Consolidated annual financial statements of

Ceramika Nowa Gala SA Group

for the period from 1 January 2018 to 31 December 2018

Końskie, 30 April 2019

Introduction

Reporting Entity

These consolidated financial statements have been drawn up by Ceramika Nowa Gala SA, based in Końskie at 1 Ceramiczna Street, registered as a public limited company established in Poland in accordance with the Commercial Companies Code, entered into the National Court Register under KRS number 0000011723. Ceramika Nowa Gala SA is the parent company of the group to which these statements refer. These consolidated financial statements are subject to approval by the General Meeting of Shareholders of the parent company.

Ceramika Nowa Gala SA is the ultimate parent company in the Group and is not controlled by any entity.

The data included in the financial statements has been rounded to the nearest PLN thousand.

Composition of the managing and supervisory bodies

On 11 May 2018, the Company received a notice from Mr. Grzegorz Ogonowski, member of the Supervisory Board, in which he informed about resignation from this function.

The resignation was due to the loss of the independence attribute within the meaning of Article 129 of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision, due to the expiry of the maximum permissible period of sitting on a supervisory board, set out for independent members. On 18 June 2018, the General Meeting of the Issuer's Shareholders filled the vacancy in the Supervisory Board with Mr. Michał Hulbój.

As at the date of publication of these financial statements, the Company's Supervisory Board was composed of:

- Mr. Paweł Marcinkiewicz – Chairman of the Supervisory Board;
- Mr. Wojciech Włodarczyk – Deputy Chairman of the Supervisory Board;
- Mr. Łukasz Żuk – Member of the Supervisory Board;
- Mr. Marek Gabryjelski – Member of the Supervisory Board;
- Mr. Michał Hulbój – Member of the Supervisory Board.

As at the date of publication of these financial statements, the Management Board of the Issuer was composed as follows:

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

At a meeting held on 23 April 2019, the Supervisory Board of the Company resolved to expand the composition of the Management Board of this term of office to three members, and resolved to appoint, as at 1 May 2019, Mr. Tomasz Stepek member of the Issuer's Management Board.

Business description

The core business of the Group consists in the production and sale of ceramic stoneware tiles. The tiles are made of mineral raw materials (minerals).

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

The products are sold primarily via a network of wholesalers cooperating with the Group, both in Poland and in foreign markets, as well as via DIY chain stores. These products are used as finishing material for flooring, facade and wall cladding in the construction industry.

In the reporting period, production took place in one factory located in Końskie and one factory located in the village of Kopaniny in the Końskie poviat. In 2018, Ceramika Nowa Gala SA and Ceramika Nowa Gala II Sp. z o.o. were merged. On 31 August 2018, the merger of Ceramika Nowa Gala SA as the surviving company and Ceramika Nowa Gala II sp. z o.o. as the target company was entered in the National Court Register. The merger was carried out in accordance with the simplified procedure pursuant to Article 492(1)(1) and Article 516(6) of the Code of Commercial Partnerships and Companies, by transferring all assets of the target company to the surviving company (combination by acquisition), without closing the accounting records of the target company. In accordance with Article 494(1) of the Code of Commercial Partnerships and Companies, Ceramika Nowa Gala SA assumed, as at the merger date, all the rights and obligations of Ceramika Nowa Gala II Sp. z o.o. The merger had no effect on the consolidated financial statements.

Signatures

These financial statements were drawn up and signed on **30 April 2019** and will be published on 30 April 2019.

Waldemar Piotrowski – President of the Management Board

Paweł Górnicki – Deputy President of the Management Board

Zbigniew Polakowski – Chief Accountant

Consolidated statement of profit and loss and other comprehensive income

for the period from 1 January 2018 to 31 December 2018

Amounts in PLN thousand (PLN '000)

	Note	2018	2017
Revenue	[1]	**150,322**	**156,609**
Cost of sales	[1][2]	121,896	116,344
Gross profit		**28,426**	**40,265**
Other income	[3]	1,314	155
Selling and administrative expenses	[2]	43,247	40,411
Other operating expenses	**Błąd! Nie można odnaleźć źródła odwołania.**	3,560	1,657
Profit before interest and tax		**-17,067**	**-1,649**
Financial income	[5]	1	4
Financial expenses	[6]	1,951	2,141
Share in profits of associates and joint ventures		-	-
Profit from continued operations before tax		**-19,017**	**-3,786**
Income tax expense	[7]	2,129	1,548
Profit from continued operations after tax		**-21,146**	**-5,334**
Profit from discontinued operations after tax		-	-
Net for the year		**-21,146**	**-5,334**
Other comprehensive income that may not be transferred to the profit in the future			
None		-	-
Other comprehensive income that may be transferred to the profit in the future			
Exchange rate differences from translation	[5b]	-11	13
Total comprehensive income		**-21,157**	**-5,321**
Net profit attributable to			
shareholders of the parent company		**-21,157**	**-5,334**
non-controlling interests		-	-
		-21,157	**-5,334**
Total comprehensive income attributable to			
shareholders of the parent company		-21,157	-5,321
non-controlling interests		-	-
		-21,157	**-5,321**

	Unit	Note	2018	2017
Annualized profit/(loss)	PLN thousand		-21,146	-5,334
Weighted average number of shares	thousand shares		46,894	46,894
Basic earnings/(loss) per share from continued operations	PLN	[8]	-0.45	-0.11
Weighted average diluted number of shares	thousand shares		46,894	46,894
Diluted earnings/(loss) per share from continued operations	PLN	[8]	-0.45	-0.11

Consolidated statement of financial position
as at 31 December 2018

Amounts in PLN thousand (PLN '000)

Assets	Note	31.12.2018	31.12.2017
Non-current assets			
Goodwill	[9]**Błąd! Nie można odnaleźć źródła odwołania.**	18,851	18,851
Intangible assets	[9]	2,423	2,584
Property, plant and equipment	[10]	79,183	90,751
Investment property	**Błąd! Nie można odnaleźć źródła odwołania.**	-	7,550
Other financial assets		145	145
Deferred tax assets	[11]	4,684	8,414
Total non-current assets		**105,286**	**128,295**
Current assets			
Inventory	[12]	76,041	75,776
Trade and other receivables	[13]	20,614	24,303
Receivables from current income tax		521	-
Cash and cash equivalents	**Błąd! Nie można odnaleźć źródła odwołania.**	8,162	13,623
Other current assets		730	442
Total current assets		**106,068**	**114,144**
Fixed assets classified as held for sale in accordance with IFRS 5		2,995	-
Total assets		**214,349**	**242,439**

(continued on the next page)

Consolidated statement of financial position (contd.)

Amounts in PLN thousand (PLN '000)

Equity and liabilities	Note	31.12.2018	31.12.2017
Equity			
Share capital	[15a]	46,894	46,894
Capital reserves	[15b]	114,171	122,146
Revaluation reserve	[15d]	-	-
Exchange rate differences from translation	[15h]	4	15
Reserve capital	[15f]	8,719	8,719
Treasury shares	[15g]	-	-
Retained earnings	[15c]	-20,942	-5,427
Equity attributable to shareholders of the parent company		**148,846**	**172,347**
Non-controlling interests	[15e]	-	-
Total equity		**148,846**	**172,347**
Non-current liabilities			
Borrowings	[16]	-	7,165
Provision for deferred income tax	[17]	2,005	3,668
Provision for employee benefits	[20]	24	24
Total non-current liabilities		**2,029**	**10,857**
Current liabilities			
Trade and other payables	[18]	20,294	21,731
Current tax liability		10	427
Borrowings	[16]	37,949	27,202
Other financial liabilities*	[16]	259	851
Provision for employee benefits	[20]	1,227	1,569
Other provisions	[19]	3,735	7,455
Total current liabilities		**63,474**	**59,235**
Liabilities associated with assets classified as held for sale in accordance with IFRS 5		-	-
Total liabilities		**65,503**	**70,092**
Total equity and liabilities		**214,349**	**242,439**
Book value (in PLN thousand)		148,846	172,347
Number of shares (in thousand shares)		46,894	46,894
Book value per share (in PLN)		3.17	3.68
Diluted number of shares (in thousand shares)*		46,894	46,894
Diluted book value per share (in PLN)		3.17	3.68

*Factoring agreement concluded by a subsidiary

Consolidated cash flow statement

for the period from 1 January 2018 to 31 December 2018

Amounts in PLN thousand (PLN '000)

	Note	2018	2017
Operating activities			
Net profit/(loss)		**-21,146**	**-5,334**
Amortization and depreciation		14,201	13,368
Interest revenue and expenses		1,381	1,083
Exchange rate gains/(losses)		-25	34
Gain/(loss) on disposal of intangible and tangible non-current assets		1,389	111
Movement in provisions, write-downs, prepayments and accruals		-4,372	-458
Income tax expense		2,129	1,548
Other adjustments		-625	-148
Cash flow from operations before movements in working capital		**-7,068**	**10,204**
Movement in inventory	**Błąd! Nie można odnaleźć źródła odwołania.**	-265	-6,855
Movement in receivables	**Błąd! Nie można odnaleźć źródła odwołania.**	3,769	966
Movement in liabilities	**Błąd! Nie można odnaleźć źródła odwołania.**	-1,862	312
Cash flow from operations before tax		**-5,426**	**4,627**
Interest received from operating activities		-	4
Interest paid on operating activities		-1	-1
Income tax paid		-1,001	-468
Net cash from operating activities		**-6,428**	**4,162**
Investing activities			
Proceeds from disposal of tangible and intangible non-current assets		185	242
Sale of an investment property		5,950	-
Purchase of tangible and intangible non-current assets		-4,443	-16,402
Net cash from investing activities		**1,692**	**-16,160**

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Consolidated cash flow statement (contd.)

Amounts in PLN thousand (PLN '000)

	Note	2018	2017
Financing activities			
Proceeds from borrowings	**Błąd! Nie można odnaleźć źródła odwołania.**	5,366	10,769
Dividends to shareholders of the parent company		-2,345	-4,689
Repayment of borrowings	**Błąd! Nie można odnaleźć źródła odwołania.**	-1,931	-1,196
Repayment of other sources of funding (factoring agreement)	**Błąd! Nie można odnaleźć źródła odwołania.**	-592	-549
Interest paid pertaining to financing activities		-1,380	-1,086
Net cash from financing activities		**-882**	**3,249**
Net cash from financing activities		**-5,618**	**-8,749**
Cash and cash equivalents at the beginning of the period		13,623	22,596
Exchange rate differences		157	-224
Cash and cash equivalents at the end of the period		**8,162**	**13,623**
Structure of cash and cash equivalents:	[14]		
Unrestricted cash		8,084	13,264
Restricted cash		78	359
		8,162	**13,623**

Consolidated statement of changes in equity

for the period from 1 January 2018 to 31 December 2018

Amounts in PLN thousand (PLN '000)

	Attributable to the shareholders of the parent company									
	Share capital	Capital reserves	Foreign exchange differences from translation	Reserve capital	Revaluation reserve	Treasury shares	Retained earnings	Total	Non-controlling interests	Total equity
As at 1 January 2017	**46,894**	**136,034**	**2**	**8,719**	**-**	**-**	**-8,963**	**182,686**	**-**	**182,686**
Effects of changes to the accounting policies	-	-	-	-	-	-	-329	-329	-	-329
As at 31 December 2017	**46,894**	**136,034**	**2**	**8,719**	**-**	**-**	**-9,292**	**182,357**	**-**	**182,357**
Total comprehensive income*	-	-	13	-	-	-	-5,334	-5,321	-	-5,321
Coverage of loss from previous years	-	-9,362	-	-	-	-	9,362	-	-	-
Division of profit from previous years**	-	163	-	-	-	-	-163	-	-	-
Payment of dividend	-	-4,689	-	-	-	-	-	-4,689	-	-4,689
As at 31 December 2017	**46,894**	**122,146**	**15**	**8,719**	**-**	**-**	**-5,427**	**172,347**	**-**	**172,347**
As at 1 January 2018	**46,894**	**122,146**	**15**	**8,719**	**-**	**-**	**-5,427**	**172,347**	**-**	**172,347**
Total comprehensive income*	-	-	-11	-	-	-	-21,146	-21,157	-	-21,157
Coverage of loss from previous years	-	-2,820	-	-	-	-	2,820	-	-	-
Division of profit from previous years**	-	188	-	-	-	-	-188	-	-	-
Payment of dividend	-	-2,344	-	-	-	-	0	-2,344	,	-2,344
Reclassification of losses from previous years as a result of the merger of CNG SA and CNG II		-2,999	-	-	-	-	2,999	-	-	-
As at 31 December 2018	**46,894**	**114,171**	**4**	**8,719**	**-**	**-**	**-20,942**	**148,846**	**-**	**148,846**

*In 2018, the amounts of comprehensive income were allocated to the following equity items: net loss in the amount of PLN 21,146 thousand decreased the amount of retained earnings, exchange rate differences from translation in the amount of PLN 11 thousand decreased the relevant capital item. In 2017, the amounts of comprehensive income were allocated to the following equity items: net loss in the amount of PLN 5,334 thousand decreased the amount of retained earnings, exchange rate differences from translation in the amount of PLN 13 thousand increased the relevant capital item.

**Including the effects of consolidation.

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: 4.3 PLN/EUR as at 31 December 2018 and 4.1709 PLN/EUR as at 31 December 2017;

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: 4.2669 PLN/EUR in 2018; 4.2447 PLN/EUR in 2017.

The average exchange rates of the NBP for USD, used for translating the monetary items, were as follows: 3.7597 PLN/USD as at 31 December 2018 and 3.4813 PLN/USD as at 31 December 2017.

Consolidated dataa	PLN thousand		EUR thousand	
	2018	2017	2018	2017
Net sales	150,322	156,609	35,230	36,895
Profit/(loss) from operating activities	-17,067	-1,649	-4,000	-388
Profit/(loss) before tax	-19,017	-3,786	-4,457	-892
Net profit/(loss)	-21,146	-5,334	-4,956	-1,257
Net cash flows from operating activities	-6,428	4,162	-1,506	981
Net cash flows from investing activities	1,692	-16,160	397	-3,807
Net cash flows from financing activities	-882	3,249	-207	765
Net cash flows (in total)*	-5,461	-8,973	-1,280	-2,114
Total assets	214,349	242,439	49,849	58,126
Liabilities and provisions for liabilities	65,503	70,092	15,233	16,805
Non-current liabilities	2,029	10,857	472	2,603
Current liabilities	63,474	59,235	14,762	14,202
Equity	148,846	172,347	34,615	41,321
Share capital	46,894	46,894	10,906	11,243
Number of shares	46,893,621	46,893,621	-	-
Profit/(loss) per share (in PLN/EUR)	-0.45	-0.12	-0.11	-0.03
Diluted profit/(loss) per share (in PLN/EUR)	3.17	3.68	0.74	0.87
Book value per share (in PLN/EUR)	-0.45	-0.12	-0.10	-0.03
Diluted book value per share (in PLN/EUR)	3.17	3.68	0.74	0.88
Declared or paid dividend per share (in PLN/EUR)	0.05	0.1	0.01	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 consolidated financial statements of Ceramika Nowa Gala SA have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS).

The most important standards that entered into force and were applied for the first time in the reporting period include:

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. Following its entry into force, IFRS 15 replaced 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 applies 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 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 is 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 did not have any effect on the amount of disclosed revenue, but it did, however, result in an increase in the level of detail as regards disclosures related to the sales structure.

IFRS 9 "Financial Instruments"

IFRS 9 is a standard concerning financial instruments. The standard has introduced 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 is required to use an expected credit loss model instead of the incurred credit loss model required previously by IAS 39.

The standard applies 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.

In accordance with this standard, under retrospective application (with initial application on 1 January 2017), a change in identified groups of financial assets (change in the classification) and a change in the model of impairment losses on financial assets were introduced. Trade receivables maturing within maximum 12 months are the key group of financial assets. The Group uses the simplified method of estimating the amount of impairment losses on trade receivables. The total portfolio of receivables is broken down by the past due date and the counterparty's country. Each item is assigned the expected loss level. The amount of an estimated impairment is obtained by multiplying the amount of receivables in a given country and a given past due period by the expected loss level. As a result of applying this procedure to the receivables portfolio as at 31 December 2018, the Group made an additional impairment of receivables, making thus changes to selected items in the financial statements. The changes are presented in the table below.

Effects of changes to IFRS 9	31.12.2018	31.12.2017	01.01.2017
Deferred tax assets	3	-38	77
Trade and other receivables	-16	201	-405
Retained earnings from previous years	0	0	-328
Profit/(loss) for the current year	-13	163	0

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 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 (to pay for its use). Such rights 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 Group is now a party to a number of short-term lease agreements that meet the definition of operating lease. The following could be expected in the statement of comprehensive income for 2019 as a result of applying the new standard to agreements binding on the Group as at 31 December 2018:

- a decrease in the costs of third-party services by PLN 1.6 million in the case of agreements settled in PLN and a decrease by EUR 156 thousand in the case of agreements settled in this currency (conversion to PLN will be made while settling each amount of the rent);
- an increase in depreciation costs by PLN 2.3 million;
- an increase in financial costs by PLN 99 million in the case of agreements settled in PLN and by EUR 8 thousand in the case of agreements settled in this currency (conversion to PLN will be made while settling each amount of the rent).

The following could be expected in the statement of financial position as a result of applying the new standard to agreements binding on the Group as at 31 December 2018:

- an increase in the asset value – the right to use the property – by PLN 2.4 million as at the end of 2018 and by PLN 1.2 million as at the end of 2019;
- an increase in the asset value – the right to use means of transport – by PLN 2.1 million as at the end of 2018 and by PLN 1 million as at the end of 2019;
- an additional financial liability under lease – PLN 4.5 million as at the end of 2018 and PLN 2.3 million as at the end of 2019.

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 consolidated 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 consolidated 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"

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 consolidated 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 been approved to be used in the European Union Member States.

Application of the above interpretation would have no impact on the consolidated 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 been approved to be applied in the European Union Member States.

Application of the above amendment would have no impact on the consolidated 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 assets or liabilities relating to the plan.

The amendments have been approved to be applied to annual periods beginning on 1 January 2019 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 consolidated 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, by clarifying 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, by clarifying 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 been approved to be applied in the European Union Member States.

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

Amendments to the Conceptual Framework for Financial Reporting

The amended definitions of an asset and a liability as well as new guidelines regarding measurement and removal from the balance sheet, presentation and disclosure have been recognized. The new Conceptual Framework does not constitute a major revision of the document as originally planned when the project was undertaken for the first time in 2004. Instead, the International Accounting Standards Board focused on issues that had not been previously discussed or which showed obvious shortcomings that had to be resolved.

The Conceptual Framework does not have a specific date of entry into force, and the International Accounting Standards Board will start applying them immediately. Along with the revised Conceptual Framework, the International Accounting Standards Board also issued amendments to references to the Conceptual Framework in IFRSs. The document provides for amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC-32.

The amendments, that are actually updates, have been approved to be applied to annual periods beginning on 1 January 2020 or after that date. The amendments have not been approved yet to be applied in the European Union Member States.

The impact of the above changes on the Group's consolidated financial statements will depend on the extent to which they will affect the future shape of particular IFRSs and cannot be clearly determined at this moment.

Amendments to IFRS 3 Business Combinations

The proposed amendments aim to provide entities with more transparent guidelines to help them differentiate between an enterprise and a group of assets when applying IFRS 3.

The definition of an enterprise has been narrowed, focusing on the definition of products and services provided to customers and other revenue from ordinary operations, rather than on providing dividends or other economic benefits directly to investors or reducing costs.

A test was proposed to make it easier to determine whether a company has acquired only a group of assets or an enterprise, depending on whether the value of acquired assets is substantially concentrated in one component or rather in a group of similar assets.

The amendments have been approved to be applied to annual periods beginning on 1 January 2020 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 consolidated financial statements of the Company.

Amendments to IAS 1 and IAS 8: new definition of materiality

The proposed amendments introduce and explain a new definition of materiality and adapt it to the definition used in the Conceptual Framework and the IFRSs themselves.

Information is material if, as a result of its omission, distortion or providing information that might be omitted (obscured), it could reasonably be expected that the main users of information contained in the financial statements would be misled in their assessment of the financial situation of the reporting enterprise.

The amendments have been approved to be applied to annual periods beginning on 1 January 2020 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 consolidated financial statements of the Company.

Functional currency

The Polish złoty is the primary currency used in the economic environment in which the Grou p operates. In the case of CNG Luxembourg S.à.rl subsidiary, this is the Euro. The books of the companies of the Group are kept in PLN, except for CNG Luxembourg S.à.r.l., whose books are kept in EUR. Prior to the consolidation, the financial statements of CNG Luxembourg S.à.rl had been translated from EUR into PLN.

Measurement basis

Measurement for the purposes of the consolidated 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 companies of the Group are prepared on a going concern basis, unless there are circumstances that make this assumption unfounded.

In 2018, the Ceramika Nowa Gala SA Group recorded a net loss in the amount of PLN 21.1 million, and its EBITDA was minus PLN 2.9 million. The loss was partially due to the 4% (compared to the previous year) decrease in the sales value. The main reason for deteriorated performance was an increase in the Group's operating costs. The performance was also adversely affected by one-off events (see section 13 of the Report on the operations of the Group).

Following the publication of the results for three quarters of 2018, the financing banks resolved to increase the interest rates (see Note [16]), as the incurred losses resulted in infringement of the terms and conditions provided for in the agreements on financing.

The credit agreements were amended to reduce the Group's debt (the amendments are described in detail in section 7 of the Report on the operations of the Group).

In Q4 2018, the Management Board developed and was implementing a performance improvement plan.

The plan provides for, among other things, a reduction in operating costs by approximately PLN 10 million within 12 months. Out of this amount, PLN 3 million regards production costs and the remaining PLN 7 million – general overhead costs. The prices of products sold were also increased: for the first time on 1 October 2018 and then on 1 April 2019.Furthermore, the offer is being expanded with new products to increase profitability (the premium segment) and make better use of production capacity (the medium and economic segments). There was also a change of the person in charge of sales: on 23 April 2019, the Supervisory Board resolved to expand the Management Board by a member in charge of sales (more details in Current Report 5/2019).

The Group’s budget for 2019 provides for a rapid improvement in EBITDA, which should make it possible to maintain working financing in subsequent years. We assume that bank financing whose maturity date falls in 2019 will be renewed in amounts necessary to finance the Group's business. The Group had resources enabling it to implement this plan. Taking into account a number of investments in development carried out in recent years, the current investment needs are insignificant, which makes it possible to allocate generated profits to operating activities and the debt reduction agreed on with the banks.

Given the above, the Management Board believes that the conditions of the going concern principle will be met for all companies in the Group. This assessment was also confirmed by the Audit Committee in its resolution of 25 April 2019.

The structure of the Group and consolidation principles

In the reporting period, there were changes in the structure of the Issuer's Group. On 31 August 2018, the merger of Ceramika Nowa Gala SA, as the surviving company, and its subsidiary, i.e. Ceramika Nowa Gala II Sp. z o.o., as the target company, was registered in the National Court Register.

In the period from 1 January 2018 to 31 August 2018, the Group was composed of the following companies:

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

Since 31 August 2018, the Group has been 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 Gres SA – a subsidiary company;
- CNG Luxembourg S.à.r.l. – a subsidiary company;
- Energia Park Trzemoszna Sp. z o.o. - an entity controlled by the parent company and its subsidiary.

The books of Ceramika Gres SA subsidiary 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 Sp. z o.o. 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 2018, to PLN 435 thousand. Financial data of this company for 2018, determined in accordance with Polish accounting standards, is as follows: assets: PLN 980 thousand, provisions and liabilities: PLN 109 thousand, revenue: PLN 1,983 thousand, net profit for 2018: PLN 61 thousand. Transactions concluded with this company are described in Note [22] in the consolidated financial statements and relate mainly to the handling of a siding (the siding is owned by Ceramika Nowa Gala SA and an entity not related to it – joint ownership). The carrying amount of a 50% stake in 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 companies of the Group are translated into PLN at the average rate of the 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. Foreign exchange differences from translation of the financial statements of CNG Luxembourg S.à.rl into PLN are recognized in other comprehensive income and are posted directly to equity.

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.

Segment reporting

The organizational structure of the Group is a functional one. Four key areas can be identified: sales, production, finance, administration and logistics. Each of the persons responsible for these areas reports directly to the Management Board. Key decisions regarding the ongoing operations and the Group's growth strategy are taken by the Management Board. The Group specializes in the production of ceramic stoneware tiles which are sold under two brands: Nowa Gala and Ceramika Gres. The sales policy is determined jointly for the whole Group. In accordance with the requirements of IFRS 8, only one operating segment has been identified. CNG Luxembourg S.à.r.l. subsidiary does not own fixed assets and does not manufacture goods or conduct trade operations. Therefore, there are no significant assets located outside the territory of the country in which the parent company is established.

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. In the case of assets acquired as a result of the take-over of Ceramika Gres SA subsidiary, the acquisition cost was determined based on their fair value as at the acquisition date. This value arose from a measurement performed by a certified appraiser.

Land owned by the companies of the Group is measured at cost and is not depreciated. Land in perpetual usufruct is classified as a non-current asset and is depreciated. If necessary, the value of land is written down for impairment.

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

The value of assets produced in-house includes the cost of materials and direct labor. 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 60 to 95 years;
- buildings from 1 to 32 years;
- plant and equipment from 1 to 40 years;
- other non-current assets from 1 to 21 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 non-current asset component, 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 companies' products in outlets, which despite their transfer outside the companies' seats are at their disposal and remain their property, are entered in the records of non-current assets and depreciated over the expected useful life. Other displays are posted to costs at the time they are handed over to a counterparty.

Non-current assets classified as held for sale

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

Intangible assets

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

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

- they are identifiable;
- they are likely to generate economic benefits in the future;
- development costs can be reliably measured.

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

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

- computer software from 3 to 21 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.

Goodwill and intangible assets acquired as a result of a take-over

In accordance with IFRS 3, taking over a subsidiary entails that goodwill shown in the consolidated financial statements is determined as the difference between the acquisition cost and the corresponding share in the fair value of the net assets of the acquired company. Goodwill is not amortized, but it is subject to an annual impairment test. Impairment write-downs relating to goodwill are not reversed. Furthermore, as a result of the settlement of the purchase price allocation process, the consolidated financial statements show intangible assets that are not subject to disclosure in the separate financial statements of the acquired company: the brand and the customer portfolio of Ceramika Gres SA. The measurement of these items was based on their fair value. They are amortized in accordance with the assumed time of their useful life, i.e. 14 years. If there is any evidence indicating the possibility of impairment of these assets, appropriate tests are carried out and impairment write-downs can be made.

Investments in real property

Real property held by the Group in order to obtain economic benefits resulting from its appreciation or rental, and not to be used in production or for quick resale, is classified as investment property. Such assets are measured at their fair value whose changes are recognized in profit or loss. Within up to 12 months of the date of expenditures, it is assumed that the fair value of given real property corresponds to incurred expenditures, as long as these expenditures result from transactions concluded at arm's length, and there have been no significant changes within this period as regards the condition of the real property or economic conditions. After this period, the fair value of real property is determined taking into account expert reports of independent appraisers, whereby this procedure should be carried out at least once in 12 months.

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 the inventory of raw materials and production materials.

Inventory of technical materials (parts, consumables) is recognized at acquisition cost. Its value is reduced if it is no longer useful or has 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 the 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 Group has a present obligation (legal or customary) arising from a past event, and it is probable that the fulfilment of this obligation will cause an outflow of funds and the amount of this obligation can be reliably estimated, but the amount itself or its maturity are not specified. If it is believed that the costs covered by the provision will be reimbursed, the reimbursement is recognized as a separate asset, but only when it is virtually certain that this reimbursement will occur (e.g. under an insurance contract). Where the effect of changes in the value of money over time has a significant impact on the amount of the provision, its amount is determined by discounting the expected future cash flows to their present value using a gross discount rate that reflects the current market cost of money and the possible risks specific to a given liability. Where the provision was measured 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 companies of the Group do not use assets under finance lease agreements. They are 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 companies of the Group do not operate a pension scheme or long-term service awards. In accordance with the applicable labor 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 companies of the Group do not hold nor have issued any 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 consolidated 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 companies are 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 for the full amount of bad debts are made when the collection of the full amount of a receivable is no longer probable. The Group also uses the simplified method of estimating the amount of impairment losses on trade receivables. The total portfolio of receivables is determined using a provision matrix by the past due date and the counterparty's country. Each item in this matrix is assigned the expected loss level. The amount of an estimated impairment is obtained by multiplying the amount of receivables in a given country and a given past due period by the expected loss level.

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

The Group may enter into non-recourse factoring agreements. It must follow from their economic content 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 Group 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 other economic operators

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

For 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 measured at amortized cost using the effective interest rate method;
- assets measured at fair value, with changes posted to other comprehensive income.

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

Interest-bearing loans and borrowings

Interest-bearing loans, borrowings and debt instruments are recognized in the consolidated 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 rules are applied also to liabilities under recourse factoring.

Trade and other liabilities

On account of its operating activities, the Group 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 companies of the Group are recognized at received net proceeds. The parent company issues equity instruments in the form of shares.

Revenue

Revenue is recognized once the entity has satisfied a performance obligation, i.e. when the customer has obtained control over the goods or services covered by this commitment. The overwhelming majority of the Group's revenue comes 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 Company charges 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 provided for in IAS 37.

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 Group will achieve economic benefits associated with the use of tax assets.

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

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

If applicable, the companies of the Group do not generate tax assets in respect of exemptions granted as a result of performing business activities in a special economic zone. For the purpose of calculation of deferred income tax, exempt activity (the exemption results from a permit to carry out business in the area of a special economic zone) is non-taxable until the limit of state aid is exhausted.

Judgments 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 Group's estimates concern mainly the impairment test for goodwill, established provisions, write-downs of assets, including trade receivables, property, plant and equipment 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 consolidated financial statements

[1] The structure of sales revenue and expenses

Amounts in PLN thousand (PLN '000)

	Revenue		Expenses		Sales result before tax	
	2018	2017	2018	2017	2018	2017
Products and semi-products	147,520	155,248	119,336	115,335	28,184	39,913
Goods	2,230	815	2,033	686	197	129
Raw materials and other materials	489	223	469	183	20	40
Other sales (services)	83	323	58	140	25	183
	150,322	**156,609**	**121,896**	**116,344**	**28,426**	**40,265**

Sales to related entities not covered by these consolidated financial statements are presented in Note **Błąd! Nie można odnaleźć źródła odwołania.**.

[2] Operating expenses

[2a] Costs by type

Amounts in PLN thousand (PLN '000)

	2018	2017
Raw materials and other materials	59,773	62,703
Gas and electricity	28,312	28,544
Purchased goods and semi-products	1,228	2,618
Amortization and depreciation	14,201	13,368
Payroll with fringe benefits	34,254	31,827
Third-party services*	19,575	16,940
Representation and advertising	4,639	4,135
Taxes and fees	2,502	2,402
Other	1,625	1,488
	166,109	**164,026**
of which:		
Cost of products and goods sold**	121,427	116,161
Selling and administrative expenses	43,247	40,411
Movement in inventory and prepayments and accruals	1,436	7,454
	166,109	**164,026**

*Expenses under lease agreements classified as operating leases, included in third-party services, amounted to: PLN 3,243 thousand in 2018 and PLN 3,624 thousand in 2017.
**Includes the cost of products and semi-products, goods, as well as other sales expenses. The figure does not, however, include the cost of sold raw materials (Note[1]).

[2b] Payroll along with fringe benefits

Amounts in PLN thousand (PLN '000)

	2018	2017
Current salaries	28,251	25,634
Social security contributions paid by the employer and other employee benefits	6,346	6,114
	34,597	**31,748**
Movement in the provision for holiday pay (Note **Błąd! Nie można odnaleźć źródła odwołania.**)	-481	103
Movement in the provision for bonuses	138	-24
	34,254	**31,827**

[3] Other operating income

Amounts in PLN thousand (PLN '000)

	2018	2017
Profit from the sale of property, plant and equipment	212	
Reimbursement of litigation expenses	-	1
Inventory discrepancies	25	3
Overdue liabilities	472	
Damages received	58	49
Write-downs of receivables	31	-
Reversal of write-downs of property, plant and equipment	501	-
Rental income from investment property	-	88
Other	15	14
	1,314	**155**

[4] Other operating expenses

	2018	2017
Loss on disposal of property, plant and equipment	-	113
Write-downs and receivables written-off	765	-147
Donations	6	-
Damages	22	47
Expenses caused by Force Majeure events	176	23
Discontinuation of products	222	342
Write-down of inventory	380	821
Costs of maintenance and loss on the sale of investment property	1,978	444
Other	11	15
	3,560	**1,657**

[5] Financial income

Amounts in PLN thousand (PLN '000)

	2018	2017
Interest received	1	4
Gain on exchange rate differences	-	-
	1	**4**

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

	2018	2017
Exchange rate differences recognized in financial income	-	-
Exchange rate differences recognized in financial expenses	160	602
	160	**602**

[5b] Exchange rate differences recognized in equity

The change in the amount of exchange differences on translation of the financial statements of CNG Luxembourg S.à.rl was PLN -11 thousand.

[6] Financial expenses

Amounts in PLN thousand (PLN '000)

	2018	2017
Interest	1,357	1,086
Loss on exchange rate differences	160	602
Other financial expenses	434	453
	1,951	**2,141**

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

	2018	2017
Direct finance costs increasing the value of assets	-	86

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

[7] Income tax

Amounts in PLN thousand (PLN '000)

	2018	2017
Deferred income tax on:		
- deductible tax losses	829	1,319
- difference between book depreciation and tax depreciation	-1,118	-1,174
- movements in provisions and write-downs	2,061	290
- taxable intra-Group profits	363	659
- used provision under measurement of investment property	-290	-
- write-downs of current assets	208	-104
- other	13	-8
	2,066	**982**
Current income tax	63	566
Tax amount recognized in equity	-	-
	2,129	**1,548**

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

	2018	2017
Profit before tax	-19,017	-3,786
Tax loss in the current year that is not taken into account in the calculation of deferred tax assets	11,184	1,402
Ongoing operating expenses which are permanently non-deductible	7,628	2,440
Lost tax losses from previous years	5,663	6,939
Adjustment to the tax base due to intra-Group non-material services	1,019	-
Write-down of overdue receivables used	3,924	-
Other permanent differences	804	1,157
	11,205	**8,153**
Tax rate	19%	19%
Income tax recognized in the income statement	**2,129**	**1,549**

[8] Basic and diluted earnings per share

When calculating the weighted average number of shares, if any, 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	2018	2017
Annualized profit/(loss)	PLN thousand	-21,146	-5,334
Weighted average number of shares	thousand shares	46,894	46,894
Basic earnings/(loss) per share from continued operations	PLN	-0.45	-0.11
Weighted average diluted number of shares	thousand shares	46,894	46,894
Diluted earnings/(loss) per share from continued operations	PLN	-0.45	-0.11

[9] Intangible assets

Amounts in PLN thousand (PLN '000)

	Computer software	Other	Goodwill	Total
Net value as at 1 January 2017	**345**	**2,897**	**18,851**	**22,093**
Additions due to acquisition	-1	-	-	-1
Sale or withdrawal from use	-	-	-	-
Change in accumulated depreciation due to sale or withdrawal from use	-	-	-	-
Amortization for the period*	-80	-577	-	-657
Net value as at 31 December 2017	**264**	**2,320**	**18,851**	**21,435**
Net value as at 1 January 2018	**264**	**2,320**	**18,851**	**21,435**
Additions due to acquisition	534	-	-	534
Sale or withdrawal from use	-24	-	-	-24
Change in accumulated depreciation due to sale or withdrawal from use	24	-	-	24
Amortization for the period*	-118	-578	-	-696
Net value as at 31 December 2018	**680**	**1,742**	**18,851**	**21,273**
of which:				,
at acquisition/manufacturing cost	680	1,742	18,851	21,273
at a revalued amount	-	-	-	-
As at 31 December 2017				,
Gross value	3,277	10,811	18,851	32,939
Accumulated depreciation and impairment	3,013	8,491	-	11,504
Net value	**264**	**2,320**	**18,851**	**21,435**
As at 31 December 2018				
Gross value	3,787	10,811	18,851	33,449
Accumulated depreciation and impairment	3,107	9,069	-	12,176
Net value	**680**	**1,742**	**18,851**	**21,273**
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

	Land and buildings	Plant and equipment	Fixed assets under construction	Other	Total
Net value as at 1 January 2017	**37,145**	**46,074**	**2,897**	**2,292**	**88,408**
Additions	714	14,346	15,917	1,233	32,210
Impairment loss charged to profit or loss	-	117	-	-	117
Sale or withdrawal from use	-25	-5,196	-	-2,656	-7,877
Change in accumulated depreciation due to sale or withdrawal from use	20	4,445	-	2,415	6,880
Depreciation for the period	-2,487	-9,432	-	-792	-12,711
Initial measurement of fixed assets	-	-	-16,276	-	-16,276
Other movements (reclassifications)	11	-11	-	-	-
Net value as at 31 December 2017	**35,378**	**50,343**	**2,538**	**2,492**	**90,751**
of which:					
at acquisition/manufacturing cost	35,378	50,343	2,538	2,492	90,751
at a revalued amount	-	-	-	-	-
Net value as at 1 January 2018	**35,378**	**50,343**	**2,538**	**2,492**	**90,751**
Additions	66	4,580	6,795	1,318	12,758
Impairment loss charged to profit or loss	-	-16	-	-	-16
Reversal of the effects of impairment loss charged to profit or loss	-	533	-	-	533
Sale or withdrawal from use	-	-9,187	-	-1,052	-10,239
Change in accumulated depreciation due to sale or withdrawal from use	-	6,771	-	842	7,613
Depreciation for the period	-2,533	-10,041	-	-932	-13,506
Initial measurement of fixed assets	-	-	-5,963	-	-5,963
Other movements (reclassifications)	22	230	-	-4	248
Net value as at 31 December 2018	**32,933**	**43,212**	**3,370**	**2,664**	**82,179**
of which:					
non-current assets available for sale	2,995	-	-	-	2,995
other non-current assets	29,938	43,212	3,370	2,664	79,184
Gross value and accumulated depreciation					
As at 31 December 2017					
Gross value	67,358	184,375	3,682	6,082	261,497
Accumulated depreciation and impairment	31,980	134,032	1,144	3,590	170,746
Net value	**35,378**	**50,343**	**2,538**	**2,492**	**90,751**
of which:					
Non-current assets classified as held for sale	-	-	-	-	-
Other property, plant and equipment	35,378	50,343	2,538	2,492	90,751
As at 31 December 2018					
Gross value	67,446	179,998	4,514	6,344	258,301
Accumulated depreciation and impairment	34,513	136,785	1,144	3,680	176,122
Net value	**32,933**	**43,212**	**3,370**	**2,664**	**82,179**
of which:					
Non-current assets classified as held for sale*	2,995	-	-	-	2,995
Other property, plant and equipment	29,938	43,212	3,370	2,664	79,184
Additional information					
Amount of pledges and mortgages used as collateral for loans	88,700	33,036	-	-	121,736
Contractual commitments to acquire fixed assets	-	-	-	-	-

*Concerns the production property left after the liquidation of production in the former plant of Ceramika Nowa Gala II.

[11] Income tax assets

Amounts in PLN thousand (PLN '000)

	31.12.2018	31.12.2017
Income tax assets arising from:		
- deductible tax losses	768	1,597
- difference between book depreciation and tax depreciation	426	672
- created provisions and write-offs	2,983	5,154
- taxable intra-Group profits	101	464
- depreciation of plant and equipment	406	527
	4,684	**8,414**

[12] Inventory

[12a] Inventory structure

Amounts in PLN thousand (PLN '000)

	31.12.2018	31.12.2017
Products and semi-products	56,978	55,570
Goods	508	541
Raw materials and other materials	18,555	19,665
	76,041	**75,776**
Total amount of allowance on inventory	-,4,004	-3,882
Value of inventory pledged as collateral for liabilities	22,000	22,000

[12b] Additional information

Amounts in PLN thousand (PLN '000)

	2018	2017
Cost of inventory sold	121,838	116,204
Inventory written off as expenses	902	1,214
Reversal of write-offs posted to income	-	-51
	122,740	**117,367**

[13] Trade receivables and other receivables

[13a] Receivable structure

Amounts in PLN thousand (PLN '000)

	31.12.2018	31.12.2017
Trade receivables	16,857	20,745
Other receivables	3,757	3,558
	20,614	**24,303**
Receivables due	2,794	4,476
Receivables with deferred payment	17,820	19,827
	20,614	**24,303**
Receivables in PLN	15,430	18,844
Receivables in EUR	4,310	4,171
Receivables in USD	874	1,287
	20,614	**24,303**
Write-down of receivables	3,784	8,112
Receivables used as collateral for loans	1,859	2,306

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)

	2018	2017
Opening balance	**8,238**	**8,899**
Write-downs posted to operating expenses	338	64
Reversal of write-downs posted to operating income	-3	-14
Write-downs used	-3,942	-2
Change in measurement due to foreign exchange differences	-847	-836
Closing balance	**3,784**	**8,112**

[13c] Age structure of receivables

Amounts in PLN thousand (PLN '000)

As of	Gross receivables	Write-downs on receiva-bles	Net receivables	Receivables paid on time	Overdue receivables				
					up to 3 months	3-6 months	6-12 months	over 12 months	TOTAL
31.12.2018	24,398	3,784	20,614	17,820	2,794	-	-	-	2,794
31.12.2017	32,415	8,112	24,303	19,827	3,875	410	110	81	4,476

[14] Cash

Cash consists only of cash in hand and at bank. Restricted cash includes PLN 13 thousand belonging to the Company's social benefit fund, PLN 33 thousand deposited on accounts operated by BOŚ Brokerage House in connection with trading in gas or electricity on the Polish Power Exchange and PLN 33 thousand for VAT.

[15] Equity components

[15a] Share capital

Share capital is composed of: the nominal price of all issued and subscribed shares (less the nominal value of all redeemed treasury shares), i.e. 46,893,621 shares whose nominal price is PLN 1. All shares have been paid up. The share capital shown in the consolidated financial statements corresponds to that of the parent company.

[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 remeasurement 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 the general shareholders' meeting of the companies of the Group. In the consolidated financial statements, retained gains and losses from previous years include also (cumulatively) effects of consolidation eliminations, including their impact on deferred income tax.

[15d] Revaluation reserve

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

[15e] Non-controlling interests

The parent company holds 100% of interests in the consolidated subsidiaries.

[15f] Reserve capital

Reserve capital is created in accordance with a resolution of the general shareholders' meeting. Currently, the capital reserve accounts for part of distributed gains or losses from previous years.

[15g] Treasury shares

This item may account for treasury shares of the parent company, bought back in accordance with a resolution 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.

[15h] Exchange rate differences from translation

This item accounts for the effects of translation of the financial statements of CNG Luxembourg S.à.rl subsidiary company and incorporating them in the consolidated financial statements of the parent company. EUR is the functional currency for the financial statements of this subsidiary, while the items presented in the consolidated financial statements are denominated in PLN.

[16] Loans, borrowings and debt instruments

Amounts in PLN thousand (PLN '000)

Financing institution	Currency	Effective interest rate	Deadline for repayment	Debt 31.12.18	Debt 31.12.17	Collateral	Comments
mBank SA	PLN	WIBOR 1M +1.3%	28.06.2019	2,940	3,340	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%	27.06.2019*	-	-	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	60	799	Blank promissory note, registered pledge on purchased plant and equipment	Investment loan
mBank SA	EUR	EURIBOR 1M +1.8%	28.02.2022	2,222	2,836	Blank promissory note, registered pledge on purchased plant and equipment	Investment loan
Bank Pekao SA	PLN	WIBOR 1M +1.2%	30.09.2019	3,801	-	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, representation of Ceramika Nowa Gala SA on submission to enforcement, a power of attorney granted to the bank with respect to the bank account	Overdraft facility, available funding limit of PLN 5,000 thousand
Bank Pekao SA	EUR	EURIBOR,1M ,+1.6%	31.12.2021	2,071	2,682	Blank promissory note, registered pledge on purchased plant and equipment	Investment loan
ING bank Śląski SA	PLN	WIBOR,1M,+ 1.6%	31.10.2019*	26,855	24,710	Surety under civil law: from Ceramika Nowa Gala SA of up to PLN 31,000 thousand, mortgage of up to PLN 69,000 thousand, assignment of rights under the insurance policy concerning real property, registered pledge on finished products of PLN 15,000 thousand along with the assignment of rights under the insurance policy, registered pledge on fixed assets of PLN 8,500 thousand along with the assignment of rights under the insurance policy	Overdraft facility with a gradual reduction in the available funding limit from PLN 32,000 thousand as at 31 December 2018 to PLN 26,000 thousand
Closing balance of loans				**37,949**	**24,900**		,
of which:							
Short-term loans				37,949	27,202		
Long-term loans				-	7,165		
Recourse factoring of a subsidiary				**259**	**851**		

*Change after the balance sheet date of the margin and/or the repayment date (for more information see section **Błąd! Nie można odnaleźć źródła odwołania.**)

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 regards the loans granted to Ceramika Nowa Gala SA by mBank SA, the following indicators specified by the bank were not achieved as at the balance sheet date:

- EBITDA on sales revenue;
- Net financial liabilities as regards the achieved EBITDA.

As at the balance sheet date, in the case of the loans granted to Ceramika Gres SA by ING Bank Śląski SA, covenants based on consolidated data were not met, while those calculated based on separate data were met.

Loans for which covenants were not fulfilled, irrespective of the repayment deadline specified in the agreement, were posted to current liabilities. The Group 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 changing the financing bank and decreasing the funding level.

[17] Provision for deferred income tax

Amounts in PLN thousand (PLN '000)

	31.12.2018	31.12.2017
Provision for deferred income tax in respect of:		
- difference between book depreciation and tax depreciation	1,732	3,216
- interest	1	3
- measurement of investment property	-	294
- other	272	155
	2,005	**3,668**

[18] Trade and other payables

	31.12.2018	31.12.2017
Trade liabilities	13,421	15,064
Other liabilities	6,873	6,667
	20,294	**21,731**
Liabilities due	7,030	3,035
Liabilities with deferred payment	13,265	18,696
	20,294	**21,731**
Liabilities in PLN	15,556	15,805
Liabilities in EUR	3,522	4,921
Liabilities in USD	1,216	1,005
	20,294	**21,731**

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)

	Expenses	Bonuses for customers	Other	TOTAL
As at 1 January 2018	**762**	**6,603**	**90**	**7,455**
Created	559	9,118	-	9,677
Utilized	-760	-12,547	-90	-13,397
Reversed	-	-	-	-
As at 31 December 2018	**561**	**3,174**	**-**	**3,735**

[20] Provisions for employee benefits

Amounts in PLN thousand (PLN '000)

	Holiday pay and other	Annual bonuses	Total
As at 1 January 2018	**1,341**	**252**	**1,593**
Created	838	389	1,227
Utilized	-1,341	-252	-1,593
Reversed	-	-	-
As at 31 December 2018	**838**	**389**	**1,227**
short-term	814	389	1,203
long-term	24	-	24

[21] Information on business segments

Only one operating segment has been identified. More information in "Business segments" in the section devoted to the accounting principles.

[21a] Information on geographic segments

Amounts in PLN thousand (PLN '000)

	Domestic		Exports		Total	
	2018	2017	2018	2017	2018	2017
Revenue	118,148	126,736	32,174	29,873	150,322	156,609
Cost of sales	87,493	87,522	24,241	20,797	111,734	108,319
Sales result	**30,655**	**39,214**	**7,933**	**9,076**	**38,588**	**48,290**
Unallocated costs					10,162	8,025
Gross profit					**28,426**	**40,265**
	31.12.18	**31.12.17**	**31.12.18**	**31.12.17**	**31.12.18**	**31.12.17**
<u>Assets:</u>						
Trade receivables	12,127	15,035	5,054	5,504	17,181	20,539
Other receivables (unallocated)					3,433	3,764
					20,614	**24,303**

All fixed assets of the companies of the Group are located in Poland. CNG Luxembourg S.à.r.l. subsidiary does not own fixed assets and does not manufacture goods or conduct trade operations. None of the export countries exceeds 10% of the share in consolidated revenue.

[21b] Information on product segments

The Group specializes in the production of ceramic stoneware tiles and supplementary elements, sold within one joint offer. The remaining sales are marginal and concern raw materials, services and trade in energy.

Amounts in PLN thousand (PLN '000)

	Ceramic products		Other sales		Total	
	2018	2017	2018	2017	2018	2017
Revenue from sales to external customers	148,561	156,181	1,761	428	150,322	156,609
Purchase of fixed assets	6,795	16,245	-	-	6,795	16,245

[21c] Information on significant customers

In 2018, sales to none of the customers of the Group exceeded 10% of consolidated revenue.

[22] Transactions with related parties – transactions entered into between the parent company, i.e. Ceramika Nowa Gala SA, and its related parties, which have been completely eliminated in the consolidated financial statements, except for transactions with an associate which was not consolidated in accordance with the materiality principle

[22a] Trade transactions with related parties

Amounts in PLN thousand (PLN '000)

	Sales (net)		Purchases (net)		Receivables from related parties		Liabilities payable to related parties	
	2018	2017	2018	2017	2018	2017	2018	2017
Subsidiaries	13,152	15,398	20,550	20,759	1,360	1,993	6,849	4,120
Associates	-	-	163	332	-	-	4	57
	13,152	**15,398**	**20,713**	**21,091**	**1,360**	**1,993**	**6,853**	**4,177**

Trade receivables and liabilities 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.

[22b] Other transactions with related parties

Amounts in PLN thousand (PLN '000)

	Parent company		Subsidiaries		Associates		Members of the Management Board and the Supervisory Board	
	2018	2017	2018	2017	2018	2017	2018	2017
Taking up/purchase of shares in related parties and contributions	-	-	-	-	-	-	-	-
Revaluation write-down of shares in associates*			-1	-29				
Dividends received**	-	-	2,433	1,878				
Interest paid/accrued with respect to related parties	-	-	49	51	-	-	-	-
Interest paid by related parties	-	-	49	191				
Loans repaid by related parties			991	1,009				
Loans granted to related parties	-	-	126	104	-	-	-	-
Revaluation write-down of loans granted to related parties			-173	-129				
Off-balance sheet items								
Sureties granted	-	-	-	-	-	-	-	-
Expiration of granted sureties	-	-	-	-3,056	-	-	-	-

*Refers to shares taken up in CNG Luxembourg S.à.r.l. subsidiary

**Dividends for 2018: from Ceramika Gres SA subsidiary in the amount of PLN 2,155 thousand and from Energia Park Trzemoszna Sp. z o.o. subsidiary in the amount of PLN 278 thousand.

The figures presented above do not account for trade transactions referred to in [22a].

[22c] Balance of other accounts with related parties

Amounts in PLN thousand (PLN '000)

	Subsidiaries		Associates		Members of the Management Board and the Supervisory Board	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Shares in CNG held by related parties (number of shares)	-	-	-	-	11,158,326	11,158,326
Loans granted to related parties	-	991	-	-	-	-
Accrued interest on loans granted	-	34	-	-	-	-
Off-balance sheet items						
Loan guarantees from related parties	31,000	31,000	-	-	-	-

The figures above do not include the accounts arising from trade transactions referred to in **Błąd! Nie można odnaleźć źródła odwołania.**. No provisions for bad debts were created.

[22d] Carrying value of shares held and loans granted

Amounts in PLN thousand (PLN '000)

	Value of shares/capital		Cost of acquisition of shares/accrued interest		Impairment write-down		Carrying value of shares/loans	
	2018	2017	2018	2017	2018	2017	2018	2017
Energia Park Trzemoszna Sp. z o.o.	6	6	1	1	-	-	7	7
Ceramika Gres SA	57,838	57,838	613	613	-	-	58,451	58,451
CNG Luxembourg S.à.r.l.	24,721	24,721	-	-	24,655	24,654	66	67
Loan granted to EPT	-	991	-	34	-	-	-	1,025
Loan granted to CNG Luxembourg S.à.r.l.	452	320	74	33	526	353	-	-
Subsidiaries (total)	**83,017**	**83,876**	**688**	**681**	**25,181**	**25,007**	**58,524**	**59,550**
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	114	114	-	-	-	-	114	114
Other (total)	**114**	**114**	**-**	**-**	**-**	**-**	**114**	**114**

[23] Remuneration of the Management Board and Supervisory Board

Amounts in PLN thousand (PLN '000)

	Management Board		Supervisory Board	
	208	2017	2018	2017
Salaries and other current benefits (paid)	742	794	291	298
Movement in provisions	-	-	-	-
Charge to profit for the period	**742**	**794**	**291**	**298**

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

[24] Investment property and information on the fair value hierarchy

Amounts in PLN thousand (PLN '000)

	Level 1	Level 2	Level 3*	Total
As at 1 January 2018	**-**	**-**	**7,550**	**7,550**
Sale of investment property (revenue amount)	-	-	5,950	5,950

	Level 1	Level 2	Level 3*	Total
Loss on the sale of investment property	-	-	1,600	1,600
As at 31 December 2018	**-**	**-**	**-**	**-**

* In accordance with IFRS 13, classification of fair value measurements at different levels of the fair value hierarchy depends on the extent to which the inputs to measure fair value are observable. As estimated by the Management Board of the Company, the real property owned by it was assigned level 3 in the hierarchy.

No proceeds from the lease of this real property were generated in 2018. Its maintenance costs in 2017 amounted to PLN 378 thousand.

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

[25a] Inventory

Amounts in PLN thousand (PLN '000)

	2018	2017
Balance sheet movement in inventory	**-265**	**-6,857**
Other adjustments	-	2
Movement in inventory in the cash flow statement	**-265**	**-6,855**

[25b] Trade receivables and other receivables

Amounts in PLN thousand (PLN '000)

	2018	2017
Balance sheet movement in trade receivables and other receivables	**3,689**	**964**
Movement in receivables from investment activity	80	2
Movement in receivables in the cash flow statement	**3,769**	**966**

[25c] Trade and other liabilities

Amounts in PLN thousand (PLN '000)

	2018	2017
Balance sheet movement in trade and other liabilities	**-1,437**	**-920**
Movement in liabilities relating to investments	-425	1,232
Movement in liabilities in the cash flow statement	**-1,862**	**312**

[25d] Reconciliations with respect to loans

Amounts in PLN thousand (PLN '000)

		Cash flows		Non-monetary movements		
	31.12.2017	Inflows	Outflows	Effects of exchange rate differences	Loan reclassification	31.12.2018
Long-term loans	7,165	-	-	-	-7,165	-
Short-term loans	27,202	5,946	2,436	-72	7,165	37,949
Subsidiary's factoring liabilities	851	-	592	-	-	259
Liabilities under financial operations	**35,218**	**5,946**	**3,028**	**-72**	**-**	**38,208**

[26] PAYMENT OF DIVIDEND

On 18 June 2018, 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 0.05, thus the total amount to be paid was PLN 2,344,681.05. The dividend was paid on 46,893,621 shares on 10 September 2018.

[27] Distribution of profit specified in the separate financial statements of the parent company

In 2018, Ceramika Nowa Gala SA incurred a balance sheet loss of PLN 18,401,346.41.

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

On 18 June 2018, the General Meeting of Shareholders of Ceramika Gres SA subsidiary resolved to allocate part of profit for 2017 on the payment of a dividend in the amount to PLN 2,155 thousand to Ceramika Nowa Gala SA. The dividend was paid on 5 September 2018.

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

[29] Sale of developed real estate

On 9 October 2018, a contract was signed for the sale of developed real estate (perpetual usufruct right and ownership of buildings and structures constituting a separate property) located in Starachowice within the Starachowice Special Economic Zone, for PLN 5,950,000 net. Until 31 August 2018, this property was owned (under perpetual usufruct) by Ceramika Nowa Gala II Sp. z o.o. subsidiary; however, as a result of registration by the court of the merger of this company with Ceramika Nowa Gala SA, the surviving company, i.e. Ceramika Nowa Gala SA, became the perpetual usufructuary of this property. In the annual financial statement as at 31 December 2017, the real estate was presented as investment property, and its carrying value was PLN 7,550,000. The Management Board used the proceeds from the sale to reduce the debt.

[30] Decision on further review of strategic options by the parent company

On 9 December 2018, the Company resolved to continue the review of strategic options regarding its further development. In order to do it effectively, Ceramika Nowa Gala SA concluded an agreement with Santander Polska SA on advisory in this respect. At this stage, the Management Board of the parent company will consider various strategic options, in particular, seeking a strategic investor for the Company, entering into a strategic alliance, conclusion of a transaction with a different structure, as well as not taking any action in this respect. The choice of any of these options has not been made yet. At the same time, the process announced by the Company in Current Report 3/2017 of 24 March 2017 has not brought about any binding arrangements so far.

[31] Signing an annex to the agreement providing for a loan granted by Ceramika Nowa Gala SA to its subsidiary

In December 2018, Ceramika Nowa Gala SA increased, by way of yet another annex, the amount of the loan granted to CNG Luxembourg S.a.r.l. subsidiary by EUR 20 thousand. The increased loan amount (without accrued interest) is EUR 125 thousand. The deadline for repayment of the loan was extended to 31 December 2020.

[32] Events after the balance sheet date

[32a] Annex to the overdraft facility agreement concluded on 15 December 2004 with mBank SA

On 11 February 2019, Ceramika Nowa Gala SA and mBank SA signed an annex to the loan agreement to extend the deadline for the repayment of the loan from 27 February 2019 to 27 June 2019, while maintaining the existing collateral and the maximum amount of financing of PLN 500 thousand. The bank’s margin was increased from 1.3 p.p. to 1.63 p.p.

[32b] Annex to the loan agreement concluded with ING Bank Śląski SA on 28 June 2014

On 7 January 2019, Ceramika Gres SA and ING Bank Śląski SA signed yet another annex to the loan agreement, providing for a gradual reduction in the funding limit to PLN 26,000 thousand. The deadline for repayment remained unchanged, but the margin was increased from 0.8 p.p. to 1.6 p.p. The reduction is related to mitigating the debt.

[32c] Expansion of the Management Board's composition

At a meeting held on 23 April 2019, the Supervisory Board of the Company resolved to expand the composition of the Management Board of this term of office to three members, and resolved to appoint, as at 1 May 2019, Mr. Tomasz Stepek member of the Issuer's Management Board.

[32d] Annex to the factoring agreement concluded by Ceramika Gres SA with ING Commercial Finance Polska SA on 4 November 2014

On 23 April 2019, Ceramika Gres SA and ING Commercial Finance Polska SA signed an annex to the factoring agreement to reduce the maximum funding level from PLN 3,000 thousand to PLN 1,000 thousand.

[33] Capital management

The Group manages its capital to be able to continue its operations, including planned investments. In accordance with market practice, the Group 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). The 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)

	31.12.2018	31.12.2017
Non-current assets	105,286	128,295
Net current assets	42,594	54,909
Total capital invested	**147,880**	**183,204**
Total net debt arising from loans and borrowings*	30,046	21,595
Debt ratio	**0.20**	**0.12**
	2018	**2017**
Profit/(loss) from operating activities	-17,067	-1,649
Amortization and depreciation	14,201	13,368
EBITDA	-2,866	11,719
Interest	1,357	1,086
EBITDA-to-interest coverage ratio	**-2.11**	**10.79**

*The item includes also financial liabilities under factoring.

Due to the loss on operating activities and dividend payment to shareholders, the net debt recorded in 2018 increased compared to its level recorded in 2017. Despite a significant percentage increase in the net debt ratio relative to 2017, its absolute value is still at a low and safe level. Due to the negative amount of EBITDA in 2018, the values of EBITDA-to-interest coverage ratio were negative. All liabilities relating to the bank debt are settled on an ongoing basis.

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 not been met (see Note **Błąd! Nie można odnaleźć źródła odwołania.**).

[34] Information on certified auditor's remuneration

The financial statements of the Company were audited by BDO Sp. z o.o. sp. k. The audit of the financial statements for 2018 was carried out under an agreement concluded on 20 July

2018 for a two-year period. The agreement concerns audit of the separate financial statements of the Company for 2018, the consolidated financial statements of the Company for 2018, a review of the separate semi-annual financial statements as at 30 June 2018 and a review of the consolidated semi-annual financial statements as at 30 June 2018. The total net remuneration payable to the audit firm per annum under the aforementioned agreement is PLN 70 thousand. BDO Sp. z o.o. sp.k. is also entitled to total net remuneration of PLN 23 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 2018, 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 2018 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 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 20.4 thousand.

The financial statements of the Company for 2017 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 concerned 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 was PLN 62 thousand. BDO Sp. z o.o. received also 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 was 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.

[35] Agreements which may affect the financial position of the Group, not disclosed in the consolidated financial statements

To the best knowledge of the Management Board, there are no agreements that could have a material impact on the financial position of the Group, the effects of which were not disclosed in these consolidated financial statements.

[36] Information on entering by the Company or its subsidiary into one or more transactions with related parties, where such transactions are material, either individually or collectively, and were concluded otherwise than on an arm’s length basis

In the period covered by these financial statements, neither the Company nor its subsidiaries entered into transactions with related parties, which would be material, either individually or collectively, and concluded otherwise than on an arm’s length basis.

[37] Goodwill impairment test

The goodwill shown in the consolidated financial statements of the Group accounts for the acquisition of Ceramika Gres SA subsidiary. After adjusting for the effects related to the settlement of the acquisition, the aforementioned company is treated as a cash-generating unit. Goodwill allocated to that unit amounts to PLN 18,851 thousand. In accordance with IAS 36, goodwill is tested annually for impairment. Under this test, the recoverable amount is determined based on the value in use resulting from the discounted cash flows generated by Ceramika Gres SA. The Management Board has developed a five-year cash flow forecast. Cash flows have been determined as EBITDA adjusted for movements in current assets and expenditure required to maintain the assets held. The key assumptions of the forecast are as follows:

- a gradual increase in the utilization of the Company's production capacity up to 90%;
- maintaining the prices at the level planned for 2019;
- maintaining turnover ratios relating to current assets at the level of the end of 2018;
- discount rate determined based on the weighted average cost of capital for the Group, calculated using the CAPM model accounting for the following parameters: risk-free rate of 2.85%, risk premium of 6.15%, beta of 0.52. The average pre-tax cost of debt is assumed to be 3.82%. In accordance with IAS 36, discounted cash flows are determined as a pre-tax ones, thus the discount rate does not account for the effect of income tax;
- cash flows in the model are determined using prices from the end of 2018, without taking into account inflation, hence the nominal rate should be adjusted to the effective rate using the average annual inflation rate appropriate for the period from which the data for the nominal rate was taken. The effective rate calculated as a nominal rate, adjusted for the inflation rate for 2018 announced by the Central Statistical Office (1.6% inflation), was 4.38%;
- when calculating the residual amount, no long-term real growth in cash flows was assumed.

The determined value in use exceeded the book value of the cash-generating unit (including goodwill), thus no impairment write-down was made. The usable value is greater than the book value by 10%.

Risk factors and off-balance sheet liabilities

1. Risk factors related to the Group's business

1.1. Risk associated with increased production costs

The production plants belonging to the Group consume during the production process significant quantities of natural gas, electricity and raw materials. An increase in the prices of gas, electricity or raw materials may adversely affect the performance of the Group, in particular with respect to gas and electricity, in the case of which the Group is dependent on single suppliers with monopolistic positions. The Group attaches great importance to cost control and reduction at the various stages of production. In 2018, an increase in raw materials' prices was recorded, but its dynamics was restrained. The situation on global markets is not stable now, which means that the risk of increase in prices of raw materials, even in the short turn, cannot be ruled out. The Group is able to secure indirectly the price of part of gas purchases with commodity futures contracts with the delivery date of up to one year. In the event of an increase in the price of electricity, the Group will be able to resort in 2019 to national legislation that guarantees the price of electricity in the amount prevailing in June 2018 and the same price for electricity distribution as that prevailing in December 2018.

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

The Group uses high-quality raw materials to produce ceramic tiles. In order to obtain high quality ceramics it is necessary to use ingredients with a low level of impurities. For colors to be vivid, a mass which does not darken during firing needs to be used. As part of the raw materials is imported from eastern Ukraine (from an area which has not been covered by war operations yet), there is a risk of a limited availability of raw materials with the required quality parameters, which would force the Company to modify formulations used by it. The Group hedges against this risk by developing alternative formulations, using substitute ingredients. This risk is of greater significance for the Nowa Gala brand than the Ceramika Gres one.

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 Group monitors prevailing market trends and adjusts its product portfolio to the tastes and requirements of customers. In 2017, the Group also modernized its machines, which enabled it to introduce 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

In spite of the continuing economic recovery in Poland, signs of economic slowdown can be seen in the most important export markets (mainly in EU Member States). The tightening of monetary policy by the major central banks in recent years has led to a systematic increase in the world's most important interest rates, which could contribute to the slowdown in the global economy. Recent signs indicating a change in the attitude of the major central banks forming global monetary policy may result in a return of inflationary pressure in the economy. In the case of the Group, the risk of inflation growth may translate into a faster cost growth rate (increase in prices of raw materials, pressure on wage growth, increase in financing costs, etc.), which cannot be followed by a rapid increase in prices (due to the high level of competitiveness in the industry). 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 in the domestic market has increased in all its segments. Moreover, increased investment activity can be seen in the ceramic tile industry. This activity is partly 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 Group's product offering and, consequently, its market position. A response to this state of affairs was the 2017-2018 modernization (see section 14.2 of the Report on the operations of the Group), which made it possible to refresh the Group's product portfolio. Irrespective of these measures, due to the deteriorating profitability of the Group's core business, resulting mainly from higher costs, products' prices are being increased and a plan to reduce the costs of operation at all levels of its business is being introduced, which includes also the sale of redundant assets (see Notes [10] and [29]).

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. This situation could adversely affect the level of sales and the performance of the Group.

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

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

2.5. Risk associated with the tax system

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

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

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

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

3.1. Interest rate risk

At present, the assets and liabilities recognized in the consolidated financial statements are not subject to fluctuations caused by changes in interest rates. However, due to the fact that the Group uses funding sources with variable interest rates, an increase (decrease) in base rates (see also section 14.1 in the Report on the operations of the Group) or an increase (decrease) in margins used by financial institutions may result in an increase (decrease) in financial expenses. The Group does not use cash flow hedges against changes in interest rates.

3.2. Risk associated with foreign exchange rates

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

- changes in the value of export sales and production costs denominated in PLN, in the part relating to imported raw materials;
- changes in the competitiveness of the Company's offer in export markets;
- changing costs of raw and other materials, as well as energy and services purchased in Poland, whose prices depend, either directly or indirectly, on currency exchange rates;
- realized foreign exchange differences arising between the date of sale or purchase and the date of payment of receivables or 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 Group. Therefore, future cash flows from such transactions are subject to the risk of change in their value resulting from foreign exchange volatility, and the available instruments hedging against the foreign exchange risk are limited due to uncertainty prevailing in export markets. In particular, the level of offsetting expenses and income denominated in foreign currencies has become less predictable.

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 risk exposure facilitated by an integrated IT system;
- other security measures (e.g. promissory notes, bank guarantees or letters of credit).

Debt of each customer 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 Group uses external funding which determines its liquidity. In order to ensure external funding in subsequent periods the Group takes action to improve its EBITDA and seeks to mitigate its debt.

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 2019	6-12 months in 2019	in 2020	2021-2024
Trade and other payables	20,294	20,294	-	-	-
Payments under operating leases*	5,557	1,319	1,286	1,790	1,162
Loans eligible for refinancing**	37,500	5,000	32,500	-	-
Loans to be repaid	7,293	3,696	696	1,392	1,509
Total	**70,645**	**30,310**	**34,482**	**3,182**	**2,671**

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

**Amounts resulting from the maximum debt limits granted, regardless of the debt amount at the end of 2018; as at 31 December 2018, the actual debt amount in this group of loans was PLN 30,656 thousand.

In the case of material agreements classified as operating leases that cannot be terminated or have a defined minimum contractual period of notice, the total amounts that the companies of the Group would have to pay for the period till the expiry of the agreements is PLN 2,804 thousand.

3.5. Analysis of sensitivity of equity instruments to the risks to which these instruments are exposed

Amounts in PLN thousand (PLN '000), except for balances in foreign currencies.

Financial instrument	Currency	Balance in the currency given on the left	Balance in PLN	Risk type	Adopted fluctuation range	Sensitivity level
Foreign currency denominated receivables	EUR	1,002	4,310	foreign exchange	+/-20%	+/-862
Foreign currency denominated receivables	USD	232	874	foreign exchange	+/-20%	+/-175
Foreign currency cash	EUR	1,072	4,608	foreign exchange	+/-20%	+/-922
Foreign currency cash	USD	195	733	foreign exchange	+/-20%	+/-147
Foreign currency denominated liabilities	EUR	819	3,522	foreign exchange	+/-20%	+/-704
Foreign currency denominated liabilities	USD	324	1,216	foreign exchange	+/-20%	+/-243
Loans contracted in foreign currencies	EUR	1,012	4,353	foreign exchange	+/-20%	+/-871
Variable interest rate loans	EUR	1,012	4,353	interest rate	3.00 p.p.	+/-131
Variable interest rate loans	PLN	33,596	33,596	interest rate	3.00 p.p.	+/-1,008

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 8,432 thousand.

5. Sureties and guarantees

Due to the refinancing of the working capital loan by Ceramika Gres SA subsidiary (see also section 7.2.1 in the consolidated Report on the operations of the Group), Ceramika Nowa Gala SA and Ceramika Nowa Gala II Sp. z o.o. maintained surety bonds granted to ING Bank Śląski SA on behalf of Ceramika Gres SA, up to the amounts of: PLN 21,000 thousand and PLN 10,000 thousand. The surety bonds are subject to remuneration charged at market rates. Due to the takeover of Ceramika Nowa Gala II Sp. z o.o by Ceramika Nowa Gala SA, the surviving company took over the liabilities of the target company and since 31 August, the surety bond granted by Ceramika Nowa Gala SA to ING Bank Śląski SA has been PLN 31,000 thousand.

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