



**Report on the operations of**

# **the Ceramika Nowa Gala SA Group**

for the period from 1 January 2018 to 31 December 2018

Końskie, 30 April 2019

## **1. RULES FOR THE PREPARATION OF THE ANNUAL FINANCIAL STATEMENTS AND DESCRIPTION OF THE ORGANIZATIONAL AND CAPITAL RELATIONS WITHIN THE GROUP**

The consolidated financial statements of Ceramika Nowa Gala SA (the parent company) are prepared in accordance with International Financial Reporting Standards (IFRS). All data has been derived from the accounting records of the parent company and the subsidiary companies, off-balance sheet records and consolidation documents.

Methods used to measure assets and liabilities and the financial profit/(loss) are presented in the introduction to the consolidated financial statements.

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 (surviving company) and Ceramika Nowa Gala II Sp. z o.o. (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: asset value: 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 Ceramika Nova Sp. z o.o., amounting to PLN 2 thousand, is written down in 100% for impairment, and the company has never commenced any operations and holds no assets.

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

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

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 powiat. 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) read together with Article 516(5) 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.

## **2. INFORMATION ON THE KEY PRODUCTS**

Products and goods sold by the Group can be divided into three categories:

- unglazed stoneware tiles (including polished and semi-polished ones);
- glazed stoneware tiles (including semi-polished ones);
- decorative elements.

### **2.1. Unglazed tiles**

#### **Salt and pepper**

The name of this kind of ceramic tiles is derived from their appearance, as their granular structure resembles the mixture of salt and pepper. Products of this kind are offered by the greatest number of manufacturers. In accordance with the strategy adopted by Ceramika Nowa Gala SA, this product line is a complementary one.

#### **Quarzite**

Quarzite tiles have a more complex design (structure) compared to the Salt and Pepper line. This is an important item in the Group's sales. This collection includes also tiles with polished surface. These tiles are particularly well suited for industrial and commercial buildings, with heavy traffic (aisles).

#### **Concept**

This collection is inspired by natural sandstone and loess. It is characterized by a minimalist design. The tiles are available with two types of surface: polished and natural, and in a large size: 60x120 cm.

#### **Zenith**

Zenith tiles are characterized by a soft linear drawing in monochrome colors. The advantage of this collection is that besides natural and polished surface, the tiles are available also with structural surface which provides slip resistance in areas where it is particularly important to ensure safety conditions.

#### **Neutro**

The design of this minimalist collection resembles the structure of concrete. The tiles are formed using the double charge technology, by combining two layers: the base and top (micronized) ones. The same colors used in both layers allow for obtaining tiles with a homogeneous cross-section. The drawing is subdued and limited to a homogeneous range of colors. The collection includes also polished tiles. The collection was supplemented with large tiles: 20x120 cm, 30x120 cm and 60x120 cm.

#### **Basis**

A "salt and pepper" type collection complemented with decorative inserts. Tiles in this collection are manufactured in five colors corresponding to the current market trends.

#### **Monotec**

A collection with gentle shading, with no clear drawing. Monotec tiles come in many colors, in shades ranging from white through light beige, different shades of grey, to black. The tiles are available in three formats: 60x60 cm, 30x60 cm and 30x30 cm, in a rectified version.

#### **Vario**

Application of a decorating technology using micronized granules results in a varied and unique drawing on tiles, while preserving homogeneity in the color range. Tiles in this collection are available in sizes of 60x60 cm and 30x60 cm and can also be polished, which emblazons the

depth of the drawing. The collection was supplemented with large tiles: 20x120 cm, 30x120 cm and 60x120 cm.

### **2.2. Glazed tiles**

#### **Signum**

Tiles in this collection have a minimalist design, with slight glitter sheen on a matte surface. Though these tiles are recommended especially for large buildings such as shopping centers, they are also often chosen by private customers. The collection is distinguished by its high stain and abrasion resistance. It is available in a modular system. The tiles come in the following colors: light beige and light and dark grey.

#### **Trend Stone**

A collection of tiles whose design has been inspired by natural stones. Both the graphics and the color range correspond to modern trends. Tiles in sizes of 60x60 cm, 30x60 cm and 30x30 cm can be complemented with a wide selection of mosaics used as decorative elements.

#### **Lumina**

This modern collection is available in five vibrant colors. The glossy surface in the semi-polished version enhances the impression of color intensity. Lumina is a universal collection designed for finishing of interior walls and floors.

#### **Marmo Design**

Marmo Design tiles are inspired by the most precious marbles and watercolor painting. The series includes five classic marble types: Frost White, Golden Beige, Silver Grey, Imperial Graphite, Magic Black and the modern Aquamarina series imitating concrete surface that seems to be watercolor painted, available in five colors: white, light grey, dark grey, light beige and dark beige). The tiles are polished and come in two sizes: 30x60 cm and 60x60 cm. Various decorative elements and a wide color range make it possible to create home and other spaces in line with current trends and one's own taste. The collection is distinguished by high resistance to dirt and its glossiness. Marmo Design products are a guarantee of a luxurious and trendy interior.

#### **Flamenco**

Cotto tiles in the size of 33x33 cm, coming in three colors - natural "brick", sand and grey. In each color there are 40 graphics with different tonality, which makes the tiles resemble a handmade material. The tiles have a matte surface and an R11 C anti-slip parameter. The collection is adorned with a wide range of decorative elements: patchworks, hexagons and small bricks with which interesting arrangements can be created.

In 2018, among others through the investment in the plant of Ceramika Nowa Gala SA, the Group's product offering was extended with new items.

#### **Ebro**

Tiles in this collection imitate concrete and come in four colors: white, light grey, dark grey and dark beige. They are available in three sizes: 30x60 cm, 60x60 cm and 60x120 cm. The collection includes also hexagons based on the 60x60 cm format. The series is adorned with digitally printed decors. The tiles are made with the use of colored mass, which significantly increases their utility parameters, making them suitable for areas with heavy traffic.

#### **Wood Design**

Tiles in this collection have an original drawing of the most beautiful wood species. They come in eight natural colors: Pearl Ash (white), Maple (light beige), Amber Oak (dark beige), Cherry

(light brown), Chestnut (dark brown), Walnut (brown), Steel Oak (light grey), Grey Oak (dark grey). Each wood species has unique amplified graphics. Tiles resembling wood are available in the universal size of 20x120 cm and can be combined with other tile collections offered by the Group. Wood Design tiles are made on colored mass, which ensures that their esthetic parameters remain intact even in areas with heavy traffic.

### **Mirador**

The raw cement structure of Mirador tiles undergoes mechanic treatment making them look noble and nice to the touch. The tiles come in three cold colors: white, light beige and dark beige, and in three sizes: 60x120 cm, 60x60 cm and 30x60 cm. Two types of surface are available: natural with a high R11 A+B+C anti-slip parameter and lappato (R10). The collection has a trendy minimalist design. Extra esthetic effects can be obtained by combing Mirador tiles with Wood Design ones.

### **Mondo**

Tiles in this collection are available the popular size of 33x33 cm, which makes them easy to arrange. They also have a high R11 A+B+C anti-slip parameter, which makes them a perfect choice for balconies and terraces. The tiles come in four most popular colors: light beige, dark beige, light grey and dark beige and are suitable for different areas.

The product portfolio of the Group includes also a number of glazed stoneware tiles, sold under the brand names of Ceramika Gres and Milo, positioned in the middle- and low-end of the market. The main product collections offered under these brands are described below.

### **Croft and Estile**

Croft and Estile tiles are available in the size of 60x60 cm and come in four colors and two formats. The raw nature of the collection is mitigated by patchwork decors.

### **Kalcyt**

Tiles in this collection have a delicate marble typology. They are manufactured using digital printing on enamel with a delicate satin surface.

### **Vintage**

The tiles are made in the digital printing technology and have a microgranilia structure. The tiles come in the following colors: light beige, dark beige, light grey and dark grey. Their stone look is emphasized by their structure. The tiles can be combined with patchwork decors.

### **Indus**

The graphics used in this collection are inspired by the look of rustic boards. The tiles are available in warm shades of beige, brown and grey. They are a perfect choice for rooms arranged in a rustic style.

### **Vulcan**

Tiles in this collection are inspired by natural sandstone. They are suitable for use both indoors and outdoors (terraces, balconies and facades), where slip resistance is particularly important. The tiles are available in four natural colors.

### **Pamir**

The pattern on tiles in this collection is inspired by a natural stone. The tiles are made in a digital printing technology. As the tiles vary, their arrangement offers a unique effect.

### **Spargo**

The collection is inspired by delicate concrete surface in shades of grey and warm beiges and browns. The tiles have a smooth satin surface.

### **Domus**

The pattern on tiles in these collections resembles wood-like mosaics. They are available in two natural colors: beige and brown.

### **Galaxy**

Tiles in this collection are made using the digital printing technology and have a satin surface. The tiles come in natural shades of beige, brown and grey.

### **Capas**

The collection is inspired by granite. The tiles come in four shades of grey, graphite, cream and brown and are made using the printing technology. The tiles have a smooth matt surface.

### **Collections in the size of 20x60 cm**

Almost all collections in the size of 20x60 cm offered by Ceramika Gres imitate wood boards. The most important ones are: Rancho, Alberon and Modesto.

#### **Rancho**

Tiles in this collection resemble classic wood and come in three colors. The tiles are made using the digital printing technology on a delicate structure with natural surface and edge finish.

#### **Alberon**

Tiles in this collection have a matt surface and are made using the digital printing technology. The varied graphics (12 faces) and a well-matched structure perfectly resemble an expressive drawing of wood, making the floor look natural.

#### **Modesto**

Tiles in this collection resemble natural stone. They are offered in three shades of grey. The collection is distinguished by geometric decors including all three colors of the base tiles.

The product offering of Ceramika Gres includes also stoneware tiles in the size of 33x33 cm. Although these tiles are intended at widespread distribution, they sell particularly well in DIY stores. They meet the demand for low-end products. The most important collections of this type include Corte, Alpino, Java, Riva and Roxy offered by Ceramika Gres. These tiles are designed to meet the needs of a strictly defined Customer and they usually come in warm shades of beige and brown.

### **2.3. Decorative elements**

Decorative elements are complementary elements of the offer. Not only do they increase its attractiveness, but they are also a source of additional revenue. Most of them are manufactured in the production facility of Ceramika Nowa Gala SA, provided with modern equipment for processing stoneware tiles.

### 3. DATA ON SALES AND SELLING MARKETS

#### 3.1. Percentage sales structure

Amounts in PLN thousand (PLN '000)

	2018		2017	
Unglazed tiles	49,861	33%	77,452	49%
Glazed tiles	92,414	62%	72,251	46%
Decors and step tiles	5,857	4%	5,868	4%
Other sales	2,190	1%	1,038	1%
	<b>150,322</b>	<b>100%</b>	<b>156,609</b>	<b>100%</b>

#### 3.2. Quantitative sales structure

	2018		2017	
Unglazed tiles	1,762	thousand sq. m.	2,523	thousand sq. m.
Glazed tiles	3,449	thousand sq. m.	3,137	thousand sq. m.
	<b>5,211</b>	<b>thousand sq. m.</b>	<b>5,660</b>	<b>thousand sq. m.</b>

In 2018, a decrease in sales was recorded. In terms of value, sales decreased by 4%, and by 8% in quantitative terms. The decline occurred in the unglazed tile segment and was partly offset by greater sales of glazed tiles.

#### 3.3. Sales by selling markets

Amounts in PLN thousand (PLN '000)

	2018		2017	
Domestic market	118,148	79%	126,736	81%
Exports	32,174	21%	29,873	19%
	<b>150,322</b>	<b>100%</b>	<b>156,609</b>	<b>100%</b>

Sales in the domestic market dropped by 7%. This decline was partly offset with increased exports, accounting for 21% of the Group's sales in 2018.

The group of customers buying products offered by the companies of the Group is diversified. The share of none of them exceeded 10% of consolidated revenue, thus the Group is not dependent on one or several customers.

### 4. SUPPLY SOURCES

The most important suppliers of the Ceramika Nowa Gala SA Group include providers of gas and electricity, as well as producers and distributors of materials used in production (feldspars, clays, mineral pigments, enamels, etc.). The Group procures commercially available natural resources used in the production of tiles, mainly imported ones due to their higher quality. The suppliers are diversified and the share of none of them exceeds 10% of the supplies.

### 5. INFORMATION ON MATERIAL AGREEMENTS, COLLATERAL ON SIGNIFICANT ASSETS AND CONCLUDED INSURANCE AGREEMENTS

Assuming 10% of the parent company's equity at the time of the transaction as the criterion for recognizing an agreement as major, the companies of the Group did not enter into major agreements in 2018. Insurance agreements entered into by the Company are presented below.

#### 5.1. Insurance agreements

To insure their property and facilities, the companies of the Group have concluded the following agreements:

- Insurance agreement concluded with Sopockie Towarzystwo Ubezpieczeń ERGO HESTIA SA for the period from 1 November 2018 to 31 October 2019, providing for



insurance coverage of Ceramika Nowa Gala SA and Ceramika Gres SA. The insurance policy provides for the following types of insurance: insurance of construction equipment and machines, insurance of electronic equipment, insurance of machines and equipment against damage, insurance of profit lost as a result of damage to machines and equipment, insurance of property against all risks, insurance of profit lost as a result of all risks along with additional clauses.

- Agreement concluded with Towarzystwo Ubezpieczeń i Reasekuracji Allianz Polska SA for the period from 21 March 2019 to 20 March 2020, providing for third-party liability insurance for members of the governing bodies of Ceramika Nowa Gala SA, Ceramika Gres SA and Energia Park Trzemoszna Sp. z o.o.
- Agreement concluded with Powszechny Zakład Ubezpieczeń SA for the period from 22 March 2019 to 21 March 2020, providing for third-party liability insurance for Ceramika Nowa Gala SA, Ceramika Gres SA and Energia Park Trzemoszna. The insurance covers production of ceramic tiles and the other economic activities specified in the National Court Register.
- Transport insurance agreements covering: insurance of property in domestic and international transport and third-party liability insurance for the carrier in domestic and international traffic and for the forwarder, concluded with Generali Towarzystwo Ubezpieczeń SA for the period from 1 July 2018 to 30 June 2019, covering Ceramika Nowa Gala SA and Ceramika Gres SA (only with respect to insurance of property in domestic and international transport).
- Open account insurance agreement concluded by Ceramika Nowa Gala SA with Sopockie Towarzystwo Ubezpieczeń ERGO HESTIA SA for the period from 1 December 2018 to 30 November 2019.
- Trade credit insurance agreement concluded by Ceramika Nowa Gala SA with Atradius Credit Insurance NV SA Branch in Poland for the period from 1 July 2017 to 30 June 2019.
- Open account insurance agreement (non-marketable risk) concluded by Ceramika Nowa Gala SA with Korporacja Ubezpieczeń Kredytów Eksportowych SA for an indefinite time starting on 1 July 2014.
- Open account insurance agreement concluded by Ceramika Gres SA with Sopockie Towarzystwo Ubezpieczeń ERGO HESTIA SA for the period from 1 December 2018 to 30 November 2019.
- Open account insurance agreement (non-marketable risk) concluded by Ceramika Nowa Gala SA with Korporacja Ubezpieczeń Kredytów Eksportowych SA for an indefinite time starting on 1 July 2014.

The companies of the Group hold also motor insurance policies covering their vehicles and forklifts.

## **6. INFORMATION ON ENTERING BY THE COMPANY OR A SUBSIDIARY THEREOF INTO ONE OR MORE TRANSACTIONS WITH RELATED PARTIES, WHERE SUCH TRANSACTIONS ARE MATERIAL, EITHER INDIVIDUALLY OR COLLECTIVELY, AND WERE CONCLUDED ON TERMS OTHER THAN ON AN ARM'S LENGTH BASIS**

In the period covered by this Report, neither Ceramika Nowa Gala SA nor its subsidiaries entered into transactions with related parties, which would be material, either individually or collectively, and concluded on terms other than on an arm's length basis.

## **7. CONTRACTED LOANS AND GRANTED SURETIES AND GUARANTIES**

Note [16] in the consolidated financial statements provides a detailed account of loans which the Group had or repaid in 2018, and which constituted a balance-sheet liability of the Group.

## **7.1. Loans contracted by Ceramika Nowa Gala SA**

### **7.1.1. Annex to the loan agreement with Bank Pekao SA concluded on 9 February 2017**

As the credit limit was underused, Ceramika Nowa Gala SA and Bank Pekao SA signed, on 29 January 2018, an annex to the loan agreement to reduce the amount of the investment loan from EUR 912 thousand to EUR 642 thousand.

### **7.1.2. Annex to the overdraft facility agreement concluded with mBank SA on 15 December 2004**

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

### **7.1.3. Annex to the overdraft facility agreement concluded with Bank Polska Kasa Opieki SA on 24 September 2013**

On 30 September 2018, the overdraft facility loan granted to the Company by Bank Polska Kasa Opieki SA was to be repaid. On 27 September 2018, the Company and the Bank signed an annex to the loan agreement to extend the deadline for the loan repayment to 30 September 2019, while maintaining the existing collateral. At the same time, the Company decreased its existing overdraft limit from PLN 9,000 thousand to PLN 5,000 thousand. The margin was increased from 1% to 1.2%.

### **7.1.4. Annex to the overdraft facility agreement concluded with mBank on 15 December 2004 (event after the balance sheet date)**

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.

## **7.2. Loans contracted by Ceramika Gres SA subsidiary**

### **7.2.1. Annexes to the loan agreement concluded with ING Bank Śląski SA on 28 June 2014**

On 9 February 2018, Ceramika Gres SA signed an annex to the loan agreement concluded with ING Bank Śląski SA, to extend the deadline for the repayment of the loan from 31 October 2018 to 31 October 2019, while maintaining the existing collateral and the maximum amount of financing of PLN 40,000 thousand. On 2 October 2018, an annex was signed to reduce the debt limit from PLN 40,000 thousand to PLN 32,000 thousand. On 7 January 2019 (event after the balance sheet date), it was resolved by way of yet another annex to gradually reduce 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.

### **7.2.2. Annexes to the factoring agreement concluded with ING Commercial Finance Polska SA on 4 November 2014 (event after the balance sheet date)**

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.

### **7.3. Loans received**

No loans were contracted by the Group in 2018.

## **8. INFORMATION ON GRANTED LOANS AND GUARANTEES**

### **8.1. Loans granted**

#### **8.1.1. 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.

#### **8.1.2. Loan granted by Ceramika Gres SA (subsidiary)**

In April 2018, Ceramika Gres SA granted a loan to Energia Park Trzemoszna Sp. z o.o. (entity controlled, since 31 August 2018, by Ceramika Nowa Gala SA and Ceramika Gres SA) in the amount of PLN 1,100 thousand. The loan was used to finance business operations, mainly to repay the liability due to a loan granted by Ceramika Nowa Gala II Sp. z o.o. (in April 2018, Energia Park Trzemoszna Sp. z o.o. repaid in total the liability under the loan granted by Ceramika Nowa Gala II Sp. z o.o. in the amount of PLN 991 thousand with accrued interest). The loan was granted for two years, with an interest rate of 4.5% per annum.

### **8.2. Guarantees granted**

No financial guarantees were granted in 2018.

### **8.3. Sureties granted**

Due to the refinancing of the working capital loan by Ceramika Gres SA subsidiary (see also section **Błąd! Nie można odnaleźć źródła odwołania.**), 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. As a result of the merger of Ceramika Nowa Gala SA and Ceramika Nowa Gala II Sp. z o.o., since 31 August 2018, the parent company has been a party to the agreement on the surety granted by Ceramika Nowa Gala II Sp. z o.o. The surety bonds are subject to remuneration charged at market rates. In both cases the bank shall have the right to pursue claims under the surety bonds until 31 October 2037.

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

## **9. ULIZATION OF PROCEEDS FROM ISSUED SECURITIES**

No securities were issued in 2018.

## **10. IMPLEMENTATION OF EARNINGS GUIDANCE**

The Group did not publish any earnings guidance in 2018.

## **11. ASSESMENT OF FINANCIAL RESOURCES MANAGEMENT**

As the parent company of the Group, Ceramika Nowa Gala SA implements a policy of maintaining a secure asset financing structure so that the cash flow generated by the current operations less capital expenditure commitments allows for settling liabilities of the Group, with due account of a margin of safety.

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 reduce its debt.

At the end of 2018, the Group's equity represented 69% of total assets. The current liquidity ratio decreased as compared to 2017 and was 1.67. The Group settled its liabilities on an ongoing basis (minor delays occurred as regards certain trade liabilities). The inventory turnover period was shorter than that recorded in 2017. Periods for repayment of both receivables and liabilities were lower than those recorded in 2017.

In 2018, there was a significant increase in the costs of production inputs, which translated into lower profitability and worse financial performance of the Group. There was also a decrease in production to reduce the inventory of finished products, which resulted in deterioration in the performance.

#### Selected economic indicators\*

	2018	2017
Current liquidity ratio	1.67	1.93
Current liquidity ratio II	0.47	0.65
Return on assets	-9.87%	-2.20%
Return on equity	-14.21%	-3.09%
Net return on sales	-14.07%	-3.41%
Receivables turnover (in days)	50	57
Liabilities turnover (in days)	61	68
Inventory turnover (in days)	228	238

\*In the case of indicators in which the balance sheet data was used, the analysis was based on data derived from the closing balance.

## 12. ASSESSMENT OF FEASIBILITY OF INVESTMENT PLANS

Following major modernization of the production lines in the parent Company's plant in 2017–2018, only minor replacement investments are planned in the next year. All of them can be paid with own funds.

## 13. UNUSUAL EVENTS AFFECTING THE FINANCIAL STATEMENTS OF THE GROUP

The following unusual events occurred in 2018:

- due to production downtime, the profit was lower by PLN 11,540 thousand. In the same period of 2017, this figure was PLN 6,620 thousand;
- payment of a dividend to shareholders of the parent company (see section **Błąd! Nie można odnaleźć źródła odwołania.**): PLN 2,345 thousand;
- part of impairment write-downs of deferred income tax assets: PLN 2,073 thousand;
- inventory write-offs: PLN 1,142 thousand;
- reduction in profit by the loss on the sale of investment property: PLN 1,600 thousand (see section **Błąd! Nie można odnaleźć źródła odwołania.**).

## 14. EXTERNAL AND INTERNAL FACTORS IMPORTANT FOR THE DEVELOPMENT OF THE GROUP AND ITS BUSINESS DEVELOPMENT PROSPECTS

### 14.1. Economic situation

Due to the dependence of the demand for tiles on the economic situation, the GDP growth rate and the development of the construction industry in Poland – which is the main selling market for the Group – are of great importance to its operations. As sales of tiles in the commercial construction market are an important item in the Group's sales, this segment of the construction market has also a major impact on the demand for our products. The

economic slowdown in these EU countries which are the major exporting markets for the Group may affect export dynamics in 2019.

### **14.2. Strategy and development of the Group**

In 2017, the production process in the Group was reorganized. One of important elements of this plan was moving production from CNG II to the other two plants belonging to the Group. Following the reorganization, production that used to be carried out in three plants is carried out in two ones, which has significantly simplified production processes and reduced costs. Production consolidation was coupled with modernization in the plant of CNG SA to increase the share of large formats in sales and extend the product offering. Works in this respect cost approx. PLN 11 million, spent in 2017. With this modernization, new products, mainly technical stoneware tiles and glazed ones on colored mass are being put on the market, with a significant proportion of larger formats – 60x120 cm and similar ones. All new products were put on the market in H1 2018. Along with the introduction of modern products, a program of changes in the sales management system is also being implemented to reverse the downward trend in sales. Compared to 2017, an increase in exports was recorded.

At the same time, the merger of Ceramika Nowa Gala SA and Ceramika Nowa Gala II Sp. z o.o. was being implemented (see section **Błąd! Nie można odnaleźć źródła odwołania.**).

Irrespective of these measures, due to the deteriorating profitability of the Group's core business, resulting mainly from higher costs, products' prices are being further increased, redundant assets are being sold and a plan to reduce the costs of operation at all levels of its business is being introduced.

### **15. AMENDMENTS TO THE PRINCIPLES OF MANAGEMENT OF THE COMPANY AND THE GROUP FOR WHICH IT IS THE PARENT COMPANY**

No amendments to the principles of the management of the Group were introduced in 2018 except for those described in section 15.2.

### **16. CHANGES IN THE 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.

## **17. AGREEMENTS WITH MANAGING PERSONS PROVIDING FOR COMPENSATION IN THE CASE OF THEIR RESIGNATION OR DISMISSAL**

Under the contracts of employment, each member of the Management Board is entitled to severance pay in the amount of three months' basic salary. All members of the Management Board have signed non-competition agreements. Members of the Management Board are entitled to compensation during the non-competition period.

## **18. REMUNERATION AND BONUSES PAID OR PAYABLE TO THE MANAGING AND SUPERVISORY PERSONS**

### **18.1. Remuneration and other benefits paid to the managing persons (gross amounts)**

Amounts in PLN thousand (PLN '000)

<b>Name and surname</b>	<b>CNG SA</b>	<b>CGR SA</b>	<b>CNG Lux</b>	<b>Total</b>
Waldemar Piotrowski	416	238	26	680
Paweł Górnicki	282	192	26	526
<b>Total</b>	<b>698</b>	<b>430</b>	<b>52</b>	<b>1,206</b>

### **18.2. Remuneration paid to members of the Supervisory Board (gross amounts)**

Amounts in PLN thousand (PLN '000)

<b>Name and surname</b>	<b>Company</b>	<b>Amount</b>
Paweł Marcinkiewicz	CNG SA	60
Grzegorz Ogonowski	CNG SA	25
Wojciech Włodarczyk	CNG SA	51
Łukasz Żuk	CNG SA	48
Marek Gabryjelski	CNG SA	48
Michał Hulbój	CNG SA	26
<b>Total</b>		<b>258</b>

## **19. INFORMATION ON A REMUNERATION POLICY REQUIRED UNDER RULE VI.Z.IV OF "CODE OF BEST PRACTICE OF WSE LISTED COMPANIES 2016"**

The Group does not have a formal remuneration policy specifying its long-term objectives and rules for measuring its effectiveness. Remuneration amounts in the companies of the Group are determined in accordance with applicable laws (in particular the Labor Code), with due account of the market competitiveness of remuneration provided for a given job.

## **20. OUTSTANDING LOANS, GUARANTEES, SURETIES, ETC. GRANTED BY THE COMPANY OR SUBSIDIARIES THEREOF TO THE MANAGING AND SUPERVISORY PERSONS, OR TO PERSONS AFFILIATED WITH THEM**

No such transactions occurred as at the last day of the reporting year.

## **21. THE COMPANY'S SHARES HELD BY THE MANAGING AND SUPERVISORY PERSONS**

According to the information available to the Company, no change occurred in 2018 as regards the ownership of the Company's shares by the issuer's managing and supervisory persons. As

at the date of this Report, it follows from the information available to the Company that:

- Mr. Waldemar Piotrowski, President of the Management Board, holds: 10,806,249 shares of the Company, representing 23.04% of the share capital and authorizing their holder to the same number of votes at the General Meeting of Shareholders;
- Mr. Paweł Górnicki, Deputy President of the Management Board, holds: 352,077 shares of the Company, representing 0.75% of the share capital and authorizing their holder to the same number of votes at the General Meeting of Shareholders.

## 22. INFORMATION ON SIGNIFICANT SHAREHOLDERS

According to the information available to the Company, the following shareholders hold shares authorizing them to at least 5% of votes at the General Meeting of Shareholders. The following information is based on communications provided to the Company by the shareholders.

Shareholder	Number of shares taken up	Percentage share in the share capital	Number of votes at the General Meeting	Percentage share in votes at the General Meeting
Waldemar Piotrowski	10,806,249	23.04%	10,806,249	23.04%
MetLife Otwarty Fundusz Emerytalny	9,356,722	19.95%	9,356,722	19.95%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	5,834,364	12.44%	5,834,364	12.44%
Nationale-Nederlanden Otwarty Fundusz Emerytalny and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny	4,687,607	9.99%	4,687,607	9.99%
PTE Allianz Polska SA	4,562,726	9.73%	4,562,726	9.73%
VALUE Fundusz Inwestycyjny Zamknięty with Sub-fund 1	2,509,980	5.35%	2,509,980	5.35%

There are no securities conferring special control rights with respect to the Company. The Company's shares bear no restrictions as to the transfer of property rights or limitations on the exercise of voting rights.

## 23. INFORMATION ON AGREEMENTS KNOWN TO THE COMPANY, AS A RESULT OF WHICH CHANGES IN THE PROPORTIONS OF SHARES HELD BY THE EXISTING SHAREHOLDERS MAY OCCUR IN THE FUTURE

The Company is not aware of any such agreements.

## 24. INFORMATION ON AGREEMENTS WITH A CERTIFIED AUDITOR

The financial statements of the Company were audited by BDO Sp. z o.o. 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.

## **25. DESCRIPTION OF SIGNIFICANT RISK FACTORS WITH INFORMATION ON THE EXTENT TO WHICH THE COMPANY IS EXPOSED TO THEM**

### **25.1. Risk factors related to the Group's business**

#### **25.1.1. Risk associated with increased production costs**

The production plants belonging to the Group consume during the production process significant quantities of natural gas, electricity and raw materials. An increase in the prices of gas, electricity or raw materials may adversely affect the performance of the Group, in particular with respect to gas and electricity, in the case of which the Group is dependent on single suppliers with monopolistic positions. The Group attaches great importance to cost control and reduction at 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 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.

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

The Group uses high-quality raw materials to produce ceramic tiles. In order to obtain high quality ceramics it is necessary to use ingredients with a low level of impurities. For colors to be vivid, a mass which does not darken during firing needs to be used. As part of the raw



materials is imported from eastern Ukraine (from an area which has not been covered by war operations yet), there is a risk of a limited availability of raw materials with the required quality parameters, which would force the 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.

### **25.1.3. Risk associated with changes in consumer preferences**

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

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

### **25.2.1. Risk associated with the macroeconomic and political situation**

In spite of the continuing economic recovery in Poland, more 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.

### **25.2.2. Risk associated with competitors' activities**

In the last few years, the level of competition on the domestic market increased in all its segments. Moreover, increased investment activity can be seen in the ceramic tile industry. This activity is 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), 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]).

### **25.2.3. Risk of increased competition from manufacturers of finishes other than ceramic tiles**

Ceramic tiles for wall and floor cladding are one of the most popular finishes. The 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.

### **25.2.4. Risk associated with the instability on Eastern European and Asian markets**

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

### **25.2.5. Risk associated with the tax system**

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

## **25.3. Financial risk and the purposes and principles of its management**

The main financial instruments used by the Group include bank loans, cash and short-term deposits. The main purpose of these financial instruments is to raise funds for the Group's business. The 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.

### **25.3.1. Interest rate risk**

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

### **25.3.2. Risk associated with foreign exchange rates**

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

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

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

### **25.3.3. Credit risk**

Receivables from customers entail credit risk. Each year, part of receivables is lost (write-downs for bad debts are made). Credit risk related to receivables from customers is mitigated through:

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

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

### **25.3.4. Liquidity risk**

The Group uses external funding which determines its liquidity. In order to ensure external funding in subsequent periods, the Group takes action to improve its EBITDA and seeks to reduce 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
<b>Total</b>	<b>70,645</b>	<b>30,310</b>	<b>34,482</b>	<b>3,182</b>	<b>2,671</b>

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

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

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

Financial instrument	Currency	Balance in the currency given on the left	Balance in PLN	Risk type	Adopted fluctuation range	Sensitivity level
Foreign currency denominated receivables	EUR	1,002	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 pp	+/-131
Variable interest rate loans	PLN	33,596	33,596	interest rate	3.00 pp	+/-1,008

## 26. IMPORTANT EVENTS AFFECTING THE OPERATIONS OF THE GROUP THAT TOOK PLACE AFTER THE BALANCE SHEET DATE AND BEFORE THE DATE OF THIS REPORT

Such events have been described in the notes to the consolidated financial statements.

## 27. DESCRIPTION OF SIGNIFICANT OFF-BALANCE SHEET ITEMS

The description of significant off-balance sheet items has been provided in the notes to the consolidated financial statements.

## **28. DESCRIPTION OF THE STRUCTURE OF ASSETS AND LIABILITIES IN THE CONSOLIDATED BALANCE SHEET**

Fixed assets are the main item among the assets recognized in the statement of financial position. These account for approx. 51% of total assets. As regards their structure, property, plant and equipment account for the greatest share in their value (76% of the total amount of the relevant items). Furthermore, in the group of fixed assets, the production property left following the liquidation of production in the former plant of Ceramika Nowa Gala II was recognized as a fixed asset available for sale. The change in the value of fixed assets between 2017 and 2018 was mainly due to depreciation charges made during the year as well as the sale of investment property.

In the case of current assets, in 2018 – just like in 2017 – inventory accounted for the largest share of those assets (72%), and its value increased relative to 2017. The increase in the inventory value resulted from higher manufacturing costs, not increased quantities of stored products. Trade and other receivables accounted as at the end of 2018 for 10% of the value of assets and 19% of the value of current assets. In 2017, these figures were 10% and 21%, respectively.

As regards equity and liabilities, equity – representing 70% of total assets – was the main item in this group. The amount of equity decreased compared to the end of 2017 due to the payment of the dividend to shareholders of the parent company and a recorded loss. As Ceramika Nowa Gala SA holds, directly or indirectly, 100% of equity in its subsidiaries, no minority interests are shown in the consolidated financial statements. The amount of foreign exchange differences on translation is due to conversion from EUR to PLN of the financial statements of CNG Luxembourg S.à.r.l. subsidiary.

As at the balance sheet date, the levels of ratios required by the banks were not within acceptable ranges and the loans were reclassified to short-term ones. This led to an increase in short-term debt under loans (in liabilities) by 40% relative to 2017.

## **29. DESCRIPTION OF THE STRUCTURE OF MAJOR CAPITAL DEPOSITS OR MAJOR EQUITY INVESTMENTS MADE WITHIN THE GROUP**

No capital expenditure was made in the Group in 2018.

## **30. DESCRIPTION OF PROCEEDINGS PENDING BEFORE COURT, AN ARBITRATION AUTHORITY OR A PUBLIC ADMINISTRATION AUTHORITY**

None of the judicial or administrative proceedings involving the Company or a subsidiary thereof concerns a dispute whose value would be significant from the perspective of the financial statements. There are no judicial disputes either under which the value of receivables of the Group would not be written off.

## **31. STATEMENT ON CORPORATE GOVERNANCE PRACTICES**

The Company has drawn up a separate document in this regard, audited by a certified auditor and attached to the annual report.

## **32. INFORMATION ON THE CONTROL SYSTEM FOR EMPLOYEE STOCK OWNERSHIP PLANS**

Currently, the Group does not operate any ESOPs.

## **33. PAYMENT OF DIVIDEND**

On 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.

### **34. 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 estimated at PLN 7,550,000. The Management Board used the proceeds from the sale to reduce the debt.

### **35. DECISION ON FURTHER REVIEW OF STRATEGIC OPTIONS BY THE COMPANY**

On 9 December 2018, the parent 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.



## **Statement on non-financial information for 2018**

Końskie, 30 April 2019

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

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

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

### 2.1. Ceramika Nowa Gala SA Group

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 (surviving company) and Ceramika Nowa Gala II Sp. z o.o. (target company) was registered in the National Court Register.

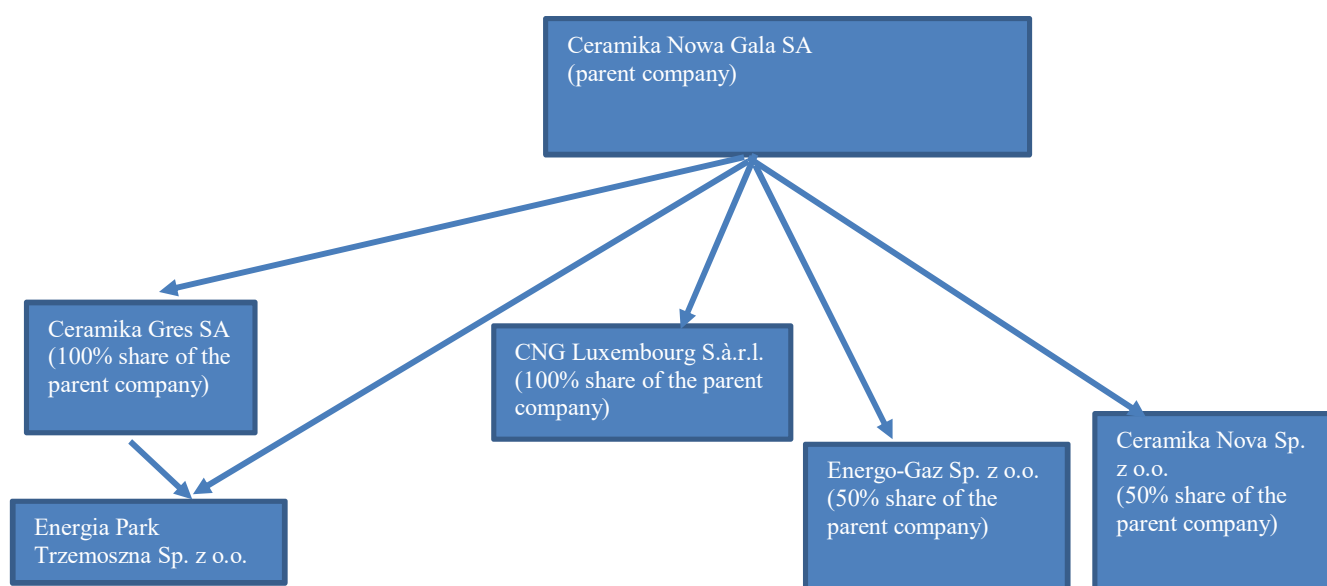
In the period from 1 January 2018 to 31 August 2018, the Group was composed of the following companies:

- 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.

**Figure 1. Organizational structure of the Group**



CNG Luxembourg S.à.r.l. has been established to manage the portfolio of treasury shares of the parent company, purchased in the framework of share buyback programs.



Currently, this company does not conduct any other activity, and all treasury shares held by this entity have been transferred to Ceramika Nowa Gala SA and redeemed.

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

Furthermore, Ceramika Nowa Gala SA has a significant impact on its two associated companies: Energo-Gaz sp. z o.o. based in Końskie (50% share) and Ceramika Nova sp. z o.o. based in Końskie (50% share). The core business of Energo-Gaz sp. z o.o. consists in the handling of a siding (the siding is owned by Ceramika Nowa Gala SA and an entity not related to it – joint ownership). Ceramika Nova sp. z o.o. has never commenced any operations and holds no assets.

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

### **2.2. Business model of the Ceramika Nowa Gala Group**

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

The Nowa Gala brand is addressed to the medium and premium segments, with higher aesthetic and functional requirements. The B2B commercial segment is an important sales channel for this brand. The applied production technology (mass-colored technical stoneware tiles and glazed stoneware tiles on colored mass) enables obtaining adequate technical parameters, required by institutional clients (e.g. the abrasiveness class or anti-slip class).

Products sold under the Ceramika Gres brand include mainly glazed stoneware tiles on white mass, produced using the digital printing technology and offered mainly in the economic segment, in which a competitive price level is important. A significant part of the products sold in this segment are tiles in smaller formats – 33x33 or 40x40 cm. DIY chains are an important distribution channel for this brand.

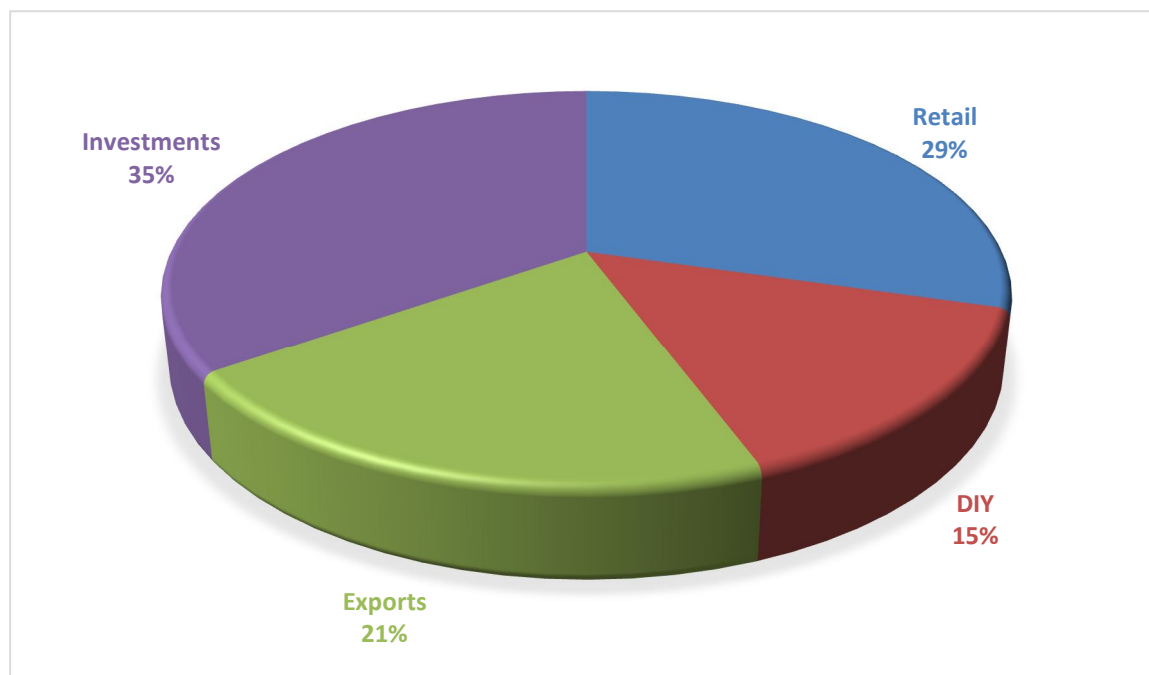
As regards the domestic market, sales addressed to retail customers, effected via specialist wholesalers cooperating with the Group, are of great importance to both brands. These wholesales may have their own chains of showrooms where ceramic tiles are sold or be an indirect channel that renders logistic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

Exports account for almost 21% of the Group's sales (the Group sells abroad the same products as it does in Poland). Local representatives, more familiar with the specific characteristics of a given region, can play an important role in specific markets.

**Table 1 Sales structure by type**

Product type	2018	2017
Unglazed tiles	33%	49%
Glazed tiles	62%	46%
Decorative elements	4%	4%
Other sales	1%	1%
	100%	100%

**Figure 2 Proportion of customer groups in revenue**



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

Key suppliers of the Group include those supplying gas and electricity, as well as producers and distributors of materials used in production (feldspars, clays, mineral pigments, enamels, etc.). The Group procures commercially available natural resources used in the production of tiles, mainly imported ones due to their higher quality.

The Group ranks 6<sup>th</sup> among Polish manufacturers of ceramic tiles in terms of production capacity. According to available data for 2016, the estimated share of the Group in the entire domestic ceramic tile market is 7%. Major domestic competitors include: Cersanit SA Group (including the Opoczno brand), Paradyż Group, Ceramika Końskie Group, Tubądzin Group, Cerrad and Polcolorit. As regards the domestic ceramic tile market, no manufacturer's share exceeds 30%.

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

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

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

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

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

- employment structure.

### 2.3.1. Product quality

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

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

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

	2018	2017
Sales volume in sq. m. thousand	5,211	5,660
Quantity of goods covered by complaints in sq. m. thousand	14	23
Ratio of the volume of reported complaints (in sq. m. thousand) to the sales volume (in sq. m. thousand)	0.24%	0.41%
Total number of reported complaints	952	1,376

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

### 2.3.2. Volume of generated waste

The following indicators are of key importance to a manufacturer of ceramic tiles: carbon dioxide emissions and the mass of generated waste relative to the sales volume in sq. m. In 2018, Ceramika Nowa Gala SA and Ceramika Gres SA operated systems which were, under applicable regulations, participants in the EU ETS. The main source of CO<sub>2</sub> emissions in the systems operated by the companies of the Group is natural gas combustion in production systems.

**Table 3 Weight of generated waste and CO<sub>2</sub> emissions**

Waste type	Weight of generated waste in tonnes	
	2018	2017
Hard ceramic waste after heat treatment	8,296	7,675
<i>in kg per sq. m. of sold products</i>	<i>1.59</i>	<i>1.36</i>
Sludge from sewage treatment plants in the companies' plants	3,613	4,109
<i>in kg per sq. m. of sold products</i>	<i>0.69</i>	<i>0.73</i>
Paper and cardboard packaging	652	771
<i>in kg per sq. m. of sold products</i>	<i>0.13</i>	<i>0.14</i>
Plastic packaging	80	78
<i>in kg per sq. m. of sold products</i>	<i>0.02</i>	<i>0.02</i>
Packaging made of wood	1,595	1,559
<i>in kg per sq. m. of sold products</i>	<i>0.31</i>	<i>0.28</i>
CO <sub>2</sub> emissions	29,291	32,768
<i>in kg per sq. m. of sold products</i>	<i>5.62</i>	<i>5.79</i>

### 2.3.3. Employment structure

As at 31 December 2018, the Group had 524 employees (510 full-time equivalents).

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

Company	2018	2017	Change
Ceramika Nowa Gala SA	359	363	-2%
Ceramika Gres SA	161	165	-3%
Energia Park Trzemoszna Sp. z o.o.	1	1	+0%

In 2018, the Group's employees working on the basis of employment contracts for an indefinite time constituted 80% of the total number of the Group's staff, while those employed on the basis of fixed-term contracts constituted the remaining 20% of the total number of employees.

**Table 5 Employment structure in the Group by employment contract**

	2018			2017		
	Contract for an indefinite time	Contract for a definite time	Mandate contract	Contract for an indefinite time	Contract for a definite time	Mandate contract
<b>Women</b>	<b>118</b>	<b>21</b>	<b>12</b>	<b>109</b>	<b>33</b>	<b>10</b>
Up to 30 years of age	7	9	-	3	12	-
31-40 years of age	47	8	4	50	12	4
41-50 years of age	44	4	5	38	6	3
over 50 years	20	-	3	18	3	3
<b>Men</b>	<b>316</b>	<b>65</b>	<b>7</b>	<b>304</b>	<b>92</b>	<b>4</b>
Up to 30 years of age	23	23	1	22	39	-
31-40 years of age	108	18	1	115	23	-
41-50 years of age	110	14	1	100	20	-
over 50 years	75	11	4	67	10	4
<b>Total by employment contract type</b>	<b>434</b>	<b>86</b>	<b>19</b>	<b>413</b>	<b>125</b>	<b>14</b>

**Table 6 Employment structure in the Group by positions in FTEs**

	2018			2017		
	Managerial staff	Specialists	Other	Managerial staff	Specialists	Other
<b>Women</b>	<b>11</b>	<b>56</b>	<b>72</b>	<b>11</b>	<b>59</b>	<b>71</b>
Up to 30 years of age	1	9	7	-	11	4
31-40 years of age	5	33	17	4	35	22
41-50 years of age	3	9	37	5	7	32
over 50 years	2	5	12	2	6	13
<b>Men</b>	<b>53</b>	<b>16</b>	<b>309</b>	<b>62</b>	<b>22</b>	<b>311</b>
Up to 30 years of age	-	2	44	-	2	59
31-40 years of age	24	10	93	29	10	99
41-50 years of age	24	4	96	27	5	87
over 50 years	5	1	77	6	5	66
<b>Total by positions held</b>	<b>64</b>	<b>73</b>	<b>381</b>	<b>73</b>	<b>81</b>	<b>382</b>

Within the whole Group, managerial positions held by women account for 17% of the total number of employees holding such positions, while women working as specialists account

for 77% of the total number of employees holding such positions. This structure is due to the fact that the Group is production-oriented, and most of managerial positions are related to managing the various production stages.

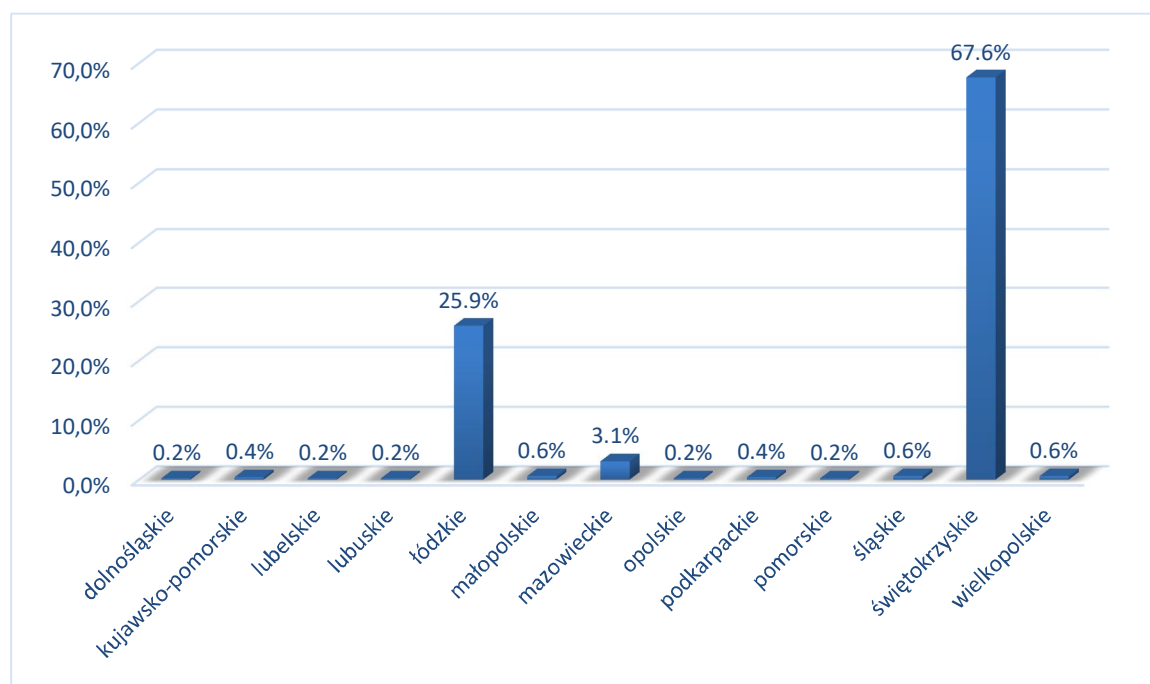
### 3. Description of the entity's policy as regards social, employee and environmental issues, as well as those related to respect for human rights and corruption counteracting, and a description of the results of implementation of this policy

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

#### 3.1. Social issues

The Ceramika Nowa Gala Group does not have a formalized policy with respect to social issues, but its impact on the social environment is significant, especially in the region in which its production plants operate. The Group influences the local community by offering employment. Employees from the Świętokrzyskie Voivodeship constitute 68% of the total staff. The Group employs also people from the neighboring Łódzkie Voivodeship, who constitute 26% of the total staff. Furthermore, in the case of part of employees working in the Group's plants both adult family members are employed. Besides people employed directly in the Group's plants, part of suppliers and customers cooperating with Ceramika Nowa Gala operate directly in the region where the Group's plants are located.

**Figure 3 Employment structure in the Group in 2018 by voivodeship**



#### 3.2. Employee issues

The Ceramika Nowa Gala Group does not have a formalized policy regarding employee issues. Employee issues are regulated in the companies of the Group by the Labor Regulations, Regulations of the Company's Social Benefit Fund and generally binding legal provisions. The Group observes the labor law and internal regulations regarding the recruitment process, working conditions, which include work time, pay, holidays as well as occupational health and

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

As a manufacturer of high quality ceramic tiles, the Group is exposed to the risk of outflow of employees dealing with technological solutions, launching new products and creating new designs. The Group protects itself against this risk by making employees' remuneration, pay rises and bonuses dependent on their competences. The remuneration system and employment conditions are formed taking into account the type and quality of performed work and the level of salaries in the market. The Group has an internal labor market which promotes career development and promotion within the Group, enabling employees to participate in recruitment processes. The Group, as an employer, strives to make the offer addressed to employees competitive and tailored to their needs and skills. The Group also supports employees' development through specialist and sector-specific training courses corresponding to their positions. These measures are implemented through on-site and away training, run by external consulting companies, and through on-line training (webcasts). Due to its production-oriented business, the Group attaches great importance to improving the skills of its direct employees and those supervising the production process. In 2018, a program of implementing selected LEAN management techniques was continued in the Group's plants.

### **3.3. Natural environment issues**

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

Emissions of carbon dioxide (CO<sub>2</sub>) are an important environmental impact component for a group manufacturing ceramic tiles. In 2018, Ceramika Nowa Gala SA and Ceramika Gres SA operated systems which were, under applicable regulations, participants in the EU ETS. The main source of CO<sub>2</sub> emissions in the systems operated by the companies of the Group is natural gas combustion in production systems. The EU ETS is a key element of the EU policy

aimed at counteracting climate change and its basic tool for reducing greenhouse gas emissions. This is the first and so far the largest carbon dioxide emission market in the world. CO<sub>2</sub> emission volumes are presented in section 2.3.2.

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

### **3.4. Issues regarding respect for human rights and counteracting corruption**

The Group does not have a formalized policy regarding respect for human rights and counteracting corruption. However, the Ceramika Nowa Gala SA Group is guided in its business by the principles of respect for and dignity of every human being. It complies with generally applicable laws and generally accepted principles of social coexistence regarding such issues. It counteracts discrimination in employee relations as far as possible. Employees of Ceramika Nowa Gala SA and the companies forming the Group are subject to labor regulations, in which each of the companies as an employer undertakes to treat employees on the same footing while establishing and terminating employment relationships, employment conditions, promotion and access to training in order to improve professional qualifications, regardless of age, gender, disability, race, religion, nationality, political conviction, trade union membership, ethnicity, sexual orientation, and regardless of the form of employment – for a definite or indefinite time, full or part time. The Group, as an employer, treats employees equally as regards establishing employment relationships, which means non-discrimination in any way, directly or indirectly for the reasons described above. In the Ceramika Nowa Gala Group, any undesirable behavior of a sexual nature or relating to the employee's sex, leading to violation of the employee's dignity, and in particular to creating an intimidating, hostile, humiliating, degrading or outrageous atmosphere against them, is forbidden.

The Group, as an employer, is responsible for occupational health and safety, therefore it, among other things: organizes work in such a way as to ensure safe and hygienic working conditions, ensures compliance with regulations and rules regarding occupational health and safety, equips its employees with work clothing and footwear as well as personal protective equipment and personal hygiene products and designates a suitable place for their storage. To ensure the employees' safety, the Group, as an employer, does not allow an employee to perform work without being provided with the form of personal protective equipment required for a given position. Furthermore each employee is trained as regards the rules for using, maintaining and storing personal protection equipment. In 2017, 38 employees in the Group were working in harmful conditions due to the noise level, while in 2018, this figure was 45.

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

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

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

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

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

### Signatures

This report was drawn up and signed on **30 April 2019** and will be published on 30 April 2019.

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Waldemar Piotrowski – President of the Management Board

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Paweł Górnicki – Deputy President of the Management Board