuation of products	235	215
Write-down of inventory	291	1,078
Write-downs of property, plant and equipment	-	379
Other	13	4
	808	**1,961**

[5] Financial income

Amounts in PLN thousand (PLN '000).

	2017	2016
Interest received	-	203
Dividends received	1,878	952
	1,878	**1,155**

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

Amounts in PLN thousand (PLN '000).

	2017	2016
Exchange rate differences recognized in financial income	-	-
Exchange rate differences recognized in financial expenses	281	90
	281	**90**

[5b] Exchange rate differences recognized in equity

None.

[6] Financial expenses

Amounts in PLN thousand (PLN '000).

	2017	2016
Interest	491	306
Loss on exchange rate differences	281	90
Write-off relating to investment in subsidiaries	29	248
Other financial expenses	98	140
	899	**784**

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

Amounts in PLN thousand (PLN '000).

	2017	2016
Direct finance costs increasing the value of assets	86	2

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

[7] Income tax

Amounts in PLN thousand (PLN '000).

	2017	2016
Deferred income tax on:		
-deductible tax losses	1,319	-72
-difference between book depreciation and tax depreciation	-1,195	-929
-movements in provisions and write-downs	82	477
-other	-8	-348
	198	**-872**
Current income tax	-	-
Tax amount recognized in equity	-	-
	198	**-872**

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

Amounts in PLN thousand (PLN '000).

	2017	2016
Profit before tax	-6,369	-6,643
Ongoing operating expenses which are permanently non-deductible	2,195	2,751
Dividend received from a subsidiary	-1,878	-952
Lost tax losses from previous years	6,939	-
Other permanent differences	156	255
	1,042	**-4,589**
Tax rate	19%	19%
Income tax recognized in the income statement	**198**	**-872**

[8] Basic and diluted earnings per share

Earnings per share are calculated by dividing income by the weighted average number of shares in the last 12 months. 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	2017	2016
Annualized profit/(loss)	PLN thousand	-6,567	-5,771
Weighted average number of shares	thousand shares	46,894	46,894
Earnings/(loss) per share from continued operations	PLN	-0.14	-0.12
Weighted average diluted number of shares	thousand shares	46,894	46,894
Diluted earnings/(loss) per share from continued operations	PLN	-0.14	-0.12

[9] Intangible assets

Amounts in PLN thousand (PLN '000).

	Computer software	Other	Total
Net value as at 1 January 2016	**420**	**-**	**420**
Amortization for the period*	340	-	340
Net value as at 31 December 2016	**340**	**-**	**340**
Net value as at 1 January 2017	**340**	**-**	**340**
Sale or withdrawal from use		-9	-9
Change in accumulated depreciation due to sale or withdrawal from use		9	9
Amortization for the period*	-78	-	-78
Net value as at 31 December 2017	**262**	**-**	**262**
<u>of which:</u>			
at acquisition/manufacturing cost	262	-	262
at a revalued amount	-	-	-
As at 31 December 2016			
Gross value	2,376	-	2,385
Accumulated depreciation and impairment	2,036	-	2,045
Net value	**340**	**-**	**340**
As at 31 December 2017			
Gross value	2,376	-	2,376
Accumulated depreciation and impairment	2,114	-	2,114
Net value	**262**	**-**	**262**

	Computer software	Other	Total
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 the statement of comprehensive income in "Administrative and selling expenses".

[10] Property, plant and equipment

Amounts in PLN thousand (PLN '000).

	Land and buildings	Plant and equipment	Fixed assets under construction and advances therefor	Other	Total
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**
Net value as at 1 January 2017	**7,215**	**26,940**	**1,052**	**1,975**	**37,182**
Additions	233	12,543	13,202	1,209	27,187
Impairment loss charged to profit or loss	-	117	-	-	117
Sale or withdrawal from use	-25	-3,989	-	-1,634	-5,648
Change in accumulated depreciation due to sale or withdrawal from use	20	3,733	-	1,513	5,266
Depreciation for the period	-1,034	-6,563	-	-730	-8,327
Initial measurement			-13,985		-13,985
Other movements	-	-	-	-	-
Net value as at 31 December 2017	**6,409**	**32,781**	**269**	**2,333**	**41,792**
of which:					
at acquisition/manufacturing cost	6,409	32,781	269	2,333	41,792
at a revalued amount	-	-	-	-	-
Gross value and accumulated depreciation					
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**
As at 31 December 2017					
Gross value	24,268	121,356	513	5,271	151,408
Accumulated depreciation and impairment	17,859	88,575	244	2,938	109,616
Net value	**6,409**	**32,781**	**269**	**2,333**	**41,792**
Additional information					
Amount of pledges and mortgages used as collateral for loans	16,500	20,327	-	-	36,827
Contractual commitments to acquire fixed assets	-	-	-	-	-

[11] Income tax assets

Amounts in PLN thousand (PLN '000).

	31.12.2017	31.12.2016
Income tax assets arising from:		
- deductible tax losses	1,548	2,867
- created provisions and write-offs	3,680	3,761
	5,228	**6,628**

[12] Inventory

[12a] Inventory structure

Amounts in PLN thousand (PLN '000).

	31.12.2017	31.12.2016
Products and semi-products	42,894	35,261
Goods	1,323	5,141
Raw materials and other materials	12,516	13,649
	56,733	**54,050**
Total amount of allowance on inventory	2,413	2,122
Value of inventory pledged as collateral for liabilities	7,000	7,000

[12b] Additional information

Amounts in PLN thousand (PLN '000).

	2017	2016
Cost of inventory sold	94,874	109,710
Inventory written off as expenses	342	1,207
Reversal of write-offs posted to income	-51	-129
	95,165	**110,788**

[13] Trade receivables and other receivables

[13a] Receivables structure

Amounts in PLN thousand (PLN '000).

	31.12.2017	31.12.2016
Trade receivables	13,439	14,266
Other receivables	2,620	2,490
	16,059	**16,756**
Receivables due	5,027	7,011
Receivables with deferred payment	11,032	9,745
	16,059	**16,756**
Receivables in PLN	12,253	12,974
Receivables in EUR	2,600	2,405
Receivables in USD	1,207	1,376
	16,059	**16,756**
Write-down of receivables	5,896	6,511
Receivables used as collateral for loans	471	412

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).

	2017	2016
Opening balance	**6,511**	**6,244**
Write-downs posted to operating expenses	53	-
Reversal of write-downs posted to operating income	-14	-4
Write-downs used	-	-
Change in measurement due to foreign exchange differences	-655	271
Closing balance	**5,896**	**6,511**

[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	3-6 months	6-12 months	over 12 months	total
31.12.2017	21,955	5,896	16,059	11,032	2,070	619	574	1,763	5,027
31.12.2016	23,267	6,511	16,756	9,745	4,721	2,243	47	-	7,011

[14] Cash

Cash consists only of cash in hand and at bank.

Restricted cash includes PLN 30 thousand belonging to the Company's social benefit fund and PLN 7 thousand deposited on accounts operated by BOŚ Brokerage House in connection with trading in electricity on the Polish Power Exchange.

[15] Equity components

[15a] Share capital

The value of the share capital is made up by 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 Partnerships and 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 31.12.2017	Debt 31.12.2016	Collaterals	Notes
mBank SA	PLN	WIBOR 1M +1.3%	28.06.2019	3,340	3,720	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 +1.8%	25.01.2019	799	1,634	Blank promissory note, registered pledge on purchased plant and equipment	Investment loan
mBank SA	EUR	EURIBOR 1M +1.8%	28.02.2022	2,836	-	Blank promissory note, registered pledge on purchased plant and equipment	Investment loan
Bank Pekao SA	PLN	WIBOR 1M +1.0%	30.09.2018	-	-	Capped mortgage on real property belonging to the Company and on real 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 Pekao SA	EUR	EURIBOR 1M +1.6%	31.12.2021	2,682	-	Blank promissory note, registered pledge on purchased plant and equipment	Investment loan
Closing balance				**9,657**	**5,354**		
of which:							
short-term loans				7,165	848		
long-term loans				2,492	4,506		

*Change after the balance sheet date of the margin and/or the repayment date (for more information see section [29]).

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

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

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).

	31.12.2017	31.12.2016
Provision for deferred income tax in respect of:		
- difference between book depreciation and tax depreciation	1,576	2,771
- interest and fees	-4	4
- other	102	101
	1,674	**2,876**

[18] Trade and other payables

Amounts in PLN thousand (PLN '000).

	31.12.2017	31.12.2016
Trade liabilities	14,382	12,015
Other liabilities	4,903	4,612
	19,285	**16,627**
Liabilities due	7,138	2,808
Liabilities with deferred payment	12,147	13,819
	19,285	**16,627**
Liabilities in PLN	14,017	8,924
Liabilities in EUR	4,527	6,110
Liabilities in USD	741	1,593
	19,285	**16,627**

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 2017	**650**	**4,604**	**82**	**5,336**
Created	148	6,225	142	6,515
Utilized	-68	-6,196	-146	-6,410
Reversed	-	-	-	-
As at 31 December 2017	**730**	**4,633**	**78**	**5,441**

[20] Provisions for employee benefits

Amounts in PLN thousand (PLN '000).

	Holiday pay	Annual bonuses	Total
As at 1 January 2017	**785**	**222**	**1,007**
Created	919	251	1,170
Utilized	-742	-223	-965
Reversed	-	-	-
As at 31 December 2017	**962**	**250**	**1,212**

[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	
	2017	2016	2017	2016	31.12.17	31.12.16	31.12.17	31.12.16
Subsidiaries	15,358	27,148	21,838	37,756	5,517	4,558	3,365	573
Associates	-	-	332	323	-	-	57	30
	15,358	**27,148**	**22,170**	**38,079**	**5,517**	**4,558**	**3,422**	**603**

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	
	2017	2016	2017	2016	2017	2016	2017	2016
Taking up/purchase of shares in related parties and contributions*	-	-	-	4,185*	-	-	-	-
Revaluation write-down of shares in associates**			-29	-32	-	-	-	-
Dividends received***	-	-	1,878	952	-	-	-	-
Interest accrued with respect to related parties	-	-	17	205	-	-	-	-
Interest paid by related parties	-	-	-	2,047	-	-	-	-
Loans repaid by related parties			-	2,000	-	-	-	-
Loans granted to related parties	-	-	104	88	-	-	-	-
Revaluation write-down of loans granted to related parties	-	-	-129	-224	-	-	-	-
Off-balance sheet items								
Sureties granted	-	-	-	-	-	-	-	-
Expiration of granted sureties	-	-	-3,056	-967	-	-	-	-

*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 Ceramika Gres SA subsidiary

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

[21c] Balance of other accounts with related parties

Amounts in PLN thousand (PLN '000).

	Subsidiaries		Associates		Members of the Management Board, Supervisory Board and the proxy	
	31.12.17	31.12.16	31.12.17	31.12.16	31.12.17	31.12.16
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	-	-	-	-	-	-
Accrued interest on loans granted	-	-	-	-	-	-
Off-balance sheet items						
Performance bonds from related parties	-	3,056	-	-	-	-
Loan guarantees from related parties	21,000	21,000	-	-	-	-

The figures above do not include the accounts arising from trade transactions referred to in Note [23a]

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/interest accrued		Impairment write-down		Carrying value of shares/loans	
	2017	2016	2017	2016	2017	2016	2017	2016
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	-	-	24,654	24,625	67	96
Contributions to the capital of Ceramika Nowa Gala II Sp. z o.o.*	4,185	4,185	-	-	-	-	4,185	4,185
Loan granted to CNG Luxembourg S.à.r.l.	320	199	33	25	353	224	-	-
Subsidiaries (total)	**102,564**	**102,443**	**655**	**647**	**25,007**	**24,849**	**78,212**	**78,241**
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**

*In 2018, it is planned to merge Ceramika Nowa Gala SA and Ceramika Nowa Gala II sp. z o.o. in accordance with Article 492(1)(1) and Article 516(6) read together with Article 516(5) of the Code of Commercial Partnerships and Companies, by transferring all assets of Ceramika Nowa Gala II sp. z o.o. (target company) to Ceramika Nowa Gala SA (surviving company – combination by acquisition), with no increase in the share capital of the surviving company. As there are no relevant regulations in IFRSs with respect to combinations of jointly controlled companies, the merger will be settled by way of share pooling, as defined in Article 44 of the Accounting Act. This method involves pooling respective values of assets, liabilities and capitals as well as revenue and expenses. It also requires presentation of comparative periods in a manner consistent with that applied in this respect in the merger year. In accordance with the planned merger method any discrepancies between the value of net investment held and the value of the Company's net assets will be recognized as an adjustment to the equity (other than retained earnings). As a result, despite the fact that the carrying, total value of investment in the target company (PLN 19,694 thousand) is greater than the total value of net assets and the received contribution recognized in the balance sheet of Ceramika Nowa Gala II (PLN 16,696 thousand), no impairment write-down was recognized.

[22] Remuneration of the Management Board and Supervisory Board

Amounts in PLN thousand (PLN '000).

	Management Board and the proxy		Supervisory Board	
	2017	2016	2017	2016
Salaries and other current benefits (paid)	767	1,447	298	301
Movement in provisions	-	-606	-	-
Charge to profit for the period	**767**	**841**	**298**	**301**

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

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

[23a] Inventory

Amounts in PLN thousand (PLN '000).

	2017	2016
Balance sheet movement in inventory	**-2,683**	**6,943**
Other items	-	-1
Movement in inventory in the cash flow statement	**-2,683**	**6,942**

[23b] Trade receivables and other receivables

Amounts in PLN thousand (PLN '000).

	2017	2016
Balance sheet movement in trade receivables and other receivables	**697**	**26,922**
Movement in the advance for fixed assets under construction	-	731
Movement in receivables from the investment property	-39	-1,105
Movement in receivables from dividend	-	-12,870
Movement in receivables in the cash flow statement	**658**	**13,678**

[23c] Trade and other liabilities

Amounts in PLN thousand (PLN '000).

	2017	2016
Balance sheet movement in trade and other liabilities	**2,658**	**-7,054**
Offset with accounts due to received dividend	-	11,653
Movement in investment liabilities	570	-340
Movement in liabilities in the cash flow statement	**3,228**	**4,259**

[23d] Reconciliations with respect to loans

Amounts in PLN thousand (PLN '000).

		Cash flows		Non-monetary movements		
	31.12.2016	Inflows	Outflows	Effects of exchange rate differences	Loan reclassification	31.12.2017
Long-term loans	848	4,243	-	-80	2,154	7,165
Short-term loans	4,506	1,362	-1,166	-56	-2,154	2,492
Liabilities under financial operations	**5,354**	**5,605**	**-1,166**	**-136**	**-**	**9,657**

[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 10 May 2017, the General Meeting of Shareholders resolved to pay a dividend from available accumulated profit from previous years. The amount of the dividend per share was PLN 0.10, thus the total amount paid out was PLN 4,689,362.10. The dividend was paid on 46,893,621 shares on 14 June 2017.

[26] Declared dividend

As at the date of this Report, no dividend was declared to be paid in 2018.

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

On 10 May 2017, the Annual General Meeting of Shareholders of Ceramika Gres SA decided that part of the net profit of that company for 2016, in the amount of PLN 1,878,272.75, would be allocated for the payment of a dividend for the parent company, i.e. Ceramika Nowa Gala SA. The dividend was paid in May 2017.

[28] Decision to initiate by the Company a review of strategic options related to the further development of its business

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

[29] Significant events after the balance sheet date

[29a] Annex to the investment loan agreement concluded on 9 February 2017 with Bank Pekao SA

As the credit limit was underused, Ceramika Nowa Gala SA and Bank Pekao SA signed, on 29 January 2018, an annex to the loan agreement to reduce the amount of the investment loan from EUR 912 thousand to EUR 642 thousand (see also section 7.1.1 of the report on the Issuer's operations).

[29b] Annex to the overdraft facility agreement concluded on 15 December 2004 with mBank SA

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

[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 (current assets less current liabilities).

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).

	31.12.2017	31.12.2016
Non-current assets	125,615	122,512
Net current assets	50,566	59,810
Total capital invested	**176,181**	**182,322**
Total net debt arising from loans and borrowings	3,628	-10,955
Debt ratio	**0.02**	**-0.06**
	2017	**2016**
Profit/(loss) from operating activities	-7,348	-7,014
Amortization and depreciation	8,405	7,910
EBITDA	1,057	896
Interest	491	306
EBITDA-to-interest coverage ratio	**2.15**	**2.93**

As a result of mainly the investment in modernization of the production lines, dividend payment and an increase in the inventory value, there was an increase in net debt in 2017 compared to that recorded in 2016. Despite the significant percentage increase in the debt ratio relative to 2016, its absolute value is still at a safe low level. The interest coverage ratios in 2016 and 2017 were at a similar 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 2017 was carried out under an agreement concluded on 24 July 2017. The agreement concerns audit of the separate financial statements of the Company for 2017, the consolidated financial statements of the Company for 2017, a review of the separate semi-annual financial statements as at 30 June 2017 and a review of the consolidated semi-annual financial statements as at 30 June 2017. The total net remuneration payable to the audit firm under the aforementioned agreement is PLN 62 thousand. BDO Sp. z o.o. is also entitled to total net remuneration of PLN 36 thousand under agreements concerning audit of the separate annual financial statements and a review of the semi-annual financial statements of the subsidiaries. The audit firm is also entitled to reimbursement of actual audit costs.

In 2017, BDO Sp. z o.o. provided also the following services:

- a validation service involving verification of the accuracy of calculation of the electric power consumption intensity coefficient for 2017 for Ceramika Nowa Gala SA and Ceramika Gres SA subsidiary;
- audit of the regulatory annual financial statements of Ceramika Nowa Gala SA and its subsidiary companies: Ceramika Gres SA, Ceramika Nowa Gala II Sp. z o.o. and Energia Park Trzemoszna Sp. z o.o., drawn up in accordance with the requirements of the Energy Law.

The total remuneration for the aforementioned services amounted to PLN 20.3 thousand.

In 2016, the financial statements of the Group were audited by BDO sp. z o.o. The audit of the financial statements for 2016 was carried out under an agreement concluded on 29 July 2016. The agreement concerned audit of the separate financial statements of the

Company for 2016, the consolidated financial statements of the Company for 2016, a review of the separate semi-annual financial statements as at 30 June 2016 and a review of the consolidated semi-annual financial statements as at 30 June 2016. The total net remuneration payable to the audit firm under the aforementioned agreement was PLN 44 thousand. BDO Sp. z o.o. received also total net remuneration of PLN 31 thousand under agreements concerning audit of the separate annual financial statements and a review of the semi-annual financial statements of the subsidiaries. The audit firm was also entitled to reimbursement of actual audit costs.

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

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

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

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

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

The Company uses high-quality raw materials to produce ceramic tiles. In order to obtain high quality ceramics it is necessary to use ingredients with a low level of impurities. For 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 Company hedges against this risk by developing alternative formulations, using substitute ingredients.

1.3. Risk associated with changes in consumer preferences

The ceramic tiles market is sensitive to trends, which forces manufacturers to keep up with the varying preferences of consumers. Any mismatch between the offered product range and customers' expectations gives rise to a risk of excessive inventory or being forced to sell products at lower prices. The risk associated with a failure to match the product range with the tastes of buyers increases as the offer is extended with new designs. To reduce this risk the Company monitors prevailing market trends and adjusts its product portfolio to the tastes and requirements of customers. Furthermore, a major modernization of the Company's machines was carried out in 2017, which enabled introducing new products, in particular technical stoneware tiles and glazed ones on colored mass, including larger tiles - 60x120 cm and similar formats.

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

2.1. Risk associated with the macroeconomic and political situation

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

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

2.2. Risk associated with competitors' activities

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

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 Company has also other financial instruments, such as trade receivables and liabilities that arise directly in the course of its business. The Company has also interests in other business entities, but the value of these interests is immaterial. The Company did not enter into any transactions involving derivatives. The principle applied by the Company at present and throughout the period covered by the financial statements is no trade in financial instruments.

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

3.1. Interest rate risk

At present, the assets and liabilities recognized in the financial statements are not subject to fluctuations due to changes in interest rates. However, due to the fact that the Company uses funding sources with variable interest rates, an increase (decrease) in base rates (see also section 2.1) or an increase (decrease) in margins used by financial institutions may result in an increase (decrease) in financial expenses. The Company does not use cash flow hedges against changes in interest rates.

3.2. Risk associated with foreign exchange rates

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

- changes in the value of export sales and production costs denominated in PLN, in the part relating to imported raw materials;
- changes in the competitiveness of the Company's offer on export markets;
- changing costs of raw and other materials, as well as energy and services purchased in Poland, whose prices depend, either directly or indirectly, on currency exchange rates;
- realized foreign exchange differences arising between the date of sale or purchase and the date of payment of receivables or liabilities;
- unrealized foreign exchange differences from measurement of accounts and other monetary items as at the balance sheet date;
- varying intensity of competition associated with prices of imported tiles.

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

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 2018	from 6 to 12 months in 2018	in 2018	Subsequent years
Trade and other payables	19,285	19,285	-	-	-
Payments under operating leases*	3,753	1,605***	720	723	704
Loans eligible for refinancing**	9,500	-	9,000	500	-
Loans to be repaid	9,653	1,245	1,245	4,349	2,814
Total	**42,191**	**22,136**	**10,965**	**5,572**	**3,518**

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

**Amounts resulting from the maximum debt limits granted, regardless of the debt amount as at the end of 2017.

*** Accounts for PLN 369 thousand for rental of machines and equipment from Ceramika Nowa Gala II subsidiary.

In the case of significant agreements classified as operating leases that cannot be terminated or have a defined minimum contractual period of notice, the total amounts that the Company would have to pay for the period till the expiry of the agreements is PLN 2,466 thousand.

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

4. Off-balance sheet liabilities

4.1. Non-recourse factoring liabilities

As at the balance sheet date, contingent (off-balance sheet) liabilities under a non-recourse factoring agreement binding on the parent company amounted to PLN 8.351 thousand.

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

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 Group's 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). The surety bonds are subject to remuneration charged at market rates.

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

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 very small values of the transactions effected in 2017, the figures below are given in PLN.

Profit and loss accounts with respect to electricity trading

for the period from 13 June 2017 to 31 December 2017

Amounts in PLN

	2017	2016
Revenue	**68,954**	**104**
Cost of sales	70,395	104
Gross profit	**-1,441**	**-**
Other income	-	-
Selling and administrative expenses	12,813	12,623
Other expenses	-	-
Profit before interest and tax	**-14,254**	**-12,623**
Finance income	-	-
Finance expenses	-	-
Profit/(loss) before tax	**-14,254**	**-12,623**
Income tax expense	-	-
Profit for the year	**-14,254**	**-12,623**

Structure of selling and administrative expenses by type

Amounts in PLN

	2017	2016
Fees and banking services	804	1,100
Other financial services	842	3
Experts' opinions and technical advisory	2,500	2,500
Audit of financial statements	4,567	-
Salaries with overheads allocated to the energy business	3,900	3,900
Training of employees	-	5,000
Legal and judicial fees	-	120
Taxes and other charges	200	-
	12,813	**12,623**

Due to a marginal 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 2017. This cash amounts as at the balance sheet date to PLN 19.525.

The data presented above is subject to audit by a certified auditor, pursuant to Article 44 (3a) of the Energy Law. The data for 2017 was audited by BDO Sp. z o.o.