FABRYKI MEBLI „FORTE"S.A. CAPITAL GROUP

Consolidated financial statements for the period ended 31th December 2017

Statements prepared in accordance with the International financial reporting standards

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Ostrów Mazowiecka, 5th April, 2018

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Audit Report
on the year-end consolidated financial statements for the period from 1 January 2017 to 31 December 2017

INDEPENDENT AUDITOR'S REPORT
ON THE YEAR-END CONSOLIDATED FINANCIAL STATEMENTS
for the General Meeting and Supervisory Board of
Fabryki Mebli Forte S.A.

We have audited the accompanying year-end consolidated financial statements of the Group, where the holding company is Fabryki Mebli Forte S.A. ("the Company", "the Holding Company") with its registered office in Ostrów Mazowiecka, ul. Biała 1, consisting of: the year-end consolidated statement of financial position prepared as at 31 December 2017, the year-end consolidated profit and loss account, the year-end consolidated statement of comprehensive income, the year-end consolidated statement of cash flows and the year-end consolidated statement of changes in equity for the period from 1 January to 31 December 2017, as well as additional information on significant accounting policies and notes to the financial statements ("the consolidated financial statements").

Responsibilities of the Holding Company's Management Board and Supervisory Board for the Consolidated Financial Statements

The Holding Company's Management Board is responsible for the preparation of the year-end consolidated financial statements and for their fair presentation in accordance with International Accounting Standards, International Financial Reporting Standards and the related interpretations announced in the form of European Commission regulations, as well as other binding legal regulations and the Holding Company's Statute. The Holding Company's Management Board is also responsible for such internal controls as it considers necessary to ensure that the consolidated financial statements are free from material misstatements resulting from fraud or error.

In accordance with the Accounting Act of 29 September 1994 (2018 Journal of Laws, item 395 with subsequent amendments) ("the Accounting Act"), the Holding Company's Management Board and members of its Supervisory Board are required to ensure that the consolidated financial statements meet the requirements of the Accounting Act.

Responsibilities of the Auditor

Our responsibility was to express an opinion whether the consolidated financial statements present truly and fairly the Group's financial position and financial result in accordance with the applicable International Accounting Standards, International Financial Reporting Standards and the related interpretations announced in the form of European Commission regulations, as well as with the adopted accounting methods (policies).

We performed the audit of the consolidated financial statements in accordance with the provisions of:

1) the Act of 11 May 2017 on certified auditors, audit firms and on public supervision (2017 Journal of Laws, item 1089 with subsequent amendments) ("the Certified Auditors Act"),
2) National Standards on Auditing in the wording of International Standards on Auditing, adopted in Resolution No. 2783/52/2015 passed by the National Council of Certified Auditors on 10 February 2015 with subsequent amendments,
3) Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (Official Journal of the EU L 158 of 27 May 2014, page 77 and Official Journal of the EU L 170 of 11 June 2014, page 66) ("Regulation 537/2014").

These regulations require us to comply with ethical requirements and to plan and perform the audit in a manner that allows us to obtain sufficient assurance that the consolidated financial statements are free from material misstatements.

The objective of an audit is to obtain sufficient assurance about whether the consolidated financial statements as a whole are free from material misstatements due to fraud or error, and to issue an independent auditor's report that includes our opinion. Sufficient assurance is a high level of assurance, but it is not a guarantee that an audit performed in accordance with the above standards will always detect an existing material misstatement. Misstatements can arise from fraud or error and are considered material if it could be reasonably expected that they, individually or in aggregate, could influence the economic decisions of users made on the basis of these consolidated financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error, because fraud may involve collusion, forgery, deliberate omission, misrepresentation or circumvention of internal controls, and may pertain to every area of law and regulations, not just those that have a direct impact on the consolidated financial statements.

The audit consisted of performing procedures aimed at obtaining audit evidence on the amounts and information disclosed in the consolidated financial statements. We choose the procedures based on our judgement, including an assessment of the risk of material misstatements in the consolidated financial statements due to fraud or error. In assessing this risk we consider the internal controls related to the preparation and fair presentation of the consolidated financial statements in order to plan our audit procedures, and not to express an opinion on the effectiveness of internal controls. An audit also includes assessing the appropriateness of the accounting policies used and the reasonableness of the estimates made by the Holding Company's Management, as well as evaluating the overall presentation of the year-end consolidated financial statements.

The scope of the audit does not include an assurance regarding the Group's future profitability, or regarding the Holding Company Management's effectiveness in the handling of the Group's affairs now or in the future.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our opinion is consistent with the additional report for the Audit Committee issued on the date of the present audit report.

Independence

During the audit the auditor in charge and the audit firm remained independent of the entities comprising the Group in accordance with the provisions of the Certified Auditors Act, Regulation 537/2014 and the ethical standards adopted by the National Council of Certified Auditors.

To the best of our knowledge and belief we declare that we have provided no non-audit services forbidden by the provisions of Article 136 of the Certified Auditors Act and Article 5 point 1 of Regulation 537/2014 to the entities comprising the Group.

Selection of Auditor

We were selected as the auditor of the consolidated financial statements in a resolution passed by the Company's Supervisory Board on 29 June 2012.

We have audited the consolidated financial statements of the Group (including as a public interest entity) continually since the financial year ended 31 December 2012, i.e. for 6 consecutive years.

Most significant types of risk

In the course of the audit we identified the below described most significant types of risk of material misstatement, including from fraud, and have designed audit procedures appropriate for those types of risk.

Risk of material misstatement	Audit procedures performed in response to the risk
Recognition of revenue	
The Group's sales revenue for the financial year ended 31 December 2017 has been presented in Note 11.1 to the accompanying consolidated financial statements and includes: – revenue from the sale of finished products, goods for resale and raw materials in the amount of 1.088.759 thousand zł, and – revenue from the sale of services in the amount of 7.471 thousand zł. We have classified recognition of revenue as a key audit matter due primarily to the significance of this item to the readers of the accompanying consolidated financial statements and the complex nature of the Group's accounting recognition of revenue. We paid special attention to the Holding Company's recognition of the effects of cash flow hedge accounting. In the audited period the Holding Company generated a profit on the settlement of options in the amount of 2.725 thousand zł, which has been recognized under sales revenue (in 2016 it had been 131 thousand zł). Another important aspect was, in our opinion, the assignment of revenue to the correct reporting period, as well as completeness of revenue in view of the Group's use of INCOTERMS In addition, a portion of the revenue (especially from the provision of services and sale of raw materials) is generated as part of intra-group transactions, i.e. is subject to consolidation adjustments.	As part of our audit procedures we familiarized ourselves with the internal control environment, assessed its design and performed effectiveness tests of the identified key controls, in particular those relating to the approval of contracts and supplies. We followed the tests of controls with detailed procedures that included a verification of the assignment of revenue to the reporting period, completeness of recognition of corrective invoices, reconciliation of the various transactions with source documents, as well as a check of the entity's recognition of the adjustment resulting from the settlement of options. We also performed analytical procedures consisting of analyzing the sales trend and sales margin, as well as compared revenue and the cost of goods sold. We obtained an additional assurance from independent confirmations of trade receivable balances and (if no confirmation was received from a vendor) from a test of receivables paid after the balance sheet date. Lastly, we checked the recognition of consolidation adjustments.
Recognition of hedge accounting	
The Group uses cash flow hedge accounting to manage currency and interest rate risk by implementing the following hedging strategies: – to secure against currency risk associated with future cash flows from revenue from the sale of finished products, the Holding Company has zero-cost option collars consisting of a purchased put and a written call option with exercise prices based on the EUR/PLN exchange rate; – to secure against interest rate risk the subsidiary Tanne concludes Interest Rate Swaps ('IRS') to hedge the cash flows from an investment credit expressed in EUR, where the interest is calculated based on a variable interest rate; as part of the IRS the Group will pay a variable rate, and receive a fixed rate (the first cash flow will occur in 2018).	Because valuation techniques and models may be subjective and may be based on different assumptions relating to pricing and exercise dates, as part of our audit procedures we obtained an understanding of the Group's internal risk management procedures and controls relating to the formation and application of hedging strategies. In addition, we agreed the valuation and existence of the various derivative instruments with independent bank confirmations. We also familiarized ourselves with the reports prepared for the Group by its external advisors. We paid special attention to the accounting models used by the Group. As part of this audit procedure we checked the accuracy of determining the intrinsic and time value of the options held by the Group, verified the calculation of interest and profit/loss on the exercised options, as well as the recognition of the

We assessed the area of hedge accounting as one of special risk due to the complexity of the accounting models associated with the valuation and settlement of these financial instruments and with the measurement of hedge effectiveness in the context of the penalties indicated in IAS 39.	resulting values in the accompanying consolidated financial statements.
Scope of consolidation	
As mentioned in Note 2 to the consolidated financial statements, Fabryki Mebli Forte S.A (hereinafter "Forte") holds 100% of the shares of the subsidiary Terceira sp. z o.o. (hereinafter "Terceira" or "the Company"), which has been consolidated by acquisition accounting in the accompanying consolidated financial statements. Using its own funds and bank credits Terceira acquired and paid all of the investment certificates (A series) of the non-public asset closed-end investment fund SEZAM XX (hereinafter "FIZAN"). FIZAN was established and is managed by Skarbiec Towarzystwo Funduszy Inwestycyjnych S.A. FIZAN's investment portfolio includes Bentham sp. z o.o. After the Company made payments for B-series investment certificates, Bentham sp. z o.o. acquired approximately 8,58% of the shares of Forte with an acquisition date value of approx.156 million zł. FIZAN has not been consolidated in the accompanying consolidated financial statements. Evaluation of the provisions of the management agreement concluded between TFI and an investor with a view to identify and understand whether the rights arising out of the agreement, from the standpoint of economic substance, make it possible to influence investment decisions and confirm, in accordance with the requirements of IFRS 10, the existence of control, or rather whether these are protective rights that do not give control and thus do not result in the requirement to include the entity in the consolidated financial statements, is an element of the Holding Company's Management's judgement. This matter was also of significance to our audit due to its possible impact on the scope of the consolidated entities, as well as the need for additional disclosures relating to the above events in the consolidated financial statements.	Our audit procedures included reading the management agreements and annexes to those agreements, as well as evaluating and analysis of their provisions in the context of the requirements of IFRS 10 prepared by a renowned law office. In addition, we asked the Holding Company's Management to commission the preparation by an independent advisor of a memorandum assessing the contents of the concluded management agreements. We received a memorandum confirming that the concluded agreements and annexes indicate that there is no control, and thus no requirement to include FIZAN in the consolidated financial statements. In addition, we conducted interviews with the Management of the Holding Company and its Audit Committee to obtain a confirmation of their understanding of the adopted solution and its effect on the consolidated financial statements. We also focused on the adequacy of the disclosures made in Note 2 to the consolidated financial statements. We assessed the completeness and accuracy of disclosures and justification of Company's Management accounting estimate.

Opinion

In our opinion, the accompanying year-end consolidated financial statements:

a) give a true and fair view of the Group's financial position as at 31 December 2017, as well as of its financial result for the period from 1 January to 31 December 2017, in accordance with International Accounting Standards, International Financial Reporting Standards and the related interpretations announced in the form of European Commission regulations, as well as the adopted accounting methods (policies),

b) are consistent, in content and in form, with the requirements of the Minister's of Finance Decree of 19 February 2009 on the current and periodic information provided by the issuers of securities and on the conditions for recognizing as equally valid the information required by the regulations of a state that is not a member state ("the Decree" - 2014 Journal of Laws, item 133 with subsequent amendments), as well as with other applicable laws and regulations and with the Holding Company's Statute.

Report on Other Legal and Regulatory Requirements

Opinion on the Directors' Report on the Group's Activities

Our opinion on the consolidated financial statements does not cover the Directors' Report on the Group's activities.

The Holding Company's Management Board and members of its Supervisory Board are responsible for the preparation of the Directors' Report on the Group's activities in accordance with the Accounting Act and other binding regulations.

In connection with our audit of the year-end consolidated financial statements our responsibility was to read the Directors' Report on the Group's activities and to report whether it complies with the applicable binding regulations and is consistent with the information presented in the year-end consolidated financial statements.

It was also our responsibility to report whether, based on our knowledge obtained during the audit about the Group and its environment, we have identified any material misstatements in the Directors' Report on the Group's activities, as well as to indicate the nature of each such misstatement.

In our opinion, the Directors' Report on the Group's activities has been prepared in accordance with Article 55 of the Accounting Act and the Decree, and is consistent with the information presented in the year-end consolidated financial statements. Furthermore, based on our knowledge obtained during the audit about the Group and its environment we have identified no material misstatements in the Directors' Report on the Group's activities.

Opinion on the Declaration on the Application of Corporate Governance

The Holding Company's Management Board and members of its Supervisory Board are responsible for the preparation of a declaration on the application of corporate governance in accordance with binding regulations.

In connection with our audit of the consolidated financial statements it was our responsibility under the Certified Auditors Act to express an opinion on whether an issuer required to file a declaration on the application of corporate governance, which constitutes a separate section of the Directors' Report on the Group's activities, included in this declaration the information required by legal regulations, and - with respect to certain information indicated in the regulations - to report on whether this information is consistent with the applicable regulations and with the information contained in the year-end consolidated financial statements.

In our opinion, the Holding Company's declaration on the application of corporate governance contains the information specified in paragraph 91 section 5 point 4 letters a, b, g, j, k and l of the Minister's of Finance Decree of 19 February 2009 on the current and periodic information provided by the issuers of securities and on the conditions for recognizing as equally valid the information required by the regulations of a state that is not a member state (2014 Journal of Laws, item 133 with subsequent amendments) *("the Decree")*. The information indicated in paragraph 91 section 5 point 4 letters c-f, h and i of the Decree contained in the declaration on the application of corporate governance is consistent with the applicable regulations and with the information contained in the year-end consolidated financial statements.

Information about the Preparation of a Declaration on Non-financial Information

In accordance with the requirements of the Certified Auditors Act we hereby inform you that the Company has prepared the declaration on non-financial information referred to in Article 55 par. 2b of the Accounting Act as a separate section of the Directors' Report on the group's activities.

We have performed no assurance work on the declaration on non-financial information and, accordingly, do not express any assurance on the declaration.

Warsaw, 5 April 2018

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Audit Firm No. 3355

Auditor in charge:

Dr. Anna Bernaziuk
Certified Auditor No. 173

On behalf of BDO Sp. z o.o.:

Dr. André Helin
Managing Partner
Reg. No. 90004

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Ostrów Mazowiecka, 05.04.2018

Dear Sirs, Dear Shareholders,

On behalf of the Management Board, I have pleasure to present the Consolidated Annual Report of FABRYKI MEBLI "FORTE" S.A. Capital Group, including a summary of 2017 activities.

The year 2017 deviated from the trend we had gotten used to over the past few years. In previous years, FABRYKI MEBLI "FORTE" SA Group recorded regular growth of both revenues and profitability. Our organisation was also expanding dynamically. The year 2017 was a time for gaining momentum in our planned development in the years to come.

The Financial Statements show that sales growth was not as significant as in previous years, and our financial performance was lower.

From the perspective of the long-term growth strategy for FABRYKI MEBLI "FORTE" SA, nothing has changed. Still, the mid-term goal for the Group is to reach turnover totalling at least EUR 400 million, and in the long-term, to develop activities in non-European markets. We continue to pursue this strategy.

Last year, we worked very hard on the largest-ever FORTE investment project, which involved a particle board manufacturing plant. In addition to providing vertical integration of the value chain (particle board is the main raw material for furniture production), this project will give us free access to the raw material needed to implement our development plans. As of today, a special purpose company called Tanne Sp. z o.o. has been granted the final operational permit for the manufacturing plant. Meanwhile, the test production confirmed the assumed production capacity, quality and cost efficiency of our plant. In Q2 we will launch the continuous production of proprietary particle board. You should be able to see the full impact of this investment project in H2 2018.

The year's second major highlight was setting up and launching a new joint venture called Forte Furniture Products India Private Limited. The partnership will be a major investment on the map of that region, since we expect very high growth potential in the long term. We estimate that the joint venture will reach positive profitability in mid-2018.

The third key event of 2017 was a situation that made us realize the need to make changes in our product offer and – perhaps first and foremost – in our in-house organisation. In mid-2017, following a very conservative H1, we were surprised that we recorded more orders due to an increase in the number of products we offered. (Our product line grew from 3,300 to 4,300 between March and September!) Thus, we were unable to process some of the orders.

The positive outcome of this situation was that we identified a weakness that had previously been offset by dynamic growth. We changed a number of processes within the organisation to safeguard growth for us in the years to come. The first effects of this reorganization should be visible in Q2 2018.

Our financial performance, mainly in H2 2017, was predominantly driven by a 20 percent increase in the price of particle board, our major production supply. The specific nature of our industry prevents the direct transfer of raw material price hikes into the product prices. Changing and replacing our offer for the customers requires time. However, FORTE is in much better shape than the overall market today – we are now launching our own particle board manufacturing plant, which will enable us to level off cost quite quickly.

The end of 2017 saw one other event that had a negative impact on the price of shares in FABRYKI MEBLI "FORTE" SA: "corporate governance" problems with our major customer, Steinhoff International Group. I can confirm that business relations with the Steinhoff Group's member companies are running smoothly today. We developed joint procedures that safeguard payments while not limiting sales volume.

I would like to mention two more highlights for the FORTE Group.

The first took place in September 2017 – the opening of our own showroom at the International Furniture Fair in Bad Salzuflen, Germany.

The second was the incorporation, for the second time, of FABRYKI MEBLI "FORTE" S.A. into the elite of RESPECT INDEX companies.

I know that 2017 was tough because of external challenges and changes within the organisation. The year 2018 will undoubtedly bring a number of new challenges as well. We will invest in a new Suwalki furniture manufacturing plant in Q2 2018, scheduled to be operational in Q2 2019. Its target production capacity will enable us to reach our turnover goal of EUR 400 million.

On behalf of the Management Board, I would like to thank all of our employees for their deep commitment and involvement, which laid the foundation for Fabryki Mebli "FORTE" S.A. Group's success in 2017. I would also like to thank all Shareholders for the trust and confidence they have shown in us.

Maciej Formanowicz

Management Board President

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SELECTED FINANCIAL DATA

	In thous. PLN		In thous. EUR	
Data regarding the consolidated financial statements	31.12.2017	31.12.2016 adjusted	31.12.2017	31.12.2016 adjusted
Net revenue from sales of products, goods, materials and services	1 096 230	1 090 407	258 259	249 196
Profit (loss) on operating activities	98 691	144 483	23 250	33 019
Pre-tax profit (loss)	93 994	132 033	22 144	30 174
Period profit (loss) attributable to shareholders of Parent Company	76 965	104 575	18 132	23 899
Net comprehensive income for the period	92 756	92 053	21 852	21 037
Net cash flow from operating activities	72 643	190 622	17 114	43 564
Net cash flow from investment activities	(294 010)	(399 492)	(69 265)	(91 298)
Net cash flow from financing activities	178 668	249 112	42 092	56 931
Net increase/decrease in cash and cash equivalents	(42 699)	40 242	(10 059)	9 197
Number of shares (in pcs)	23 930 769	23 901 084	23 930 769	23 901 084
Profit (loss) per ordinary share attributable to shareholders of Parent Company (in PLN/EUR)	3.22	4.38	0.76	.
	31.12.2017	31.12.2016 adjusted	31.12.2017	31.12.2016 adjusted
Total assets	1 482 036	1 173 986	355 328	265 368
Total liabilities	846 075	627 376	202 852	141 812
Long-term liabilities	562 881	411 804	134 954	93 084
Short-term liabilities	283 194	215 572	67 898	48 728
Equity capital (attributable to shareholders of Parent Company)	632 650	543 404	151 682	122 831
Share capital	23 931	23 901	5 738	5 403
Book value per share (in PLN/EUR)	26.44	22.74	6.34	5.14

The accounting principles (policy) and the enclosed explanatory notes form an integral part of these consolidated financial statements.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		31 Dec 2017	31 Dec 2016	31 Dec 2016 adjusted
Continuing operations	**Note**			
Revenue from sales of goods, products and materials	11.1	1 088 759	1 083 421	1 083 534
Revenue from sales of services	11.1	7 471	6 873	6 873
Sales revenue		**1 096 230**	**1 090 294**	**1 090 407**
Cost of goods, products and materials sold		(694 537)	(661 990)	(661 990)
Cost of services sold		(4 858)	(1 448)	(1 448)
Cost of sales	11.6	**(699 395)**	**(663 438)**	**(663 438)**
Gross profit (loss) on sales		**396 835**	**426 856**	**426 969**
Other operating revenue	11.2	2 727	3 559	3 559
Selling costs		(238 929)	(225 684)	(225 684)
G&A costs		(52 061)	(51 262)	(51 262)
Other operating costs	11.3	(9 881)	(9 099)	(9 099)
Profit (loss) on operating activities		**98 691**	**144 370**	**144 483**
Financial revenue	11.4	9 274	806	806
Financial costs	11.5	(8 209)	(6 067)	(6 067)
Profit (loss) on derivative financial instruments	36.2	(406)	113	(7 189)
Share in profit/loss of subsidiaries accounted for using equity method		(5 356)	-	-
Pre-tax profit (loss)		**93 994**	**139 222**	**132 033**
Income tax	12	(16 924)	(28 837)	(27 471)
Period profit (loss) on continuing operations		**77 070**	**110 385**	**104 562**
Discontinued operations		-	-	-
Period profit (loss) on discontinued operations		-	-	-
Period profit (loss)		**77 070**	**110 385**	**104 562**
Attributable to:				
Shareholders of Parent Company		**76 965**	**110 398**	**104 575**
Non-controlling shareholders		105	(13)	(13)
Period profit (loss) per share attributable to shareholders of Parent Company (in PLN):				
– basic		3.22	4.62	4.38
– diluted		3.22	4.62	4.38

The accounting principles (policy) and the enclosed explanatory notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	31 Dec 2017	31 Dec 2016	31 Dec 2016 adjusted
Period profit (loss)		**77 070**	**110 385**	**104 562**
Other net comprehensive income, incl.:		**15 686**	**(12 546)**	**(12 509)**
Items that will not be reclassified to profit or loss in future periods		**95**	**1 291**	**1 291**
Revaluation of employee benefit liabilities	17.2	117	280	280
Deferred tax regarding employee benefits		(22)	(53)	(53)
Incentive scheme	38.5	-	1 064	1 064
Items that may be reclassified to profit or loss in future periods		**15 591**	**(13 837)**	**(13 800)**
Exchange differences on translation of foreign operations		(1 383)	86	86
Hedge accounting	36.2	69 215	(17 189)	(17 143)
Income tax on other comprehensive income	36.2	(13 445)	3 266	3 257
Valuation of certificates		(47 896)	-	-
Income tax relating to the valuation of financial assets		9 100	-	-
Comprehensive income for the period		**92 756**	**97 839**	**92 053**
Attributable to:				
Shareholders of Parent Company		92 651	97 852	92 066
Non-controlling shareholders		105	(13)	(13)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

	Note	31 Dec 2017	31 Dec 2016	31 Dec 2016 adjusted
ASSETS				
Non-current assets		**1 044 191**	**609 243**	**609 243**
Tangible fixed assets	18	798 223	361 969	361 969
Intangible assets	20	16 617	16 267	16 267
Financial assets	22	120 382	158 061	158 061
Deferred tax assets	12.3	-	-	-
Investment property	19	73 270	72 946	72 946
Investments accounted for using equity method	22	2 266	-	-
Receivables from financial instruments	25 36.2	33 433	-	-
Current assets		**437 845**	**564 743**	**564 743**
Inventory	23	170 251	143 746	143 746
Trade and other receivables	24	185 911	320 635	320 635
Receivables from derivative financial instruments	25 36.2	18 210	-	-
Income tax receivables	24	6 402	91	91
Prepayments	26	4 004	3 231	3 231
Financial assets	27	199	1 162	1 162
Cash and cash equivalents	28	52 868	95 878	95 878
TOTAL ASSETS		**1 482 036**	**1 173 986**	**1 173 986**
LIABILITIES				
Total equity		**635 961**	**552 396**	**546 610**
Equity (attributable to shareholders of Parent Company), incl.:		**632 650**	**549 190**	**543 404**
Share capital	29.1	23 931	23 901	23 901
Share premium	29.2	114 556	113 214	113 214
Exchange differences on translation of foreign operations		(586)	797	797
Hedging instruments revaluation reserve	29.3	46 479	(9 328)	(9 291)
Other revaluation capital		(21 142)	17 654	17 654
Incentive scheme		2 354	2 354	2 354
Other reserve capital	29.3	358 807	249 079	249 079
Retained earnings	29.4	108 251	151 519	145 696
Equity attributable to non-controlling shareholders	29.5	**3 311**	**3 206**	**3 206**
Long-term liabilities		**562 881**	**399 245**	**411 804**
Interest-bearing bank loans and borrowings	30	527 749	391 263	391 263
Deferred income tax provision	12.3	10 234	2 743	1 386
Provision for post-employment benefits	17.2	3 601	3 395	3 395
Deferred income	31.1	18 771	13	13
Financial liabilities under lease	16.1	301	842	842
Liabilities under derivative financial instruments	25 36.2	-	-	13 916
Other long-term liabilities		2 225	989	989
Short-term liabilities		**283 194**	**222 345**	**215 572**
Trade and other liabilities	32	232 736	114 130	169 931
Current part of interest-bearing bank loans and borrowings	30	45 291	27 066	27 066
Income tax liability	32		10 176	10 176
Deferred income	31.1	280	-	24
Provisions	31.2	2 716	58 380	2 555
Financial liabilities under lease	16.1	679	1 076	1 076
Liabilities under derivative financial instruments	25 36.2	1 492	11 517	4 744
Total liabilities		**846 075**	**621 590**	**627 376**
TOTAL LIABILITIES		**1 482 036**	**1 173 986**	**1 173 986**

The accounting principles (policy) and the enclosed explanatory notes form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

	31 Dec 2017	31 Dec 2016	31 Dec 2016 adjusted
Cash flows from operating activities			
Period profit/(loss)	**76 965**	**110 398**	**104 575**
Adjustments by:	**(4 322)**	**80 224**	**86 047**
Share in profit/loss of entities accounted for using equity method	5 356	-	-
(Profit)/loss of non-controlling shareholders	105	13	13
Depreciation	26 946	22 699	22 699
Foreign exchange (gains)/losses	(17 248)	6 842	6 842
Net interest and dividends	7 854	2 782	2 782
(Profit)/loss on investment activities	863	157	157
Change in valuation of derivative financial instruments	(13 041)	3 267	10 447
Change in receivables	3 391	2 879	2 879
Change in inventory	(26 505)	(4 724)	(4 724)
Change in liabilities, excl. loans and borrowings	5 754	19 321	74 786
Change in prepayments and accruals	(797)	23 206	(32 259)
Change in provisions	18 316	(4 364)	(5 721)
Interest tax paid	(28 351)	(23 684)	(23 684)
Current tax recognised in the profit and loss account	11 864	30 266	30 266
Exchange differences on translation	70	86	86
Provision for retirement benefits	239	533	533
Incentive scheme valuation	-	1 064	1 064
Investment property revaluation	779	-	-
Other adjustments	83	(119)	(119)
Net cash flows from operating activities	**72 643**	**190 622**	**190 622**
Cash flows from investment activities			
Sale of tangible fixed assets and intangible assets	894	465	465
Purchase of tangible fixed assets and intangible assets	(276 191)	(241 102)	(241 102)
Real property investments	(1 104)	(536)	(536)
Purchase of financial assets	(8 630)	(157 517)	(157 517)
Dividends received	278	260	260
Repayment of loans granted	97	-	-
Loans granted	(9 354)	(1 075)	(1 075)
Other investment income	-	13	13
Net cash flows from investment activities	**(294 010)**	**(399 492)**	**(399 492)**
Cash flows from financing activities			
Proceeds from loans/borrowings	259 143	338 417	338 417
Contributions to capital	1 371	-	-
Repayment of loans/borrowings	(86 696)	(62 209)	(62 209)
Repayment of liabilities under lease	(1 187)	(312)	(312)
Dividends paid to shareholders of Parent Company	(4 780)	(23 901)	(23 901)
Interest paid	(8 221)	(2 875)	(2 875)
Grant	19 038	-	-
Other financial income	-	1	1
Other financial expenses	-	(9)	(9)
Net cash flows from financing activities	**178 668**	**249 112**	**249 112**
Net increase (decrease) in cash and cash equivalents	**(42 699)**	**40 242**	**40 242**
Net exchange difference on translation (opening balance)	(311)	604	604
Opening balance of cash	**95 878**	**55 032**	**55 032**
Closing balance of cash, incl.:	**52 868**	**95 878**	**95 878**
Restricted cash	5 650	3 803	3 803

The accounting principles (policy) and the enclosed explanatory notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

	Attributable to shareholders of Parent Company										
	Share capital	Share premium	Exchange differences on translation of foreign operations	Revaluation reserve	Incentive scheme	Retained earnings/ uncovered (losses)	Hedging instruments revaluation reserve	Other reserve capital	Total	Equity of non-controlling shareholders	Total equity
As at 1 January 2017	**23 901**	**113 214**	**797**	**17 654**	**2 354**	**151 519**	**(9 328)**	**249 079**	**549 190**	**3 206**	**552 396**
Changes in accounting policy	-	-	-	-	-	-	-	-	-	-	-
Error corrections	-	-	-	-	-	(5 823)	37	-	(5 786)	-	(5 786)
As at 1 January 2017 after corrections	**23 901**	**113 214**	**797**	**17 654**	**2 354**	**145 696**	**(9 291)**	**249 079**	**543 404**	**3 206**	**546 610**
Capital increase in connection with implementation of the incentive scheme	30	1 342	-	-	-	-	-	-	1 372	-	**1 372**
Dividend payment for 2016	-	-	-	-	-	(4 780)	-	-	(4 780)	-	**(4 780)**
Transfer to reserve capital	-	-	-	-	-	(109 728)	-	109 728	-	-	**-**
Property revaluation	-	-	-	-	-	-	-	-	-	-	**-**
Entity inclusion in consolidation	-	-	-	-	-	-	-	-	-	-	**-**
Increase in share capital of a subsidiary, transaction with non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	**-**
Other adjustments	-	-	-	-	-	3	-	-	3	-	**3**
Incentive scheme	-	-	-	-	-	-	-	-	-	-	**-**
Provisions for employment benefits	-	-	-	-	-	95	-	-	95	-	**95**
Current result	**-**	**-**	-	-	-	76 965	-	-	76 965	105	**77 070**
Hedge accounting	**-**	**-**	**-**	-	-	**-**	55 770	-	55 770	-	**55 770**
Investment certificates			**-**	(38 796)	-	**-**	-	-	(38 796)	-	**(38 796)**
Exchange differences	-	-	(1 383)	-	-	-	-	-	(1 383)	-	**(1 383)**
Total income for the period	-	-	**(1 383)**	**(38 796)**	-	**77 060**	**55 770**	**-**	**92 651**	**105**	**92 756**
As at 31 December 2017	**23 931**	**114 556**	**(586)**	**(21 142)**	**2 354**	**108 251**	**46 479**	**358 807**	**632 650**	**3 311**	**635 961**

The accounting principles (policy) and the enclosed explanatory notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016 (ADJUSTED)

	Attributable to shareholders of Parent Company										
	Share capital	Share premium	Exchange differences on translation of foreign operations	Revaluation reserve	Incentive scheme	Retained earnings/ uncovered (losses)	Hedging instruments revaluation reserve	Other reserve capital	Total	Equity of non-controlling shareholders	Total equity
As at 1 January 2016	**23 901**	**113 214**	**711**	**17 654**	**1 290**	**118 387**	**4 595**	**195 044**	**474 796**	**3 662**	**478 458**
Changes in accounting policy	-	-	-	-	-	-	-	-	-	-	-
Error corrections	-	-	-	-	-	-	-	-	-	-	-
As at 1 January 2016 after corrections	**23 901**	**113 214**	**711**	**17 654**	**1 290**	**118 387**	**4 595**	**195 044**	**474 796**	**3 662**	**478 458**
Capital increase in connection with implementation of the incentive scheme	-	-	-	-	-	-	-	-	-	-	**-**
Dividend payment for 2015	-	-	-	-	-	(23 901)	-	-	(23 901)	-	**(23 901)**
Transfer to reserve capital	-	-	-	-	-	(54 035)	-	54 035	-	-	**-**
Property revaluation	-	-	-	-	-	-	-	-	-	-	**-**
Entity inclusion in consolidation	-	-	-	-	-	-	-	-	-	-	**-**
Increase in share capital of a subsidiary, transaction with non-controlling shareholders	-	-	-	-	-	443	-	-	443	(443)	**-**
Incentive scheme	-	-	-	-	1 064	-	-	-	1 064	-	**1 064**
Provisions for employment benefits					-	227	-	-	227	-	**227**
Current result	**-**	**-**	**-**	**-**	**-**	104 575	-	-	104 575	(13)	**104 562**
Hedge accounting	**-**	**-**	**-**	**-**	**-**	**-**	(13 886)	-	(13 886)	-	**(13 886)**
Exchange differences	-	-	86	-	-	-	-	-	86	-	**86**
Total income for the period	-	-	**86**	**-**	**1 064**	**104 802**	**(13 886)**	**-**	**92 066**	**(13)**	**92 053**
As at 31 December 2016	**23 901**	**113 214**	**797**	**17 654**	**2 354**	**145 696**	**(9 291)**	**249 079**	**543 404**	**3 206**	**546 610**

The accounting principles (policy) and the enclosed explanatory notes form an integral part of these consolidated financial statements.

ACCOUNTING PRINCIPLES (POLICY) AND EXPLANATORY NOTES

1. General information

The Capital Group of Fabryki Mebli FORTE („Group") consists of Fabryki Mebli FORTE S.A. and its subsidiaries (see note 2). The consolidated financial statements of the Group cover the year ended 31 December 2017 and include comparative data for the year ended 31 December 2016.

Fabryki Mebli FORTE S.A. („Parent Company", „Company") was established by a Notarial Deed of 25 November 1993. The Parent Company has its registered office in Ostrów Mazowiecka, ul. Biała 1.

The Parent Company is entered into the register of entrepreneurs of the National Court Register maintained by the District Court for the capital city of Warsaw, 14th Commercial Division of the National Court Register (former 21st Commercial Division), under KRS number 21840.

The Parent Company was assigned REGON statistical number: 550398784.

The duration of the Parent Company and of its subsidiaries comprising the Capital Group is indefinite.

Main activities of the Parent Company include:

- production of furniture,
- provision of services in the scope of marketing, promotion, organisation of exhibitions or conferences,
- conducting trade activities domestically and abroad.

2. Composition of the Group

Parent Company:

FABRYKI MEBLI „FORTE" S.A. as a parent company operates through four national Branches:

Ostrów Mazowiecka, ul. Biała 1 – the Company's head office, including the Management Board and a manufacturing site;

Suwałki, ul. Północna 30 – manufacturing site;

Białystok, ul. Generała Andersa 11 – manufacturing site;

Hajnówka, ul. 3-go Maja 51 – manufacturing site;

and furniture showrooms in Wrocaław, Toruń, Suwałki and Ostrów Mazowiecka.

Consolidated subsidiaries:

Subsidiaries (consolidated using full method):	Registered office	Scope of activity	Percentage share of the Group in equity	
			31.12.2017	31.12.2016
MV FORTE GMBH	Erkelenz (Germany)	Authorised seller	100%	100%
FORTE MöBEL AG	Baar (Switzerland)	Authorised seller	99%	99%
KWADRAT SP. Z O.O.	Bydgoszcz	Real property rentals and management	81%	81%
**GALERIA KWADRAT SP. Z O.O.*	*Bydgoszcz*	*Real property management*	*81%*	*81%*
TM HANDEL SP. Z O.O. SKA	Ostrów Mazowiecka	Real property purchase, sale and management; operations and management consulting	100%	100%
***FORT INVESTMENT SP. Z O.O.*	*Ostrów Mazowiecka*	*Real property purchase, sale and management; operations and management consulting*	*100%*	*100%*
TANNE SP. Z O.O.	Warsaw	Manufacturing operations	100%	100%
DYSTRI-FORTE SP. Z O.O.	Warsaw	Warehousing and storage	100%	100%
TERCEIRA SP. Z O.O.	Warsaw	Lease of intellectual property, real property rentals and management	100%	100%

* indirectly related company – a 100% subsidiary of KWADRAT SP. Z O.O.
** indirectly related company – a 100% subsidiary of TM HANDEL SP. Z O.O. SKA

Fabryki Mebli „FORTE" S.A holds 100% shares in the subsidiary TERCEIRA Sp. z o.o., which has been consolidated using the full method in these consolidated financial statements.

TERCEIRA Sp. z o.o. has investment certificates (series A) of SEZAM XX Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (hereinafter "FIZAN"). FIZAN was founded and is managed by Skarbiec Towarzystwo Funduszy Inwestycyjnych S.A. The investment portfolio of FIZAN includes 100% shares in Bentham Sp. z o.o., which acquired approximately 8.58% shares of Fabryki Mebli "FORTE" S.A worth PLN 156 825 thousand PLN on the day of their acquisition.

FIZAN was not consolidated in the consolidated financial statements, as the management contracts concluded between Terceira Sp. z o.o. and SKIBIEC TFI indicate that there is no control under IFRS 10, and thus no obligation to include FIZAN in the consolidated financial statements of the Group.

Jointly controlled companies consolidated using the equity method:

Subsidiaries (consolidated using equity method):	Registered office	Scope of activity	Percentage share of the Group in equity 31.12.2017
FORTE FURNITURE PRODUCTS INDIA PVT. LTD	Chennai (India)	Furniture manufacture and sales	50%

Other subsidiaries excluded from consolidation based on insignificant influence of their financial data on the consolidated financial statements:

Other entities	Registered office	Scope of activity	Percentage share of the Group in equity 31.12.2017
FORTE BALDAI UAB	Vilnius (Lithuania)	Authorised seller	100%
FORTE SK S.R.O.	Bratislava (Slovakia)	Authorised seller	100%
FORTE FURNITURE LTD	Preston Lancashire (United Kingdom)	Authorised seller	100%
FORTE IBERIA SLU	Valencia (Spain)	Authorised seller	100%
FORTE MOBILIER SARL	Lyon (France)	Authorised seller	100%
TM HANDEL SP. Z O.O.	Warsaw	Operations and management consulting	100%
ANTWERP SP. Z O.O. w LIKWIDACJI	Warsaw	Central companies and holdings	100%
FORESTIVO SP. Z O.O.	Suwałki	Forestry related services, manufacture of sawmill products	50%
ANTWERP FP SP. Z O.O.	Warsaw	Furniture sales agents	100%

As at 31 December 2017 and as at 31 December 2016, the percentage of voting rights held by the Parent Company in its subsidiaries corresponded to the Parent Company's share in the equity of these entities.

Changes made to the composition of the Group during the reporting period

On 18 January 2017, the Parent Company concluded with INDIAN FURNITURE PRODUCTS LIMITED (IFPL) with its registered office in Chennai, India, an entity of the ADVENTZ Capital Group, a joint venture agreement concerning the manufacture and sale of furniture on the Indian market. An element of the joint venture agreement was the creation of an entity named FORTE FURNITURE PRODUCTS INDIA PVT. LTD (FFPI) based in Chennai, India, where each of the shareholders, i.e. FORTE and IFPL, owns a 50% stake. The cash contribution made to the share capital of FFPI by each shareholder amounted to the equivalent of approx. EUR 2 million. The main object of FFPI's activity is the manufacture and sale of furniture. FFPI's activity is based on the existing manufacturing sites and sales network in India, which was previously owned by IFPL, and the know-how, design, product development and production technology provided by FORTE. FFPI commenced its operations in April 2017. On 30.06.2017, the company was included in consolidation using the equity method.

On 11 July 2017, ANTWERP FP SP. Z O.O., a 100% subsidiary of the Parent Company, was established. The core business of the company is acting as a sales agent of FORTE furniture.

Composition of the Management Board of the Parent Company

Composition of the Management Board of the Parent Company as at 31 December 2017:

- Maciej Formanowicz – President of the Management Board
- Mariusz Jacek Gazda – Member of the Management Board
- Gert Coopmann – Member of the Management Board
- Klaus Dieter Dahlem – Member of the Management Board
- Maria Małgorzata Florczuk – Member of the Management Board

Changes in the composition of the Management Board

In the reporting period, there were no changes in the composition of the Management Board of the Parent Company.

Composition of the Supervisory Board of the Parent Company

- Zbigniew Sebastian – Chairman
- Bernard Woźniak – Vice-Chairman
- Stanisław Krauz – Member
- Tomasz Domagalski – Member
- Jerzy Smardzewski – Member

Changes in the composition of the Supervisory Board

On 12 April 2017, the Company received a statement that Mr Stefan Golonka resigned from his function as a Member of the Supervisory Board of the Issuer with effect from the day of the Annual General Meeting of FABRYKI MEBLI „FORTE" S.A. approving the financial statements and the Management Board report on the Company's operations in the financial year 2016. The reason for his resignation was the intention to start providing services to FABRYKI MEBLI „FORTE" S.A.

On 17 May 2017, the Annual General Meeting of FABRYKI MEBLI „FORTE" S.A. appointed Mr Bernard Woźniak as a Member of the Supervisory Board of the current term (2014-2018). Mr Bernard Woźniak does not participate in any other company or legal entity conducting business competitive to FABRYKI MEBLI „FORTE" S.A. with its registered office in Ostrów Mazowiecka as its partner or a member of its body.

3. Approval of the financial statements

These consolidated financial statements were approved for publication by the Management Board on 5 April 2018.

4. Important values based on professional judgement and estimates

4.1. Professional judgement

When applying the accounting principles (policy) to the issues set out below, the professional judgment of the management was of greatest significance, apart from the accounting estimates.

4.2. Classification of lease agreements

The Group classifies lease agreements as either operating or finance lease, based on the assessment of the extent to which the benefits and risks of ownership are transferred to the lessor and the lessee. The assessment is based on the economic content of each transaction.

4.3. Depreciation rates

Depreciation rates are determined based on the anticipated economic useful lives of tangible fixed assets and intangible assets. The economic useful lives are reviewed annually by the Group based on current estimates. The review carried out in the reporting period ended did not show the necessity to make adjustments to depreciation rates.

4.4. Uncertainty of estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are presented below.

4.5. Impairment of assets

The Group carried out an analysis of the impairment of inventory, fixed assets and loans granted. The results of the analysis have been presented respectively: inventory in note 23, fixed assets in note 18 and loans granted in notes 22 and 27.

No evidence of impairment was found for fixed assets and loans.

4.6. Fair value of financial instruments

The fair value of financial instruments for which no active market exists is assessed by means of appropriate valuation methods. The Group applies professional judgement in selecting appropriate methods and assumptions. The methods used for measuring the fair value of individual financial instruments are presented in note 36.

4.7. Valuation of provisions

Provisions for employee benefits are determined using actuarial valuations. The assumptions made in this respect are presented in note 17.2.

4.8. Deferred tax asset

The Group recognises a deferred tax asset based on the assumption that it will generate a future tax profit against which the asset can be utilised. Deterioration of tax results in the future might make this assumption unjustified.

5. Basis for preparation of the consolidated financial statements

These financial statements have been prepared on a historical cost basis, except for derivative financial instruments and investment property, which have been measured at fair value.

These consolidated financial statements are presented in Polish zloty ("PLN") and all values are given in thousands of zlotys (PLN '000), except when otherwise indicated.

These consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future. As at the date of approval of these consolidated financial statements, there are no facts or circumstances that would indicate a threat to the Group's ability to continue as a going concern for at least 12 months following the balance sheet date as a result of any intentional or compulsory omission or significant limitation of its current activity.

These financial statements will be available on the Parent Company's website www.forte.com.pl on the day set forth in the current report concerning the dates of publication of annual and consolidated financial statements for 2017.

5.1 Declaration of conformity

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards („IFRS") approved by the EU.

As at the date of approval of these financial statements for publication, taking into account the ongoing process of implementing the IFRS standards in the EU and the Group's operations, there are no differences between the IFRS standards that have come into effect and the IFRS standards approved by the EU with regard to the accounting principles applied by the Group.

IFRS comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

5.2 Measurement currency and reporting currency

The measurement currency of the Parent Company and other companies included in these consolidated financial statements and the reporting currency of these consolidated financial statements is the Polish zloty.

The functional currencies of foreign subsidiaries are the following currencies:

- Möbelvertrieb Forte GmbH – EUR
- Forte Möbel AG – CHF
- FORTE FURNITURE PRODUCTS INDIA PVT. LTD - INR

6. Error corrections and changes to the applied accounting principles

The accounting principles (policy) applied to prepare these consolidated financial statements for 2017 are consistent with those applied to prepare the annual consolidated financial statements for 2016, except for the changes described below.

In the reporting period ended 31.12.2017, the Group corrected a fundamental error for 2016 by adjusting the hedge accounting valuation to the requirements of IAS 39.

By assessing option strategies in 2016, the Group did not separate intrinsic value and time value of currency options. Due to the fact that only intrinsic value of options may be designated as the hedging instrument under IAS 39, the Group revalued the portfolio of hedging instruments by separating intrinsic value and time value of options. Time value of options active as at 31 December 2016 amounted to (-) PLN 7 189 thousand and pursuant to IAS 39, it was recognised in the profit and loss account under "loss on derivative financial instruments" and an amount of PLN 1 366 thousand under "deferred tax". Intrinsic value of options amounted to (-) PLN 11 471 thousand and net of deferred tax in the amount of PLN 2 179 thousand, it was recognised in the statement of financial position under "hedging instruments revaluation reserve".

In order to adjust the presentation of its financial data to the requirements of IAS 1, the Group also changed the presentation of some of the accrued expenses that were previously recognised under provisions and accruals of the statement of financial position to trade and other liabilities.

The impact of the implemented changes regarding error correction and presentation on the Group's financial statements is presented in the tables below.

The adjusted figures are presented later in these consolidated financial statements covering the comparative period 2016.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	**31 Dec 2016**	**31 Dec 2016 adjusted**	**Impact of adjustment on the statement**
ASSETS			
Non-current assets	**609 243**	**609 243**	**0**
Tangible fixed assets	361 969	361 969	0
Intangible assets	16 267	16 267	0
Financial assets	158 061	158 061	0
Investment property	72 946	72 946	0
Current assets	**564 743**	**564 743**	**0**
Inventory	143 746	143 746	0
Trade and other receivables	320 635	320 635	0
Income tax receivables	91	91	0
Prepayments	3 231	3 231	0
Financial assets	1 162	1 162	0
Cash and cash equivalents	95 878	95 878	0
TOTAL ASSETS	**1 173 986**	**1 173 986**	**0**
LIABILITIES			0
Total equity	**552 396**	**546 610**	**-5 786**
Equity (attributable to shareholders of Parent Company), incl.:	**549 190**	**543 404**	**-5 786**
Share capital	23 901	23 901	0
Share premium	113 214	113 214	0
Exchange differences on translation of foreign operations	797	797	0
Hedging instruments revaluation reserve	-9 328	-9 291	37

Other revaluation capital	17 654	17 654	0
Incentive scheme	2 354	2 354	0
Other reserve capital	249 079	249 079	0
Retained earnings	151 519	145 696	-5 823
Equity attributable to non-controlling shareholders	**3 206**	**3 206**	**0**
Long-term liabilities	**399 245**	**411 804**	**12 559**
Interest-bearing bank loans and borrowings	391 263	391 263	0
Deferred income tax provision	2 743	1 386	-1 357
Provision for post-employment benefits	3 395	3 395	0
Other provisions	0	0	0
Deferred income	13	13	0
Financial liabilities under lease	842	842	0
Liabilities under derivative financial instruments	0	13 916	13 916
Other long-term liabilities	989	989	0
Short-term liabilities	**222 345**	**215 572**	**-6 773**
Trade and other liabilities	114 130	169 931	55 801
Current part of interest-bearing bank loans and borrowings	27 066	27 066	0
Income tax liability	10 176	10 176	0
Deferred income	0	24	24
Provisions	58 380	2 555	-55 825
Financial liabilities under lease	1 076	1 076	0
Liabilities under derivative financial instruments	11 517	4 744	-6 773
Total liabilities	**621 590**	**627 376**	**5 786**
TOTAL LIABILITIES	**1 173 986**	**1 173 986**	**0**

COSNOLIDATED INCOME STATEMENT	**31 Dec 2016**	**31 Dec 2016 adjusted**	**Impact of adjustment on the statement**
Continuing operations			
Revenue from sales of goods, products and materials	1 083 421	1 083 534	113
Revenue from sales of services	6 873	6 873	0
Sales revenue	**1 090 294**	**1 090 407**	**113**
Cost of goods, products and materials sold	-661 990	-661 990	0
Cost of services sold	-1 448	-1 448	0
Cost of sales	**-663 438**	**-663 438**	**-663 438**
Gross profit (loss) on sales	**426 856**	**426 969**	**113**
			0
Other operating revenue	3 559	3 559	0
Selling costs	-225 684	-225 684	0
G&A costs	-51 262	-51 262	0
Other operating costs	-9 099	-9 099	0
			0
Profit (loss) on operating activities	**144 370**	**144 483**	**113**
			0
Financial revenue	806	806	0
Financial costs	-6 067	-6 067	0
Profit (loss) on derivative financial instruments	113	-7 189	-7 302
			0
Pre-tax profit (loss)	**139 222**	**132 033**	**-7 189**

Income tax	-28 837	-27 471	1 366
Period profit (loss) on continuing operations	**110 385**	**104 562**	**-5 823**
Period profit (loss)	**110 385**	**104 562**	**-5 823**
Attributable to:	**110 398**	**104 575**	-5 823
Shareholders of Parent Company			
Non-controlling shareholders	-13	-13	0
Period profit (loss) per share attributable to shareholders of Parent Company (in PLN):			
– basic	4.62	4.38	-0.24
– diluted	4.62	4.38	-0.24

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	**31 Dec 2016**	**31 Dec 2016 adjusted**	**Impact of adjustment on the statement**
Period profit (loss)	**110 385**	**104 562**	**-5 823**
Other net comprehensive income, incl.:	**-12 546**	**-12 509**	**37**
			0
Items that will not be reclassified to profit or loss in future periods	**1 291**	**1 291**	**0**
Revaluation of employee benefit liabilities	280	280	0
Deferred tax regarding employee benefits	-53	-53	0
Incentive scheme	1 064	1 064	0
Items that may be reclassified to profit or loss in future periods	**-13 837**	**-13 800**	**37**
Exchange differences on translation of foreign operations	86	86	0
Hedge accounting	-17 189	-17 143	46
Income tax on other comprehensive income	3 266	3 257	-9
Comprehensive income for the period	**97 839**	**92 053**	**-5 786**
Attributable to:			
Shareholders of Parent Company	97 852	92 066	-5 786
Non-controlling shareholders	-13	-13	0

CONSOLIDATED CASH FLOW STATEMENT	**31 Dec 2016**	**31 Dec 2016 adjusted**	**Impact of adjustment on the statement**
Cash flows from operating activities			
Period profit/(loss)	**110 398**	**104 575**	**-5 823**
Adjustments by:	**80 224**	**86 047**	**5 823**
(Profit)/loss of non-controlling shareholders	13	13	0
Depreciation	22 699	22 699	0
Foreign exchange (gains)/losses	6 842	6 842	0
Net interest and dividends	2 782	2 782	0
(Profit)/loss on investment activities	157	157	0
Change in valuation of derivative financial instruments	3 267	10 447	7 180
Change in receivables	2 879	2 879	0

Change in inventory	-4 724	-4 724	0
Change in liabilities, excl. loans and borrowings	19 321	74 786	55 465
Change in prepayments and accruals	23 206	-32 259	-55 465
Change in provisions	-4 364	-5 721	-1 357
Interest tax paid	-23 684	-23 684	0
Current tax recognised in the profit and loss account	30 266	30 266	0
Exchange difference on translation	86	86	0
Provision for retirement benefits	533	533	0
Incentive scheme valuation	1 064	1 064	0
Other adjustments	-119	-119	0
Net cash flows from operating activities	**190 622**	**190 622**	**0**
Cash flows from investment activities			0
Sale of tangible fixed assets and intangible assets	465	465	0
Purchase of tangible fixed assets and intangible assets	-241 102	-241 102	0
Real property investments	-536	-536	0
Sale of financial assets			0
Purchase of financial assets	-157 517	-157 517	0
Dividends received	260	260	0
Interest received			0
Repayment of loans granted			0
Loans granted	-1 075	-1 075	0
Other investment income	13	13	0
Other investment expenses			0
Net cash flows from investment activities	**-399 492**	**-399 492**	**0**
Cash flows from financing activities			0
Proceeds from loans/borrowings	338 417	338 417	0
Repayment of loans/borrowings	-62 209	-62 209	0
Repayment of liabilities under lease	-312	-312	0
Dividends paid to shareholders of Parent Company	-23 901	-23 901	0
Dividends paid to non-controlling shareholders			0
Interest paid	-2 875	-2 875	0
Other financial income	1	1	0
Other financial expenses	-9	-9	0
Net cash flows from financing activities	**249 112**	**249 112**	**0**
Net increase (decrease) in cash and cash equivalents	**40 242**	**40 242**	
Net exchange difference on translation (opening balance)	604	604	
Opening balance of cash	**55 032**	**55 032**	
Closing balance of cash, incl.:	**95 878**	**95 878**	
Restricted cash	3 803	3 803	

The following new or amended standards and interpretations issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee are effective from 1 January 2017:

- Amendments to IAS 7: *Disclosure Initiative*

Amendments to IAS 7 were published on 29 January 2016 and apply to annual periods beginning on or after 1 January 2017. The purpose of the changes was to improve information provided to users of financial statements about the Group's financing activities through additional disclosure of changes in the carrying amount of liabilities related to the financing of the Group's operations.

- Amendments to IAS 12: *Recognition of Deferred Tax Assets for Unrealised Losses*

Amendments to IAS 12 were published on 19 January 2016 and apply to annual periods beginning on or after 1 January 2017. Their purpose is to clarify the requirements for recognising deferred tax assets relating to debt financial instruments measured at fair value.

- Amendments to various standards resulting from annual review of the International Financial Reporting Standards *(Annual Improvements 2014-2016)*

On 8 December 2016, as a result of the review of IFRS, minor improvements were made to the following 3 standards:

- IFRS 1 *Interim Financial Reporting*, with respect to removing several exemptions provided for in this standard, which no longer apply,

- IFRS 12 *Disclosure of Interests in Other Entities*, with respect to clarifying disclosure requirements regarding shares, regardless of whether they are treated as held for sale, transfer in the form of dividends and discontinued operations, or not,

- IAS 28 *Investments in Associates and Joint Ventures*, with respect to the moment when investment entities (e.g. venture capital) may decide on the method of valuation of shares in associates or joint ventures at fair value, and not using the equity method.

They apply for annual periods beginning on 1 January 2018 (except for the amendments to IFRS 12, which are effective for annual periods beginning on or after 1 January 2017).

7. Amendments to existing standards and new regulations not applicable for periods beginning on or after 1 January 2018

In these financial statements, the Group has not decided to apply in advance any published standards or interpretations before their effective date.

The following standards and interpretations have been issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee, but have not yet entered into force as at the balance sheet date.

IFRS 9 *Financial Instruments*

The new standard was published on 24 July 2014 and applies to annual periods beginning on or after 1 January 2018. The purpose of the standard is to organise the classification of the financial assets and to introduce uniform principles of approach to the assessment of impairment for all financial instruments. The standard also introduces a new model of hedge accounting in order to unify the rules for recognising information on risk management in financial statements.

The Group will apply the new standard from 1 January 2018.
In the Group's assessment, the introduction of IFRS 9 will have a material effect on the Group's financial statements in the area of hedge accounting only. In the reporting period ended 31.12.2017, in accordance with IAS 39, the Group recognised in the profit and loss account under "loss on derivative financial instruments" time value of option strategies in the amount of (-) PLN 7.652 thousand and deferred tax in the amount of PLN 1 454 thousand. In accordance with IFRS 9, starting in 2018, the Group's equity will be adjusted by both the intrinsic and time value of the hedging options under hedge accounting. As at 1 January 2018, the Group will disclose the effect of reversing time value of options in the financial statements, showing a positive impact on the profit and loss account under "profit on derivative financial instruments" in the amount of PLN 7 652 thousand and a change in deferred tax (-) PLN 1 454 thousand.
The application of IFRS 9 in the area of impairment will not have a material impact on the financial statements. In addition, as a result of the application of IFRS 9, the classification of some financial assets will change.

IFRS 14 *Regulatory Deferral Accounts*

The new standard was published on 30 January 2014 and applies to annual periods beginning on or after 1 January 2016. The new standard is temporary, as a result of the IASB works being in progress on regulating the method of settlement of operations under conditions of price adjustment. The standard introduces the principles of reporting assets and liabilities arising in connection with transactions on adjusted prices in the case, when the entity makes the decision to switch to IFRS.

The Group will apply the new standard no earlier than as of the date agreed by the European Union as the effective date of this standard. Due to the transitional nature of the standard, the European Commission decided not to start the formal procedure for approving this standard and to wait for the target standard.

IFRS 15 *Revenue from Contracts with Customers*

The new unified standard was published on 28 May 2014 and applies to annual periods beginning on or after 1 January 2018, and its earlier application is permitted. The standard establishes a uniform framework for revenue recognition and contains the principles that will replace most detailed guidelines for revenue recognition, currently existing under IFRS, in particular, IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and the related interpretations.

The Group will apply the new standard from 1 January 2018.

The analysis of revenue sources made by the Group showed that the introduction of changes in connection with the application of IFRS 15 will not have a material impact on the financial result, statement of financial position and the Group's equity.

Clarifications to IFRS 15: *Revenue from Contracts with Customers*
Clarifications to IFRS 15 were published on 12 April 2016 and apply to annual periods beginning on or after 1 January 2018 (according to the effective date of the entire standard). The purpose of the changes in the standard was to clarify the doubts arising during the pre-implementation analyses regarding: identification of performance obligation, guidelines for the application of the standard regarding the identification of the customer/agent and revenues from licenses regarding intellectual property, and finally the transition period when the new standard is first applied.

The Group will apply these regulations along with the implementation of IFRS 15, i.e. from 1 January 2018.

IFRS 16 *Leases*

The new standard was published on 13 January 2016 and applies to annual periods beginning on or after 1 January 2019, and its earlier application is permitted (but subject to the simultaneous application of IFRS 15). The standard replaces the existing regulations applicable to leases (including IAS 17) and radically changes the approach to lease agreements of various types, requiring lessees to recognise in their balance sheets assets and liabilities for all leases, regardless of their type.

The Group will apply the new standard from 1 January 2019.

IFRS 17 *Insurance Contracts*

The new standard was published on 18 May 2017 and applies to annual periods beginning on or after 1 January 2021. Its earlier application is permitted (but subject to the simultaneous application of IFRS 15 and IFRS 9). The standard replaces the existing regulations applicable to insurance contracts (IFRS 4).

The Group will apply the new standard from 1 January 2021.

Amendments to IFRS 10 and IAS 28: *Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture*

Amendments to IFRS 10 and IAS 28 were published on 11 September 2014 and apply to annual periods beginning on or after 1 January 2016 (the effective date has now been postponed without indicating the starting date). The amendments clarify the accounting for transactions in which the parent company loses control over a subsidiary which is not a "business" as defined in IFRS 3 "Business Combinations", by means of sale of all or part of shares held in this subsidiary to an associate or joint venture accounted for using the equity method.

The Group will apply the changes in standards no earlier than as of the date agreed by the European Union as the effective date of this standard. Currently, the European Commission has decided to postpone the formal approval procedure for the revised standards.

Amendments to IFRS 2: *Classification and Measurement of Share-based Payment Transactions*

Amendments to IFRS 2 were published on 20 June 2016 and apply to annual periods beginning on or after 1 January 2018. The purpose of the changes in the standard was to clarify the manner of recognising certain types of share-based payment transactions.

The Group will apply the new standard from 1 January 2018.

Amendments to IFRS 4: *Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts"* published on 12 September 2016.

They apply to annual periods beginning on or after 1 January 2018.

The Group will apply the new interpretation from 1 January 2018.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

The new interpretation was published on 8 December 2016 and applies to annual periods beginning on or after 1 January. The purpose of the interpretation is to indicate how to determine the date of the transaction for the purpose of determining the appropriate exchange rate (for the purpose of conversion) for a transaction in a foreign currency when the entity pays or receives an advance in a foreign currency.

The Group will apply the new interpretation from 1 January 2018.

Amendment to IAS 40: *Transfer of Investment Property*

Amendment to IAS 40 was published on 8 December 2016 and applies to annual periods beginning on or after 1 January 2018. Its purpose is to clarify that the transfer of real property to investment property may take place only if there is a change in use of the property.

The Group will apply the new interpretation from 1 January 2018.

IFRIC 23 *Uncertainty over Income Tax Treatments*

The new interpretation was published on 7 June 2017 and applies to annual periods beginning on or after 1 January 2019. The purpose of the interpretation is to indicate how to recognise income tax in financial statements in cases where the existing tax regulations may leave room for interpretation and disagreement between the entity and tax authorities.

The Group will apply the new interpretation from 1 January 2019.

Amendment to IFRS 9: *Prepayment Features with Negative Compensation*

The amendment to IFRS 9 was published on 12 October 2017 and applies to annual periods beginning on or after 1 January 2019. Its purpose is to indicate valuation principles for financial assets that can be repaid earlier on the basis of contractual terms and, formally, might not meet the requirements of the "capital and interest only" test, which would exclude their measurement at amortised cost or at fair value through other comprehensive income.

The Group will apply the amended standard from 1 January 2019.

Amendment to IAS 28: *Long-term Interests in Associates and Joint Ventures*

The amendment to IAS 28 was published on 12 October 2017 and applies to annual periods beginning on or after 1 January 2019. Its purpose is to indicate the valuation principles for interests in associates and joint ventures in a situation where they are not measured using the equity method.

The Group will apply the amended standard from 1 January 2019.

Amendments to various standards resulting from annual review of the International Financial Reporting Standards (*Annual Improvements 2015-2017*)

On 12 December 2017, as a result of the review of IFRS, minor improvements were made to the following standards:

- IFRS 3: *Business Combinations*, with respect to clarifying that when the control is taken over, the entity revalues its interest in the joint operation.

- IFRS 11: *Joint Agreements*, with respect to clarifying that when the joint control is taken over, the entity does not revalue its interest in the joint operation.

- IAS 12: *Income taxes*, indicating that all tax consequences of dividend payments should be recognised in the same manner.

- IAS 23: *Borrowing costs*, requiring that loans and borrowings that were originally used to finance the emerging assets – from the moment when the assets are ready for use in accordance with the intended purpose (use or sale) are also included in the general financing sources.

They apply to annual periods beginning on or after 1 January 2019.

Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement*

Amendments to IAS 19 were published on 7 February 2018 and apply to annual periods beginning on or after 1 January 2019. The changes relate to the method of re-pricing the defined benefit plans in case they change. Changes in the standard mean that in the case of re-valuation of net assets / liabilities for a given programme, the updated assumptions should be applied to determine the current cost of employment and interest costs for periods after the change of the programme. Until now, IAS 19 did not define this precisely.

IFRS in the form approved by the EU do not significantly differ from the regulations adopted by the International Accounting Standards Board (IASB), except for the following standards, interpretations and their amendments, which at the date of approval of these financial statements for publication have not yet been adopted for use by EU countries:

IFRS 14 *Regulatory Deferral Accounts,* published on 30 January 2014 (suspended adoption process for use by EU countries), IFRS 17 *Insurance Contracts*, published on 18 May 2017

Amendments to IFRS 10 and IAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture,* published on 11 September 2014 (suspended adoption process for use by EU countries),

Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions,* published on 20 June 2016,

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*, published on 8 December 2016,

Amendments to IAS 40: *Transfer of Investment Property,* published on 8 December 2016,

IFRIC 23 *Uncertainty over Income Tax Treatments*, published on 7 June 2017,

Amendment to IFRS 9: *Prepayment Features with Negative Compensation*, published on 12 October 2017,

Amendment to IAS 28: *Long-term Interests in Associates and Joint Ventures,* published on 12 October 2017,

Amendments to various standards resulting from annual review of the International Financial Reporting Standards (*Annual Improvements 2015-2017*), published on 12 December 2017,

Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement,* published on 7 February 2018.

8. Significant accounting policies

8.1 Consolidation principles

These consolidated financial statements include the financial statements of Fabryki Mebli FORTE S.A. and the financial statements of its subsidiaries for the year ended 31 December 2017. Financial statements of subsidiaries, as adjusted for compliance with IFRS, are prepared for the same reporting period as the financial statements of the Parent Company, using consistent accounting policies and based on uniform accounting principles applied to transactions and economic events of similar nature. In order to eliminate any discrepancies in the applied accounting principles, adjustments are made.

All significant balances and transactions among entities of the Group, including unrealised gains resulting from transactions within the Group, have been entirely eliminated. Unrealised losses are eliminated, unless they are an impairment indicator.

Subsidiaries are subject to consolidation in the period from the day the Group assumes control over them, and cease to be consolidated from the day the control ceases. The Parent Company exercises control, if it holds, directly or indirectly through its subsidiaries, more than half of the votes in a given company, unless it can be demonstrated that such ownership does not constitute control. Control is also exercised when the Parent Company has the power to influence the financial and operating policy of the entity.

8.2 Revenue

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is recognised net of Value Added Tax (VAT) and discounts. The following specific recognition criteria must also be met before revenue is recognised.

Sale of goods and services

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be reliably measured.

Interest

Revenue is recognised as interest accrues (using the effective interest rate method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

Dividends

Dividends are recognised when the shareholders' rights to receive the payment are established.

Rental income (operating lease)

Rental income on investment property is recognised on a straight-line basis over the lease term on ongoing leases.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, its fair value is credited to a deferred income account and is systematically recognised in the profit and loss account over the estimated useful life of the relevant asset by way of equal, annual write-downs.

8.3 Earnings per share

Earnings per share for each reporting period are calculated as a quotient of the net profit for a given accounting period and the weighted average number of shares of the Parent Company outstanding in that period.

8.4 Leases

The Group as a lessee

Finance leases which substantially transfer to the Group all risks and benefits arising from the ownership of leased items are capitalised at the date of lease commencement, at the lower of fair value of leased fixed assets and the present value of minimum lease payments. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability, in a way to produce a constant rate of interest on the remaining balance of the liability. Financial costs are charged directly to the profit and loss account.

Capitalised leased assets are depreciated over the estimated useful life of the asset. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the lease term and the estimated useful life.

Leases where the lessor retains substantially all the risks and benefits of ownership of held asset are classified as operating leases. Operating lease payments and subsequent lease instalments are recognised as costs in the profit and loss account, on a straight-line basis and over the lease term.

The Group as a lessor

Leases where the lessor retains substantially all the risks and benefits of ownership of held asset are classified as operating leases. As a lessor, the Group enters into contracts for the rental of premises in investment property. Income under such contracts is recognised on an ongoing basis in the profit and loss account.

8.5 Foreign currency translation

Transactions expressed in foreign currencies are converted to PLN at the exchange rate applicable as at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are converted to PLN according to the average foreign exchange rate established by the National Bank of Poland for a given currency, applicable as at the end of the reporting period. The resulting exchange rate differences are recognised under financial revenue/costs or, in the cases provided for in the accounting principles (policy), capitalised at the value of assets. Non-monetary assets and liabilities denominated in foreign currencies are recorded at their historical cost as at the date of the transaction. Non-monetary assets and liabilities measured at fair value are converted according to the average exchange rate applicable as at the date of measurement at fair value.

Financial statements concerning foreign operations are translated to the Polish currency in the following manner:

- individual balance sheet items at the average rate established by the National Bank of Poland as at the balance sheet date

- Möbelvertrieb Forte GmbH – EUR – 4.4240
- Forte Möbel AG – CHF – 4.1173
- FORTE FURNITURE PRODUCTS INDIA PVT. LTD – INR -0.0544

- individual items of the profit and loss account at the exchange rate constituting the arithmetic mean of the average exchange rates determined by the National Bank of Poland as at the date ending each month

- Möbelvertrieb Forte GmbH – EUR – 4.3757
- Forte Möbel AG – CHF – 4.0133
- FORTE FURNITURE PRODUCTS INDIA PVT. LTD – INR – 0.0576

Exchange differences arising from the translation into the presentation currency are recognised directly in equity as a separate component. Upon disposal of a foreign entity, accumulated deferred exchange differences recognised in equity related to a given foreign entity are recognised in the profit and loss account.

8.6 Borrowing costs

Borrowing costs, which can be directly attributed to purchase, creation or construction of fixed assets are capitalised as part of the cost of its construction. Borrowing costs include interest and foreign exchange gains or losses to the extent they are regarded as an adjustment of interest costs.

Other financial costs are recognised as an expense in the period.

8.7 Retirement benefits

In accordance with the applicable remuneration systems, employees of the Group are entitled to retirement benefits. Retirement benefits are paid out as one-off benefit upon retirement. The amount of those benefits depends on the number of years of employment and the employee's average salary. The Group creates a provision for future retirement benefits in order to allocate the costs of those allowances to the periods to which they relate.

In accordance with IAS 19, retirement benefits are post-employment defined benefits. The present value of such liabilities as at each balance sheet date is determined by an independent actuary. The balance of these liabilities equals discounted payments which will be made in the future and accounts for staff turnover and remuneration increase rate. Demographic information and information on staff turnover are based on historical information.

Benefit costs are divided into the following components:

- current employment costs (provision change resulting from the accumulation of liabilities over the period as a result of an increase in years of employment and age of employees)
- interest costs (increase in liabilities related to interest rate; it is the product of the value of liabilities at the beginning of the year and the rate of interest used for the discount)
- actuarial profit/loss is a change resulting from differences between the assumptions and their implementation as well as changes in the parameters and assumptions adopted for the calculation

The Group presents the first two components of defined benefit cost in the financial result.

Revaluations recognised in other comprehensive income are immediately reflected in retained earnings and will not be transferred to the profit and loss account.

8.8 Share-based payments

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuator using the Black-Scholes model. In the valuation of equity- settled transactions, only market factors are considered.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the Management Board of the Parent Company at that date, based on the best available estimate of the number of equity instruments, will ultimately vest.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. In the current reporting period and in the comparative period, there were no equity-settled transactions.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

8.9 Taxes

Current tax

Current income tax assets and liabilities arising in the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the balance sheet date.

Deferred tax

For the purposes of financial reporting, deferred tax is calculated using the liability method, on temporary differences arising as at the end of the reporting period between the tax value of assets and liabilities and their book value presented in the financial statements.

Deferred tax liability is recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of goodwill, an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax asset is recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will be available that will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the profit and loss account.

The Group offsets deferred tax assets and deferred tax liabilities only if it has a legally enforceable right to offset current tax receivables with liabilities, and deferred tax asset is related to the same taxpayer and the same tax authority.

Value Added Tax

Revenues, expenses, assets and liabilities are recognised net of the amount of value added tax except:

- where the value added tax incurred on a purchase of assets or services is not recoverable from the tax authority, in which case value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and liabilities, which are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the tax authority is included as part of receivables or liabilities in the balance sheet.

8.10 Tangible fixed assets

Tangible fixed assets are measured according to costs less accumulated depreciation and impairment losses. The initial cost of an item of tangible fixed assets comprises its purchase price and any directly attributable costs of purchase and bringing the asset to working condition for its intended use. Cost comprises also the cost of replacement of components of fixed assets when incurred if the recognition criteria are met. Subsequent expenditures, such as repair or maintenance costs, are expensed in the reporting period in which they were incurred.

Upon purchase, fixed assets are divided into components which represent items with a significant value and can be allocated a separate depreciation period. Major overhauls are also treated as a separate component.

The Group qualifies as fixed assets the right of perpetual usufruct of land, granted by way of administrative decision, which is considered equally with purchased land, assuming that it meets the definition of fixed assets.

Tangible fixed assets are depreciated using the straight line method over their estimated useful lives:

Type	Year 2017	Year 2016
Buildings and structures	25 – 50 years	25 – 50 years
Machinery and equipment	5 – 50 years	5 – 50 years
Office equipment	3 – 10 years	3 – 10 years
Means of transport	5 – 10 years	5 – 10 years
Computers	3 – 5 years	3 – 5 years
Leasehold improvements	5 – 10 years	5 – 10 years

Residual values, useful lives and depreciation methods of tangible fixed assets are reviewed annually, and, if necessary, adjusted retrospectively, i.e. with effect from the beginning of the completed financial year.

An item of tangible fixed assets is derecognised upon disposal or when no future economic benefits are expected from its further use. Any gain or loss arising on derecognition of an asset (calculated as the difference between the net disposal proceeds, if any, and the carrying amount of the asset) is recognised in the profit and loss account for the period in which derecognition took place.

Construction in progress (CIP) include assets in the course of construction or assembly and are recognised at acquisition price or cost of construction, less any impairment losses. Assets under construction are not depreciated until completed and brought into use.

8.11 Investment property

Investment property is initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property.
Subsequent to initial recognition, investment property is stated at fair value. Any gain or loss arising from a change in the fair value of investment property is recognised in the profit and loss account for the period in which it arose.
Investment property is derecognised when disposed of or permanently withdrawn from use and no future benefits are expected from its disposal. Gains or losses on derecognition of investment property are recognised in the profit and loss account for the year in which such derecognition took place.
Transfers of assets to investment property are made solely when changes occur in their use, evidenced by the ending of occupation by the owner, the conclusion of an operating lease, or the completion of construction or development of investment property. If an asset occupied by the Group as an owner-occupied asset becomes an investment property, the Group accounts for such a property in accordance with the policy stated under the item of *Tangible fixed assets* until the date of change in the manner of its use.

For a transfer from investment property to owner-occupied property or inventory, the deemed cost of property for subsequent accounting is its fair value at the date of change in use.

8.12 Intangible assets

Intangible assets acquired separately or constructed (if they meet the criteria for recognition of R&D works) are measured on initial recognition at the purchase price or cost of construction. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at acquisition price or cost of construction less any accumulated amortisation and any impairment losses. Expenditures incurred for internally generated intangible assets, excluding capitalised development costs, are not capitalised and are charged against profits in the year in which they are incurred.

The useful lives of intangible assets are assessed by the Group to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and amortisation method for intangible assets with a finite useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. Amortisation charges on intangible assets with finite lives are recognised in the profit and loss account in the expense category consistent with the function of a given intangible asset.

Intangible assets with indefinite useful lives and those that are not in use are tested for impairment annually either individually or at cash-generating unit level.

Useful lives are reviewed on an annual basis and, if necessary, are adjusted for with effect from the beginning of the financial year that has just ended.

Research and development costs

R&D costs are written down to the profit and loss account when identified. Expenditure on development activities carried out within the project are carried forward to the next period, if it can be considered to be recovered in the future. After the initial recognition of expenditure on development, historical cost model is applied, requiring assets to be carried at purchase/manufacturing costs, less accumulated depreciation and accumulated impairment losses. All expenditure carried forward is amortised over the expected period of obtaining revenue from the sale of the project.

Development costs are tested for impairment annually – if the asset has not yet been put to use, or more often – when, during the reporting period, there is an indication of impairment showing that their carrying amount may not be recoverable.

A summary of the policies applied to the Group's intangible assets is as follows:

	Patents and licenses	Computer software	Other
Useful life	For patents and licenses used on the basis of a fixed-term agreement, this period is assumed taking into account the additional period for which use can be extended.	5 years	5 year
Amortisation method applied	Depreciated over the term of the contract – the straight-line method.	Using the straight-line method.	Using the straight-line method.
Internally generated or acquired	Acquired	Acquired	Acquired
Review for impairment	The annual assessment of whether there is any indication of impairment.	The annual assessment of whether there is any indication of impairment.	The annual assessment of whether there is any indication of impairment.

Gains or losses arising from amortisation of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account when the asset is derecognised.

8.13 Impairment of non-financial non-current assets

An assessment is made at each reporting date to determine whether there is any indication that an asset from non-financial fixed assets may be impaired. If such indication exists, or in the case annual impairment testing is required, the Group makes an estimate of the recoverable amount of that asset or the cash-generating unit to which that asset has been allocated.

The recoverable amount of an asset or a cash-generating unit is equal to the fair value less costs to sell that asset or cash-generating unit or its value in use, depending on which of them is higher. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its adopted recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Revaluation and impairment losses on assets used in continuing operations are recognised in other operating costs.

The Group performs an assessment at each reporting date as to whether there is any indication that previously recognised impairment loss may no longer exist or may have been reduced. If such indication exists, the Group makes an estimate of the recoverable amount. The previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in the previous years. Such a reversal of impairment loss is immediately recognised as income in the profit and loss account. After a reversal of impairment loss is recognised, the depreciation charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

8.14 Non-current assets held for sale

Fixed assets and disposal groups are classified as held for sale if their carrying amount is more likely to be recovered through a sale transaction than as a result of their continued use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. The classification of assets as held for sale implies that the management of the Group intends to complete the sale within one year from the date of reclassification.

Fixed assets (and disposal groups) classified as held for sale are stated at the lower of carrying amount and fair value less selling expenses.

In the statement of financial position, assets held for sale (or disposal group) are presented as a separate item of assets. Should there be any liabilities related to the disposal group which are to be transferred in the transaction together with the disposal group, these liabilities are presented as a separate item of liabilities.

8.15 Inventory

Inventory is valued at the lower of acquisition price/cost of construction and net realisable value.

Costs incurred in bringing each inventory item to its present location and condition – both for this and the previous reporting period – are recognised as follows:

Materials	- purchase price determined on a weighted average basis;
Finished products and work in progress	- cost of direct materials and labour and a proportion of manufacturing overheads based on normal capacity utilisation, excluding external financing costs;
Goods	- purchase price determined on a weighted average basis;

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

8.16 Financial assets

Financial assets are classified into one of the following categories:

– financial assets held to maturity,
– financial assets at fair value through profit or loss,
– loans granted and receivables,
– financial assets available for sale.

Financial assets held to maturity

Financial assets held to maturity include investments with fixed or determinable payments and fixed maturities, which the Company has the positive intention and ability to hold until maturity. Financial assets held to maturity are measured at amortised cost using the effective interest rate. Financial assets held to maturity are classified as non-current assets if they are falling due within more than 12 months from the balance sheet date.

Financial assets at fair value through profit or loss

Financial assets purchased with the aim of generating profit with the short-term price fluctuations are classified as financial assets at fair value through profit or loss. Derivatives are also classified as held for trading unless they are designated for hedging instruments, as long as they are not hedging instruments within hedge accounting. Financial assets are measured at fair value, which takes into account their market value as at the balance sheet date without taking into account the cost of sale. Any changes in fair value of these financial instruments are recognised as other revenue or operating costs in the profit and loss account. Financial assets at fair value through profit or loss are classified as current assets.

When a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss. It does not apply to cases where the embedded derivative does not significantly modify the cash flows or where it is clear that separation of the embedded derivative is prohibited. Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liabilities asset contains an embedded derivative that would need to be separately recorded.

Loans granted and receivables

Loans granted and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted on an active market. Loans granted and receivables are classified under non-current assets as long as their maturities do not exceed 12 months from the balance sheet date. Loans granted and receivables with maturities exceeding 12 months from the balance sheet date are classified as fixed assets. Financial assets held to maturity are measured at amortised cost using the effective interest rate.

Financial assets available for sale

All other financial assets are available-for-sale financial assets. Available-for-sale financial assets are measured at fair value, without deducting transaction costs, and taking into account their market value at the balance sheet date. Where no quoted market price is available and there is no possibility to determine their fair value using alternative methods, available-for-sale financial assets are measured at the purchase price, adjusted for any impairment losses. Positive and negative differences between the fair value and acquisition cost, net of deferred tax, of financial assets available for sale (if a quoted market price determined on the market is available or if the fair value can be determined using other reliable method), are taken to the revaluation reserve. Any decreases in the value of financial assets available for sale resulting from impairment are recognised as financial costs in the profit and loss account.

Purchase and sale of financial assets is recognised at the transaction date. Financial assets are initially recognised at fair value plus those transaction costs for all financial assets not carried at fair value through profit or loss that are directly attributable to the acquisition.

Financial assets are derecognised if the Group loses its control over contractual rights attached to those assets, which usually takes place upon sale of the asset or where all cash flows attributed to the given asset are transferred to an independent third party.

8.17 Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is an objective evidence of impairment of loans granted and receivables carried at amortised cost, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred), discounted at the financial asset's original effective interest rate (i.e. the effective interest rate assumed at initial recognition). The carrying amount of the asset is reduced either directly or through provision. The amount of the loss shall be recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which impairment losses are or continue to be recognised or are considered to be invariant are not included in the collective assessment of impairment.

If, in the subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of impairment losses is recognised in the profit and loss account, to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date.

Financial assets carried at cost

If there is an objective evidence of impairment of an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or a derivative instrument that is linked to and has to be settled through the delivery of such an unquoted equity instrument, the amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted at the current market rate of return for similar financial assets.

Financial assets available for sale

If there is an objective evidence of impairment of an available-for-sale financial asset, then the amount of the difference between the acquisition cost (net of any principal payment and depreciation and – in the case of financial assets valued according to amortised cost using the effective interest rate method – the depreciation) and the current fair value (less any impairment loss on that financial asset previously recognised in the profit or loss account) is removed from equity and recognised in the profit and loss account. Reversals of impairment losses on equity instruments classified as available for sale cannot be recognised in the profit and loss account unless, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account, the impairment loss is reversed, with the amount of reversal recognised in the profit and loss account.

8.18 Embedded derivative instruments

Embedded derivative instruments are separated from agreements and accounted for as derivative instruments if the following conditions are met:

- the economic nature and risks of the embedded derivative are not closely related to the economic nature and risks of the agreement in which the instrument is embedded;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative instrument;
- hybrid instrument (complex) is not recognised at fair value and changes in fair value are not recognised in the profit and loss account.

Embedded derivatives are recognised in a similar manner as individual derivatives that are not designated as hedging instruments.
The extent to which, in accordance with IAS 39, the economic characteristics and risks inherent to embedded derivative in a foreign currency are closely related to the economic characteristics and risks of the main agreement (main contract) also covers situations when the currency of the main agreement is commonly used in contracts to purchase or sell non-financial items in the market for a given transaction.

Assessment of whether an embedded derivative should be separated is made by the Group upon its initial recognition.

8.19 Financial derivatives

Derivative instruments used by the Group to hedge its risks associated with changes in foreign exchange rates are foreign exchange forward contracts and zero-cost option strategies. Such derivative financial instruments are measured at fair value at the balance sheet date. The profit or loss is recognised in the profit and loss account, unless the derivative is designated as a hedging instrument in hedge accounting. In such case, the moment of the recognition of profit or loss depends on the nature of the hedge relationship.

Derivative instruments are carried as assets when the fair value balance is positive and as liabilities when the fair value balance is negative.

8.20 Hedge accounting

The Group applies the cash flow hedge accounting method, whose aim is to secure the planned sales revenue, which involves currency risk affecting the profit and loss account, and whose probability of occurrence is highly likely. The main objective of cash flow hedge accounting is to protect the operating revenue against changes in the foreign exchange rate between the date of creation of foreign currency exposure and hedging transaction and the date of implementation of foreign currency exposure and hedging transaction. To hedge future foreign exchange transactions, the Group uses symmetrical option strategies. In particular, the Group separates intrinsic value of options, expecting its high efficiency in securing the related position. Hedging instruments are generally held to maturity. In exceptional cases, where circumstances justify the need, the Company may decide to roll over the hedging instrument.

Changes in intrinsic value of hedging options within hedge accounting are included in the Group's equity under the hedging instruments revaluation reserve, while the change in time value of these contracts is recognised in the profit and loss account of the Company. At the time of implementing the hedged sales revenue, changes in fair value of hedging instruments are recognised in the profit and loss account under current sales revenue for the effective part and under profit (loss) on derivative financial instruments for the ineffective part.

At the inception of the hedge, the Group formally designates and documents the hedging relationship and the risk management objective and strategy for undertaking the hedge.

Not less frequently than at hedge inception and on the last day of the financial year, assessment of the prospective effectiveness is made by comparing the cumulative change in intrinsic value of hedging options to the cumulative change in the value of future cash flows. At the end of each month, the effectiveness of hedging – retrospective efficiency – is measured by comparing the cumulative change in fair value of the hedging instrument to the cumulative change in the value of the estimated future cash flows based on market data exchange on the valuation date.

Efficiency is considered to be high if ranges 80%-125%.

The Group discontinues to apply hedge accounting if the hedging instrument expires or is sold, terminated, completed, or if it does not meet the criteria of hedge accounting and if the Group cancels hedging relationship. Then, the cumulative profit or loss on the hedging instrument recognised in equity remains there until the planned transaction. If the transaction is not performed, the accumulated net result recognised in equity is immediately transferred to the profit and loss account.

The Group also applies hedge accounting for instruments hedging the interest rate risk (IRS transaction). In the case of hedge accounting for interest rate risk, the Group examines the effectiveness of the hedging relationship. The adopted retrospective test methodology allows to identify values posted in the Group's equity under the hedging instruments revaluation reserve (in the effective part) and under financing activities of the profit and loss account (in the ineffective part).

8.21 Trade and other receivables

Trade receivables, generally characterised by 1 to 3 month maturity period, are recognised and carried at original invoice amount, less allowances for doubtful receivables. Allowances for receivables are estimated when the collection of full amount is no longer probable. Non-recoverable receivables are written off to the profit and loss account at the time of identifying their non-recoverability.

If the effect of the time value of money is material, receivables are determined by discounting the estimated future cash flows to the present value using a discount rate that reflects current market assessments of the time value of money. Where discounting is used, any increase in receivables due to the passage of time is recognised as financial revenue.

Other receivables include, in particular, advance payments for future purchases of tangible fixed assets, intangible assets and inventory. Advances are presented in accordance with the nature of assets to which they refer – as non-current assets or current assets, respectively. As non-monetary assets, advances are not discounted.

8.22 Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents balance consists of cash and cash equivalents as defined above.

8.23 Interest-bearing bank loans, borrowings and debt securities

All bank loans, borrowings and debt securities are initially recognised at cost, being the fair value of the consideration received net of transaction costs associated with the borrowing.

After initial recognition, interest-bearing loans, borrowings and debt securities are then measured at amortised cost using the effective interest rate method.

Amortised cost is calculated by taking into account any transaction costs, and any discount or premium received in connection with the liabilities.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as by calculating the cost using the effective interest rate method.

8.24 Trade and other liabilities

Short-term trade liabilities are carried at the amount due and payable.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated for hedging instruments. Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

(i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; or

(ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or

(iii) the financial liability contains embedded derivatives that would need to be separately recorded.

Financial liabilities at fair value through profit or loss are measured at fair value, reflecting their market value at the balance sheet date less transaction costs. Changes in the fair value of these instruments are recognised in the profit and loss account as other costs or operating revenue.

Financial liabilities other than financial instruments measured at fair value through profit or loss are measured at amortised cost using the effective interest rate method.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or if it expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, this is treated by the Group as a derecognition of the original liability and the recognition of a new liability. Similarly, if the terms of an existing liability are substantially modified, such a modification is treated by the Company as a derecognition of the original liability and the recognition of a new liability. Differences in the respective carrying amounts are recognised in the profit and loss account.

Other non-financial liabilities include, in particular, liabilities to the tax office in respect of value added tax and advance payment liabilities which will be settled by way of delivery of goods or services, or fixed assets. Other non-financial liabilities are recognised at the amount due.

8.25 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Costs relating to particular provisions are presented in the profit and loss account net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the estimated future cash flows to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as financial costs.

9. Information on operating segments

As of 1 January 2009, new IFRS 8 "Operating segments" applies. Pursuant to the requirements of this standard, operating segments are to be identified on the basis of internal reports on components of the Group that are regularly reviewed by persons deciding on the allocation of resources to the given segment and assessing its financial results.

Internal analysis and reports for management purposes of the Parent Company within the Group are based on the geographical directions of sales. Basically, each line of sales has an attributed person, who is directly responsible for the execution of sales plans and financial results.

Due to the fact that there is no possibility to obtain separate financial information that would be subject to disclosure for each direction of sales, the Management Board of the Parent Company decided not to separate the operating segments under IFRS 8.

10. Seasonality of operations

Seasonality can be observed in the Group's sales revenue.

The value of sales revenue achieved in the period of the last two years is presented below:

	Domestic	% share in total quarter sales	**Export**	% share in total quarter sales	Revenue from sales of products, goods, materials and services	% share in annual sales
Q1 2017	36 263	12%	257 396	88%	293 659	27%
Q2 2017	35 880	15%	206 715	85%	242 595	22%
Q3 2017	45 155	17%	222 595	83%	267 750	24%
Q4 2017	45 095	15%	247 131	85%	292 226	27%
Total 2017	**162 393**	**15%**	**933 837**	**85%**	**1 096 230**	**100%**
Q1 2016	37 943	13%	262 202	87%	300 145	28%
Q2 2016	35 487	15%	204 851	85%	240 338	22%
Q3 2016	48 891	20%	196 100	80%	244 991	22%
Q4 2016	44 975	15%	259 958	85%	304 933	28%
Total 2016	**167 296**	**15%**	**923 111**	**85%**	**1 090 407**	**100%**

11. Revenue and costs

11.1 Sales revenue and geographical structure

Sales revenue	**For the reporting period ended 31.12.2017**	**31.12.2016 adjusted**
Revenue from sales of products, goods and materials:	**1 088 759**	**1 083 534**
- products	1 072 591	1 062 951
- goods	7 993	9 023
- materials	8 175	11 560
Revenue from sales of services:	**7 471**	**6 873**
Total net sales revenue	**1 096 230**	**1 090 407**
Geographical structure:		
- domestic	162 393	167 296
- export	933 837	923 111

Total net sales revenue	**1 096 230**	**1 090 407**
- incl. from related entities	2 346	4 163

Information on key customers

The largest customers for the products of the Group are Steinhoff International based in South Africa and Roller GmbH based in Germany. The share in turnover with Roller GmbH and Steinhoff Group exceeded 10% of the Issuer's sales revenue. There are no formal ties between the customers and the Group.

11.2 Other operating revenue

Other operating revenue	**For the reporting period ended**	
	31.12.2017	**31.12.2016 adjusted**
Reversal of allowances	612	79
Profit on sales of tangible fixed assets	106	145
Investment property revaluation	572	-
Grants	142	28
Donations and compensations	683	2 647
Other	612	660
Total other operating revenue	**2 727**	**3 559**

11.3 Other operating costs

Other operating costs	**For the reporting period ended**	
	31.12.2017	**31.12.2016 adjusted**
Creation of allowances	679	2 586
Liquidation and impairment losses on tangible fixed assets	964	133
Scrapping of inventory	2 767	4 092
Donations	527	740
Penalties and compensations	2 318	298
Loss on disposal of tangible fixed assets	-	200
Costs of employee benefits	335	533
Inventory shortages	131	235
Investment property valuation	1 351	-
Other	809	282
Total other operating costs	**9 881**	**9 099**

11.4 Financial revenue

Financial revenue	**For the reporting period ended**	
	31.12.2017	**31.12.2016 adjusted**
Dividends from related entities excluded from consolidation	278	260
Interest	134	546
Exchange differences on financial assets and liabilities	8 862	-
Total financial revenue	**9 274**	**806**

11.5 Financial costs

Financial costs	**For the reporting period ended**	
	31.12.2017	**31.12.2016 adjusted**
Interest on loans and leases	8 145	2 881
Exchange differences on financial assets and liabilities	-	3 157
Other	64	29

Total financial costs	**8 209**	**6 067**

11.6 Costs by type

Costs by type	**For the reporting period ended 31.12.2017**	**31.12.2016 adjusted**
Depreciation	26 946	22 699
Consumption of materials and energy	534 705	497 815
Third-party services	203 392	200 099
Taxes and fees	10 177	9 380
Payroll	164 730	148 797
Social insurance and other benefits	41 762	36 226
Other costs by type	13 525	9 194
	995 237	**924 210**
Change in product inventory and accruals	(11 988)	2 738
Manufacturing cost of products for internal purposes	(4 086)	(3 417)
Selling costs	(238 929)	(225 684)
G&A costs	(52 061)	(51 262)
Manufacturing cost of products and services sold	**688 173**	**646 585**
Value of goods and materials sold	**11 222**	**16 853**
Cost of sales	**699 395**	**663 438**

11.7 Depreciation costs recognised in the profit and loss account

Depreciation costs in the profit and loss account	**For the reporting period ended 31.12.2017**	**31.12.2016 adjusted**
Depreciation costs recognised in:		
Cost of sales	20 771	16 333
Selling costs	3 652	4 525
G&A costs	2 523	1 841
Total depreciation costs	**26 946**	**22 699**

11.8 Cost of employee benefits

Cost of employee benefits	**For the reporting period ended 31.12.2017**	**31.12.2016 adjusted**
Cost of employee benefits recognised in:		
Cost of sales	137 696	112 598
Selling costs	34 553	39 810
G&A costs	34 243	32 615
Total cost of employee benefits	**206 492**	**185 023**

12. Income tax

12.1 Tax charge

The main items of tax charge for the year ended 31 December 2017 and 31 December 2016 are as follows:

Income tax	**For the reporting period ended 31.12.2017**	**31.12.2016 adjusted**
Current income tax		

Current charge due to income tax	11 879	30 578
Adjustments related to current income tax from previous years	(15)	(312)
Deferred income tax		
Relating to origination and reversal of temporary differences	5 060	(2 795)
Tax charge recognised in the profit and loss account	**16 924**	**27 471**

12.2 Reconciliation of effective tax rate

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for 12 months ended 31 December 2017 and 31 December 2017:

Effective tax rate	**For the reporting period ended 31.12.2017**	**31.12.2016 adjusted**
Profit/(loss) before tax	**93 994**	**132 033**
Tax at the statutory rate applicable in Poland i.e. 19% (2016: 19%)	17 859	25 086
Corrections concerning income tax from previous years	(15)	(312)
Temporary differences from previous years	6	-
Non-deductible costs	836	852
Non-taxable income	(3 825)	(382)
Impact of differences in tax rates of subsidiaries operating in other tax systems	968	1 262
Unrecognised tax loss	1 024	447
Other	71	518
Tax at the effective rate being 18.01 % (2016: 20.81%)	16 924	27 471
Income tax (charge) recognised in the profit and loss account	16 924	27 471
Income tax attributable to discontinued operations		-
	16 924	**27 471**

Effective tax rates of subsidiaries operating in other tax systems are as follows: MV Forte GmbH (Germany) – 30.6%, Forte Möbel AG – 12.2%

12.3 Deferred income tax

Deferred income tax results from the following items:

Deferred income tax		**Consolidated balance sheet** As at		**Consolidated profit and loss account** For the reporting period ended	
Balance sheet item	**Title of temporary difference**	**31.12.2017**	**31.12.2016** adjusted	**31.12.2017**	**31.12.2016** adjusted
Deferred tax liability					
Tangible fixed assets	Revaluation of fixed assets and intangible assets	24 259	19 349	4 890	5 243
Tangible fixed assets	Investment relief	40	84	(44)	(51)
Tangible fixed assets	Impairment loss on fixed assets	-	-	-	1
Trade and other receivables/ liabilities	Exchange rate differences	(846)	(1 281)	435	(551)
Prepayments and accruals	Prepayments and accruals	(4 183)	(5 236)	1 053	(2 224)
Financial assets	Write-down on shares	(76)	(76)	-	5
Trade and other receivables	Revaluation of receivables	(199)	(291)	92	139
Trade and other receivables	Compensations	-	-	-	(248)
Trade and other receivables, financial assets	Interest accrued	46	49	(3)	44
Inventory	Revaluation of inventory	(1 600)	(1 663)	63	(1 081)

Inventory, trade and other receivables	Revenue under Incoterms DDP and DAP	(938)	(1 061)	141	(305)
Trade and other liabilities	Provision for transport costs	158	196	(38)	67
Provision for post-employment benefits	Provisions for post-employment benefits	(310)	(282)	(28)	(102)
Trade and other liabilities	Provision for bonuses	(4 446)	(5 228)	782	(2 400)
Trade and other liabilities	Salaries and surcharges	(829)	(802)	(27)	(37)
Receivables from derivative financial instruments	Short-term financial investments	(1 454)	(1 366)	(88)	(1 366)
Trade and other liabilities	Liabilities overdue above 30 days	-	-	-	65
	Deductible losses	(2 130)	(448)	(1 682)	(448)
	Other	976	2 043	(486)	454
Deferred tax liability for hedge accounting		2 166	(2 179)		-
Deferred tax liability for pensions and disability benefits		(400)	(422)		-
Total deferred tax liability		**10 234**	**1 386**	**5 060**	**(2 795)**

Deferred tax of PLN (400) thousand for employee benefits and PLN 2 166 thousand for hedge accounting was recognised in other comprehensive income.

13. Social assets and liabilities of the Company Social Benefits Fund

The Act on the Company Social Benefits Fund of 4 March 1994 as amended stipulates that the Company Social Benefits Fund is established and run by employers employing more than 20 employees in full-time positions. The Group operates such Fund and makes periodical write-downs based on the minimum required amount. The purpose of the Fund is to subsidise the Group's social activity, loans to employees and other social expenditure.

The Group has offset assets of the Fund and liabilities towards the Fund, as these are not separate assets of the Group. Therefore, net receivables on account of the Fund as at 31 December 2017 are PLN 200 thousand (as at 31 December 2016 – net receivables amounted to PLN 384 thousand).

The composition and nature of assets, liabilities and costs related to the Social Fund are presented in the following table:

	As at	
	31.12.2017	**31.12.2016 adjusted**
Total assets contributed to the Fund		
Loans granted to employees	1 711	1 661
Cash	1 475	1 659
Liabilities towards the Fund	(2 986)	(2 936)
Balance after offsetting	**200**	**384**
Allowances for the Fund during the financial period	**4 649**	**4 084**

14. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the period attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing net profit for the period attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period (adjusted by the influence of dilutive options and all dilutive convertible redeemable preference shares).

On 8 September 2017, the share capital in the Parent Company increased from 23 901 084 shares to 23 930 769 shares. The increase was the result of Mr Gert Coopmann, Member of the Management Board, taking up 29 685 series H shares with a nominal value of PLN 1 each, issued as part of the conditional share capital increase based on resolution no. 19/2014 of the Annual General Meeting of the Parent Company of 10 June 2014 in connection with the implementation of the Incentive Scheme. More information on the implemented Incentive Scheme is provided in note 38.5.

The following reflects the profit and share data used in the basic and diluted earnings per share computations:

	For the reporting period

	31.12.2017	31.12.2016 adjusted
Net profit (loss) on continuing operations	77 070	104 562
Net profit (loss)	77 070	104 562
Net profit (loss) attributable to ordinary shareholders, applied to calculate diluted earnings per share	77 070	104 562

Weighted average number of issued ordinary shares, applied to calculate basic earnings per share	23 930 769	23 901 084
Adjusted weighted average number of ordinary shares, applied to calculate diluted earnings per share	23 910 381	23 901 084

Profit (loss) per share attributable to Shareholders of the Company at the end of the period (in PLN)	31.12.2017	31.12.2016 adjusted
– basic	3.22	4.38
– diluted	3.22	4.38

In the period between the balance sheet date and the date of preparing these financial statements, no other transactions on ordinary shares or potential ordinary shares occurred.

15. Dividend paid and proposed

At the time of publication of these financial statements, the Management Board of the Parent Company did not present any details concerning its position with regard to potential dividend payment for 2017.

By virtue of a resolution of the Annual General Meeting of Fabryki Mebli „FORTE SA" of 17 May 2017, a decision was made to distribute the Company's net profit for the financial year 2016 in the amount of PLN 97 195 thousand, allocating PLN 4 780 thousand to the payment of dividend and PLN 92 415 thousand to reserve capital. Dividend was paid on 9 June 2017 and amounted to PLN 0.20 per share.

16. Leases

16.1 Finance lease and hire purchase

As at 31 December 2017, the Group as a lessee is a party to finance lease agreements for machinery, equipment and means of transport with the option to buy. The leased assets are secured by blank promissory notes.

The duration of the agreements is: 60 months for machinery and equipment, and 25-36 months for means of transport and 50 months for servers.

The residual value was calculated at ca. 1% of the initial value of leased machinery and equipment, ca. 7% for means of transport and 1% for It equipment.

As at 31 December 2017 and as at 31 December 2016, future minimum lease payments are as follows:

	Minimum lease payments	
	31.12.2017	31.12.2016 adjusted
Within 1 year	705	1 135
Within 1 to 2 years	307	632
Within 2 to 5 years	-	236
Over 5 years	-	-
Minimum lease payments, in total	**1012**	**2 003**
Minus financial costs	(32)	(85)
Present value of minimum lease payments	**980**	**1 918**
short-term	679	1 076
long-term	301	842

Tangible fixed assets held under finance lease

	31.12.2017	31.12.2016 adjusted
Machinery and equipment	258	492
Means of transport	722	1 426
	980	**1 918**

16.2 Operating lease liabilities – the Group as a lessee

In the reporting period ended 31 December 2017, the Group entered into operating lease agreements for means of transport. The duration of the agreements is 24 months, the residual value was calculated at 64% of the initial value of leased items.

As at 31 December 2017, future minimum operating lease payments are as follows:

	31.12.2017	31.12.2016 adjusted
Within 1 year	300	218
Within 1 to 5 years	87	94
Over 5 years	-	-
Future minimum lease payments, in total	**387**	**312**

16.3 Operating lease receivables – the Group as a lessor

In the reporting year ended 31 December 2016, the Group entered into operating lease agreements regarding the commercial premises in a facility in Wrocław at ul. Brücknera 25-43, in Przemyśl at ul. Bakończycka and in Bydgoszcz at ul. Poznańska.

Most contracts are made for an indefinite period with a 3-month notice.

The longest fixed-term agreement was made for the period until 01.01.2027.

As at 31 December 2017, future receivables arising from minimum lease payments under non-cancellable operating lease agreements are as follows:

	As at	
	31.12.2017	31.12.2016 adjusted
Within 1 year	3 761	3 506
Within 1 to 5 years	2 579	2 712
Over 5 years	1 690	1 478
Future receivables from minimum lease payments, in total	**8 030**	**7 696**

17. Employee benefits

17.1 Employee share schemes

More information on the incentive scheme is provided in note 38.5.

17.2 Pensions and other post-employment benefits

The Group's entities pay to retiring employees retirement benefits in the amount set out in the Labour Code. Therefore – based on a valuation carried out by a professional actuarial company – the Group recognises a provision for the current value of this retirement benefit liability. The amount of this provision and movements in the benefit liability over the period are presented in the table below.

Both in the reporting period and in the comparative period, the valuation was prepared using the projected unit cost method.

The main assumptions adopted by the actuary at the balance sheet date for calculating the liability amount are as follows:

	As at	
	31.12.2017	31.12.2016 adjusted
Discount rate (%)	3.2%	3.5%
Expected inflation rate (%)	2.5%	2.5%

Employee turnover ratio (%)	10.0%-13.7%	11.2-14.2%
Expected salary growth rate (%)	3.5%	3.5%

Provision for pensions and disability benefits	**As at 2017**	**2016 adjusted**
As at 1 January	**3 817**	**3 562**
Exchange differences on translation	-	4
Interest costs	130	100
Current service costs	442	389
Past service costs and curtailments	186	137
Benefits paid	(424)	(96)
Actuarial profit/(loss) from changes in demographic assumptions	(42)	-
Actuarial profit/(loss) from changes in economic assumptions	84	(177)
Actuarial profit/(loss) from differences between assumptions and implementation	(160)	(102)
Profit/loss on settlement of benefit schemes	-	-
As at 31 December	**4 033**	**3 817**
Including:		
long-term	3 601	3 395
short-term	432	422

A short-term provision for pensions and disability benefits was recognised as short-term liabilities/provisions.

Amounts recognised in the comprehensive income :

	2017	**2016 adjusted**
Benefit costs:		
Current service costs	(442)	(389)
Interest costs	(130)	(100)
Future service costs	(186)	(137)
Components of scheme costs recognised in profit or loss:	**(758)**	**(626)**
Actuarial profit/(loss) from changes in demographic assumptions	42	-
Actuarial profit/(loss) from changes in economic assumptions	(84)	177
Actuarial profit/(loss) from differences between assumptions and implementation	160	103
Current components of scheme costs recognised in equity	**118**	**280**
Deferred tax on benefits	(22)	(53)
Total amount of scheme costs recognised in equity	25	(92)
Total annual costs:	**(640)**	**(346)**

In accordance with IAS 19, the sensitivity of liabilities to changes in the discount rate and the salary growth rate is presented below. An increase and decrease in rates by 0.5% was assumed. Both in the reporting period and in the comparative period, the valuation was prepared using the projected unit cost method.

Assumptions	% change	Impact on the provision for pensions and disability benefits
Discount rate (%)	0.5%	(149)
	(0.5%)	160
Expected salary growth rate (%)	0.5%	161
	(0.5%)	(152)

18. Tangible fixed assets

	As at 31.12.2017	As at 31.12.2016 adjusted
Land	24 984	21 510
Buildings and structures	181 420	111 742
Machinery and equipment	137 284	125 904
Means of transport	14 385	7 851
Other fixed assets	9 757	7 954
Fixed assets under construction	430 393	87 008
Total tangible fixed assets	**798 223**	**361 969**

	Land	Buildings and structures	Machinery and equipment	Means of transport	Other	Fixed assets under construction	Total
Net value as at 1 January 2017	**21 510**	**111 742**	**125 904**	**7 851**	**7 954**	**87 008**	**361 969**
Increase	3 743	75 193	29 126	9 165	3 576	458 389	579 192
incl. finance lease	-	-	-	*248*	-	-	*248*
Other decrease, incl.:	(187)	(1 101)	(9 801)	(1 324)	(47)	(114 337)	(126 797)
sales	*(184)*	-	*(6 623)*	*(817)*	*(10)*	-	*(7 634)*
liquidation	*(3)*	*(1 101)*	*(3 178)*	*(507)*	*(37)*	-	*(4 826)*
putting fixed assets in use	-	-	-	-	-	*(114 337)*	*(114 337)*
Elimination of accumulated depreciation due to disposal of assets	-	487	9 385	1 022	44	-	10 938
Depreciation charge for the period	-	(4 906)	(17 332)	(2 295)	(1 770)	-	(26 303)
Adjustment due to exchange differences	(82)	5	2	(34)	-	(667)	(776)
Net value as at 31 December 2017	**24 984**	**181 420**	**137 284**	**14 385**	**9 757**	**430 393**	**798 223**
As at 1 January 2017							
Gross value	21 507	138 881	256 235	18 895	12 279	87 008	534 805
Accumulated depreciation and impairment loss	3	(27 139)	(130 331)	(11 044)	(4 325)	-	(172 836)
Net value	21 510	111 742	125 904	7 851	7 954	87 008	361 969
As at 31 December 2017							
Gross value	24 984	212 973	275 560	26 736	15 808	430 393	986 454
Accumulated depreciation and impairment loss	-	(31 553)	(138 276)	(12 351)	(6 051)	-	(188 231)
Net value	**24 984**	**181 420**	**137 284**	**14 385**	**9 757**	**430 393**	**798 223**

	Land	Buildings and structures	Machinery and equipment	Means of transport	Other	Fixed assets under construction	Total
Net value as at 1 January 2016	**14 986**	**84 204**	**112 631**	**7 573**	**4 845**	**35 164**	**259 403**
Increase	7 391	31 196	28 590	2 348	4 366	116 130	190 021
incl. finance lease	-	-	-	*843*	-	-	*843*
Other decrease, incl.:	(923)	(108)	(556)	(925)	(102)	(64 297)	(66 911)
sales	*(752)*		*(161)*	*(706)*	*(4)*	*(211)*	*(1 894)*
liquidation	*(171)*	*(108)*	*(395)*	*(219)*	*(98)*	*(60)*	*(1 051)*
putting fixed assets in use	-	-	-	-	-	*(64 026)*	*(64 026)*
Elimination of accumulated depreciation due to disposal of assets	3	45	475	646	98	-	1 267
Impairment loss	-	-	-	-	-	(60)	(60)

The accounting principles (policy) and the enclosed explanatory notes form an integral part of these consolidated financial statements.

Reversal of impairment loss recognised in the profit and loss account	-	-	3	-	-	60	63
Depreciation charge for the period	-	(3 595)	(15 239)	(1 813)	(1 254)	-	(21 901)
Adjustment due to exchange differences	53	-	-	22	1	11	87
Net value as at 31 December 2016	**21 510**	**111 742**	**125 904**	**7 851**	**7 954**	**87 008**	**361 969**
As at 1 January 2016							
Gross value	14 986	107 793	228 201	17 450	8 014	35 164	411 608
Accumulated depreciation and impairment loss	-	(23 589)	(115 570)	(9 877)	(3 169)	-	(152 205)
Net value	14 986	84 204	112 631	7 573	4 845	35 164	259 403
As at 31 December 2016							
Gross value	21 507	138 881	256 235	18 895	12 279	87 008	534 805
Accumulated depreciation and impairment loss	3	(27 139)	(130 331)	(11 044)	(4 325)	-	(172 836)
Net value	**21 510**	**111 742**	**125 904**	**7 851**	**7 954**	**87 008**	**361 969**

Total tangible fixed assets remaining at the Group's disposal as at 31 December 2017 amounted to PLN 798 223 thousand (as at 31 December 2016: PLN 361 969 thousand). They comprised the amounts indicated above.

Assets pledged as collateral

The carrying amount of fixed assets used as at 31 December 2017 by the Group under finance lease agreements and hire purchase agreements is PLN 1 905 thousand, of which PLN 369 thousand relates to the lease of machinery and equipment, PLN 1 536 thousand relates to the lease of means of transport (as at 31 December 2016: PLN 3 145 thousand).

Land and buildings with a carrying amount of PLN 278 556 thousand (as at 31 December 2016: PLN 102 743 thousand) are covered by mortgages established to secure bank loans of the Group (note 30 – interest-bearing bank loans and borrowings).

Additionally, machinery and equipment with a carrying amount of PLN 396 383 thousand are subject to registered pledge (as at 31 December 2016: PLN 168 278 thousand).

In the reporting period ended 31 December 2016, the capitalised borrowing costs amounted to PLN 8 519 thousand (as at 31 December 2016: PLN 2 740 thousand).

Purchase and sale

In the 12 months ended 31 December 2017, the Group purchased fixed assets of PLN 464 608 thousand (in the comparative period ended 31 December 2016: PLN 125 837 thousand) and sold fixed assets with a net value of PLN 722 thousand (in the comparative period ended 31 December 2016: PLN 464 thousand).

The most important investments made by the Group in 2017 include capital expenditure related to the construction of a chipboard factory, construction of an exhibition hall in Germany, expansion of a high-bay warehouse in Ostrów Mazowiecka, purchase of forklifts and modernisation of roads. In 2017, the subsidiary TANNE put into service a warehouse and manufacturing facility with the accompanying infrastructure and launched the process of wrapping the board on the new Burkle technological line. The next stages of the investment are progressing as scheduled. The most important investment tasks in progress include the construction of the chipboard manufacturing facility, technological foundations and the assembly of a technological line for the production of chipboard.

Investment liabilities

As at 31 December 2017, the Group's investment liabilities amounted to PLN 81 435 thousand. This amount refers mainly to expenses for fixed assets under construction and purchase of machinery and equipment. Part of investment liabilities in the amount of PLN 2 225 thousand is presented in the balance sheet under "Other long-term liabilities". These are guarantee deposits, securing the proper performance of works related to the construction of the chipboard factory. As at 31 December 2016, investment liabilities amounted to PLN 23 148 thousand.

19. Investment property

Properties which are not used or which are used to a small extent only for manufacturing purposes are classified by the Group as investment properties and treated as a source of rental income under long-term rental contracts.

As at the balance sheet date, the Group's investment properties include: shopping centres in Wrocław and Bydgoszcz, a warehouse hall complex in Wrocław, real property in Przemyśl, premises in Kraków and land located in Sokółka.

	Change in fair value

	2017	2016 adjusted
Opening balance at the beginning of the reporting period	72 946	71 660
- expenditure on modernisation	1 103	301
- reclassification from tangible fixed assets	-	-
- purchase of investment land	-	985
- revaluation to fair value	(779)	-
Closing balance at the end of the reporting period	**73 270**	**72 946**

	For the reporting period ended	
	31.12.2017	**31.12.2016 adjusted**
Investment property rental income	4 064	3 920
Repair and maintenance costs, incl.:	105	240
costs which brought rental income during the period	*105*	*144*
costs which did not bring rental income during the period	*-*	*96*

The Group has no contractual obligations regarding the purchase, construction or development of investment properties, as well as repairs, maintenance and improvements. In the near future, the Group is planning further modernisation of the property in Bydgoszcz and the start of modernisation of the real property in Wrocław. On real properties worth PLN 53 750 thousand, a mortgage was established as a collateral for an investment loan taken by the Group.

Fair value hierarchy

As at 31 December 2017, the fair value of investment properties has been confirmed by independent appraisers in their appraisal reports prepared as at 27 and 29 December 2017. In order to update the valuations, the appraisers used the income method using simple capitalisation technique and the pairwise comparison method.

As at 31 December 2017, the fair value hierarchy was as follows:

	Level 1	Level 2	Level 3	**Fair value as at 31.12.2017**
Property in Wrocław	-	-	36 900	**36 900**
Property in Bydgoszcz	-	-	19 520	**19 520**
Property in Przemyśl	-	-	14 795	**14 795**
Property in Kraków	-	-	1 070	**1 070**
Land in Sokółka	-	-	985	**985**
			73 270	**73 270**

20. Intangible assets

	As at	
	31.12.2017	**31.12.2016 adjusted**
Patents and licences	853	306
Other intangible assets	15 287	15 299
Completed development works	477	662
Total	**16 617**	**16 267**

	Patents and licences	Other	Completed development works	Total
Net value as at 1 January 2017	**306**	**15 299**	**662**	**16 267**
Increase	694	-	508	1 202
Decrease	-	-	(437)	(437)
Depreciation charge for the period	(147)	(10)	(569)	(726)
Elimination of accumulated depreciation due to disposal/ liquidation	-	-	313	313
Adjustment due to exchange differences	-	(2)	-	(2)
Net value as at 31 December 2017	**853**	**15 287**	**477**	**16 617**
As at 1 January 2017				
Gross value	5 772	16 134	1 678	23 584
Accumulated depreciation and impairment loss	(5 466)	(835)	(1 016)	(7 317)
Net value	**306**	**15 299**	**662**	**16 267**
As at December 2017				
Gross value	6 466	16 134	1 749	24 349
Accumulated depreciation and impairment loss	(5 613)	(847)	(1 272)	(7 732)
Net value	**853**	**15 287**	**477**	**16 617**

	Patents and licences	Other	Completed development works	Total
Net value as at 1 January 2016	**464**	**15 285**	**660**	**16 409**
Increase	-	21	680	701
Decrease	-	-	(989)	(989)
Depreciation charge for the period	(158)	(7)	(633)	(798)
Reclassification of intangible assets	-	-	-	-
Elimination of accumulated depreciation due to disposal/ liquidation	-	-	944	944
Elimination of accumulated depreciation due to reclassification				
Net value as at 31 December 2016	**306**	**15 299**	**662**	**16 267**
As at 1 January 2016				
Gross value	5 722	16 113	1 987	23 872
Accumulated depreciation and impairment loss	(5 308)	(828)	(1 327)	(7 463)
Net value	**464**	**15 285**	**660**	**16 409**
As at December 2017				
Gross value	5 772	16 134	1 678	23 584
Accumulated depreciation and impairment loss	(5 466)	(835)	(1 016)	(7 317)
Net value	**306**	**15 299**	**662**	**16 267**

Intangible assets remaining at the Group's disposal as at 31 December 2017 amounted to PLN 16 617 thousand (as at 31 December 2016: PLN 16 267 thousand). They comprised the amounts indicated above. As at 31 December 2017 and 31 December 2016, intangible assets classified as held for sale did not occur.

Expenditure on research and development

In the reporting period ended 31 December 2017, the Group made expenditure on research recognised in selling costs in the amount of PLN 1 111 thousand (in 2016: PLN 1 461 thousand) and on development recognised in intangible assets in the amount of PLN 508 thousand (in 2106: PLN 680 thousand). Research and development works were related to development of new furniture designs.

Description of collaterals established on intangible assets:

On 16 December 2016, TERCEIRA Sp. z o.o. took a loan with ING Bank Śląski S.A. to purchase investment certificates of SEZAM XX Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, totalling PLN 145 500 thousand.

In connection with the loan, on the protection right to the word and figurative mark "FORTE", a registered pledge was established up to the highest collateral amount of PLN 174 600 thousand.

Intangible assets with an indefinite useful life

The only component of intangible assets with an indefinite useful life is the trademark.
The Group was unable to determine the period of use of its trademark, because there are no foreseeable limit to the period over which the Group expects to derive economic benefits from sales under the FORTE trademark.

Impairment

Due to an indefinite useful life of the trademark, it was tested for impairment by the Group.

Valuation method

The value in use of the trademark was estimated using the method of exemption from licence fees. In this method, the value is determined based on discounted future streams of licence fees, including licence agreements concluded on an arm's length basis for comparable brands.

Assumptions for valuation

Licence fee rate – 2%
Cost of equity – 8.06%
Discount rate – 10.81% - 11.50% in the projection period
Income tax rate – 19%

The period of financial projections – from 1 January 2018 to 31 December 2022 plus the estimate of the residual value.

For the purposes of forecasts of sales revenue under the Forte brand for 2018, i.e. the period covered by the most current budget, an 8% increase in revenue was assumed.

The result of estimating the value of the trademark, according to the adopted assumptions, did not show its impairment, considering sensitivity to three key input assumptions: licence fee rate, discount rate and growth rate after 31 December 2022.

21. Non-current assets held for sale

As at 31 December 2017, the Group did not have non-current assets classified as held for sale.

22. Long-term financial assets

	As at	
	31.12.2017	**31.12.2016**
Long-term financial assets		
Stocks/ shares in subsidiaries not quoted on the stock exchange, not included in consolidation	651	651
Investment certificates	109 304	157 200
Other stocks and shares	3	3
Other long-term financial assets		
Long-term receivables	50	58
Loans granted to related entities	6 913	88
Loans granted to other entities	3 400	-
Other	61	61
	120 382	**158 061**

Selected financial data for FORTE FURNITURE PRODUCTS INDIA PVT. LTD consolidated using the equity method (a 50% share in the company's equity):

SELECTED FINANCIAL DATA ACCORDING TO THE SHARE IN THE COMPANY'S EQUITY	31.12.2017
Non-current assets	5
Current assets	16 977
Total assets	**16 982**
Equity	2 267
Long-term liabilities	6 798
Short-term liabilities	7 917
Total liabilities	**16 982**
Current result	**(5 356)**

Stocks and shares in subsidiaries excluded from consolidation are valued at historical cost less any impairment losses. Financial data obtained from subsidiaries whose shares were not covered by impairment losses do not indicate impairment of shares, therefore no impairment tests were conducted for shares in subsidiaries.

Stocks/ shares in subsidiaries not included in consolidation as at 31 December 2017:

Company name	Type of affiliation	Date of taking over the control/ significant influence	Value of stocks/ shares at acquisition price	Revaluation adjustments	Carrying amount of stocks/ shares
Forte Baldai UAB	Subsidiary	16.04.1999	164	-	164
Forte SK S.r.o.	Subsidiary	13.12.2002	96	-	96
Forte Furniture Ltd.	Subsidiary	10.08.2005	6	-	6
Forte Iberia S.l.u.	Subsidiary	15.09.2005	279	-	279
Forte Mobilier Sarl	Subsidiary	17.11.2005	399	(399)	-
TM Handel Sp. z o.o.	Subsidiary	12.05.2008	-	-	-
ANTWERP Sp. z o.o.	Subsidiary	03.09.2015	5	(5)	-
FORESTIVO Sp. z o.o.	Jointly controlled entity	15.03.2016	101	-	101
ANTWERP FP SP. z o.o	Subsidiary	11.07.2017	5	-	5
TOTAL			**1 055**	**(404)**	**651**

Stocks/ shares in subsidiaries not included in consolidation as at 31 December 2016:

Company name	Type of affiliation	Date of taking over the control/ significant influence	Value of stocks/ shares at acquisition price	Revaluation adjustments	Carrying amount of stocks/ shares
Forte Baldai UAB	Subsidiary	16.04.1999	164	-	164
Forte SK S.r.o.	Subsidiary	13.12.2002	96	-	96
Forte Furniture Ltd.	Subsidiary	10.08.2005	6	-	6
Forte Iberia S.l.u.	Subsidiary	15.09.2005	279	-	279
Forte Mobilier Sarl	Subsidiary	17.11.2005	399	(399)	-
TM Handel Sp. z o.o.	Subsidiary	12.05.2008	-	-	-

ANTWERP Sp. z o.o.	Subsidiary	03.09.2015	5	-	5
FORESTIVO Sp. z o.o.	Jointly controlled entity	15.03.2016	101	-	101
TOTAL			**1 050**	**(399)**	**651**

Shares held by the Group in other entities are as follows:
31 December 2017 and 31 December 2016

Company name	Registered office	Core business	Carrying amount of shares
Meblopol Sp. z o.o.	Poznań	Trade	3
TOTAL			**3**

Percentage share of assets, revenues and results of subsidiaries excluded from consolidation as at 31 December 2017 was as follows:

Company name	Type of affiliation	Total assets	In revenue	In current result
Forte Baldai UAB	Subsidiary	0.02%	0.03%	0.01%
Forte SK S.r.o.	Subsidiary	0.03%	0.19%	0.49%
Forte Furniture Ltd.	Subsidiary	0.02%	0.13%	0.50%
Forte Iberia S.l.u.	Subsidiary	0.03%	0.27%	0.14%
Forte Mobilier Sarl	Subsidiary	0.00%	0.00%	-0.08%
TM Handel Sp. z o.o.	Subsidiary	0,11%	0.08%	0.09%
ANTWERP Sp. z o.o. w likwidacji	Subsidiary	0.00%	0.00%	0.00%
FORESTIVO Sp. z o.o.	Jointly controlled entity	0.01%	0.00%	-0.02%
ANTWERP FP SP. z o.o	Subsidiary	0.08%	0.20%	0.06%

Percentage share of assets, revenues and results of subsidiaries excluded from consolidation as at 31 December 2016 was as follows:

Company name	Type of affiliation	Total assets	In revenue	In current result
Forte Baldai UAB	Subsidiary	0.02%	0.02%	0.03%
Forte SK S.r.o.	Subsidiary	0.04%	0.10%	0.26%
Forte Furniture Ltd.	Subsidiary	0.02%	0.06%	0.04%
Forte Iberia S.l.u.	Subsidiary	0.03%	0.03%	0.05%
Forte Mobilier Sarl	Subsidiary	0.00%	0.00%	-0.04%
TM Handel Sp. z o.o.	Subsidiary	0.11%	0.38%	-0.01%
ANTWERP Sp. z o.o.	Subsidiary	0.00%	0.00%	-0.01%
FORESTIVO Sp. z o.o.	Jointly controlled entity	0.01%	0.00%	0.01%

The percentage share means the share of assets, revenues and results of subsidiaries excluded from consolidation in the corresponding items of the consolidated financial statements prior to inclusions.

Description of collaterals established on long-term financial assets:

The investment certificates held by the Group with the carrying amount of PLN 109 304 thousand were covered by financial pledge for ING Bank Śląski S.A. up to the highest collateral amount of PLN 174 600 thousand and secure the repayment of the loan taken by the Group to purchase these certificates.

23. Inventory

	As at	
	31.12.2017	**31.12.2016 adjusted**
Materials (at purchase price)	71 500	56 314
Work in progress (at production cost)	25 907	22 101
Finished products:		
At purchase/ production cost	74 820	66 832
At net realisable value	71 440	63 672
Goods	1 404	1 659
Total inventory at the lower of cost and net realisable value	**170 251**	**143 746**

Inventory of finished products, work in progress, goods and materials of total value of PLN 35 228 thousand (in 2016: PLN 35 847 thousand) serve as collaterals for bank loans.

Changes in inventory write-downs were as follows:

	Change	
	2017	**2016 adjusted**
Write-downs as at 1 January	8 754	2 733
Increase	671	6 021
Decrease	(1 006)	-
Write-downs as at 31 December	**8 419**	**8 754**

Inventory write-downs recognised in the books of the Group were calculated on the basis of reviews, analyses of inventories in all material groups, as well as experience in the management of slow-moving materials.

Assortment items on the Group's inventory were subject to comprehensive analysis. In the case of indices, for which, in the opinion of the Group, the recovery of the full value might raise doubts, it was determined what percentage of the value would be recoverable in the production process or in the sales process.

In this way, it was estimated that at the balance sheet date, the value of inventory write-downs should amount to PLN 8 419 thousand (in 2016: PLN 8 754 thousand).

Inventory write-downs were recognised in the profit and loss account under the cost of sales for inventory held for sale, and under other operating costs for inventory designated for scrapping.

24. Trade and other receivables

	As at	
	31.12.2017	**31.12.2016 adjusted**
Trade receivables from related entities	2 656	267
Trade receivables from other entities	122 995	154 096
Other budget receivables	54 304	26 454
Other receivables from third parties	5 956	139 818
Total (net) receivables	**185 911**	**320 635**
Allowance for receivables	1 737	1 960
Gross receivables	**187 648**	**322 595**
Income tax receivables	**6 402**	**91**

In connection with the construction of chipboard factory by TANNE Sp. z o.o., the Group made in the reporting period advance payments for the purchase of fixed assets in the amount of PLN 4 796 thousand, recognised under "Other receivables from third parties".

The accounting principles (policy) and the enclosed explanatory notes form an integral part of these consolidated financial statements.

(Gross) trade receivables with repayment period outstanding after the balance sheet date:

	As at 31.12.2017	31.12.2016 adjusted
a) up to 1 month	72 837	98 703
b) over 1 month and up to 3 months	23 652	29 922
c) over 3 months and up to 6 months	24	60
d) over 6 months and up to 1 year	275	293
e) over 1 year	34	-
f) overdue receivables	30 566	27 345
Total trade receivables (gross)	**127 388**	**156 323**
Allowance for receivables	(1 737)	(1 960)
Total trade receivables (net)	**125 651**	**154 363**

(Gross) overdue trade receivables broken down into receivables overdue:

	As at 31.12.2017	31.12.2016 adjusted
a) up to 1 month	23 086	21 044
b) over 1 month and up to 3 months	5 917	3 094
c) over 3 months and up to 6 months	317	1 309
d) over 6 months and up to 1 year	139	403
e) over 1 year	1 107	1 495
Total overdue trade receivables (gross)	**30 566**	**27 345**
Allowance for receivables	(1 544)	(1 704)
Total overdue trade receivables (net)	**29 022**	**25 641**

For terms and conditions of related party transactions, refer to note 38 of explanatory notes.
Trade receivables do not bear interest and have a payment term of 1 to 3 months.
The Group has a policy to sell to verified customers only. Owing to that, as the management believes, there is no additional credit risk that would not be covered by the allowance for doubtful debts related to trade receivables of the Group.
As at 31 December 2017, the Group's trade receivables totalling PLN 1 737 thousand (as at 31 December 2016: PLN 1 960 thousand) were considered to be difficult to recover and hence written off.
Allowance for receivables was recognised in the profit and loss account under other operating costs.

Changes in allowance for receivables were as follows:

Allowance for receivables	Change 2017	2016 adjusted
Allowance as at 1 January	1 960	2 694
Exchange differences	(34)	21
Creation	679	1 053
Use	(256)	(1 772)
Release	(612)	(36)
Allowance as at 31 December	**1 737**	**1 960**

The aging analysis of trade receivables as at 31 December 2017 and 31 December 2016 is presented below:

	Total	**Not overdue**	**Overdue but recoverable**				
			< 30 days	30 – 90 days	90 – 180 days	180-365 days	>365 days
31 Dec 2017	125 651	96 629	23 086	5 908	23	5	-

31 Dec 2016 adjusted	154 363	128 722	21 044	3 094	1 309	194	-

25. Derivative financial instruments

Fair value of derivative financial instruments	As at 31.12.2017	31.12.2016 adjusted
Long-term receivables from derivative financial instruments	33 433	-
Short-term receivables from derivative financial instruments	18 210	-
Long-term liabilities under derivative financial instruments	-	13 916
Short-term liabilities under derivative financial instruments	(1 492)	4 744
	50 151	**18 660**

26. Prepayments

Prepayments	As at 31.12.2017	31.12.2016 adjusted
Property and motor insurance	1 411	1 571
Fairs	185	108
Settlement of project costs	1 229	910
Business trips	24	222
Licences	109	-
Other	1 046	420
Total prepayments	**4 004**	**3 231**

27. Other short-term financial assets

Other short-term financial assets	As at 31.12.2017	31.12.2016 adjusted
Loans granted	62	1 030
Interest on loans granted	27	8
Other financial assets	110	124
Other short-term financial assets, in total	**199**	**1 162**

For details of loans granted to related entities, refer to note 38 of explanatory notes.

On 23.06.2016, the Parent Company granted a loan of PLN 1 000 thousand PLN to Furnirex Sp. z o.o. Pursuant to the loan agreement, the final drawdown was expected on 31.03.2017. The loan repayment date was set to 31.12.2017. On 6 March 2017, an annex was signed, increasing the loan amount to PLN 3 400 thousand with repayment date of 31 January 2020. As at the balance sheet date, the loan is recognised under long-term financial assets (note 22).

28. Cash and cash equivalents

Cash and cash equivalents	As at 31.12.2017	31.12.2016 adjusted
Cash at bank and in hand	52 292	58 260
Other cash (overnight deposits and deposits under 3 months)	576	37 618
Total cash and cash equivalents	**52 868**	**95 878**

Cash at bank bears interest at variable interest rates, the amount of which depends on the interest rate on one-day bank deposits. Short-term deposits are made for various periods, from one day to one month, depending on the Group's current demand for cash and bear interest at the interest rates set for them. The fair value of cash and cash equivalents as at 31 December 2017 is PLN 52 868 thousand (31 December 2016: PLN 95 878 thousand).

As at 31 December 2017, the Group has restricted cash of PLN 5 650 thousand (31 December 2016: PLN 3 803 thousand). These funds were accumulated on a separate bank account and, under a loan agreement, blocked until the investment liability of the subsidiary TANNE Sp. z o.o. is repaid. The final repayment date is October 2018.

29. Share capital and supplementary/reserve capital

29.1 Share capital

Share capital (shares in units)	As at 31.12.2017	31.12.2016 adjusted
Series A ordinary shares with a nominal value of PLN 1 each	8 793 992	8 793 992
Series B ordinary shares with a nominal value of PLN 1 each	2 456 380	2 456 380
Series C ordinary shares with a nominal value of PLN 1 each	6 058 000	6 058 000
Series D ordinary shares with a nominal value of PLN 1 each	2 047 619	2 047 619
Series E ordinary shares with a nominal value of PLN 1 each	4 327 093	4 327 093
Series F ordinary shares with a nominal value of PLN 1 each	68 000	68 000
Series G ordinary shares with a nominal value of PLN 1 each	150 000	150 000
Series H ordinary shares with a nominal value of PLN 1 each	29 685	-
	23 930 769	**23 901 084**

On 8 September 2017, the share capital of the Parent Company was increased from PLN 23 901 084 to PLN 23 930 769 as a result of Member of the Management Board, Mr Gert Coopmann, taking up 29 685 series H shares with a nominal value of PLN 1 each, issued under a conditional share capital increase based on resolution no. 19/2014 of the Annual General Meeting of the Parent Company of 10 June 2014 in connection with the implementation of the Incentive Scheme.
By virtue of resolution no. 1019/2017 of the Management Board of the Warsaw Stock Exchange of 6 September 2017, series H shares were introduced as of 8 September 2017 by way of an ordinary procedure to exchange trading in the main market.

Nominal value of shares

All issued shares have a nominal value of PLN 1 and have been fully paid up or covered by contribution in kind.

Shareholder rights

Shares of all series are equally privileged in terms of voting rights, dividends and repayment of capital.

Major shareholders

Shareholders holding at least 5% of the total number of shares of the Company as at 5 April 2018.

Item	Shareholder	Number of shares and votes held	% stake in share capital	% share in total number of votes
1.	MaForm SARL	7 763 889	32.44%	32.44%
2.	Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	2 300 000	9.61%	9.61%
3.	SKARBIEC Towarzystwo Funduszy Inwestycyjnych S.A. *	2 149 448	8.98%	8.98%
4.	ING Otwarty Fundusz Emerytalny	1 200 000	5.01%	5.01%

* incl. Bentham Sp. z o. o. 2,050,000 shares, 8.57% share in the share capital and in total number of votes

29.2 Share premium

In the reporting period, there was no change in the amount of share premium.

29.3 Other capital

Financial instruments revaluation reserve

	As at	
	31.12.2017	**31.12.2016 adjusted**
Opening balance of accumulated result on financial instruments hedging cash flows	(9 291)	4 595
Amount recognised in equity in the reporting period due to hedging transactions	71 940	(17 013)
Amount transferred to profit and loss account due to:		
- ineffectiveness of concluded transactions		-
- conclusion of transactions subject to hedging	(2 725)	(130)
- discontinuance of hedge accounting		-
Deferred income tax	(13 445)	3 257
Closing balance of accumulated result on financial instruments hedging cash flows	**46 479**	**(9 291)**

Other reserve and supplementary capital

	Statutory supplementary capital	Other reserve capital	Total
As at 1 January 2017	1 250	247 829	249 079
Deduction from profit for investments and financing the Group's current operations	-	109 728	109 728
As at 31 Dcember 2017	**1 250**	**357 557**	**358 807**

	Statutory supplementary capital	Other reserve capital	Total
As at 1 January 2016	1 250	193 794	195 044
Deduction from profit for investments and financing the Group's current operations	-	54 035	54 035
As at 31 Dcember 2016	**1 250**	**247 829**	**249 079**

In accordance with the requirements of the Commercial Companies Code, the companies included in the Group are obliged to create supplementary capital to cover losses. At least 8% of profit for a given financial year reported in the companies' separate financial statements is allocated to this capital until it reaches at least one third of the share capital.

The Annual General Meeting decides on the use of supplementary and reserve capital; however, part of the supplementary capital in the amount of one third of the share capital may only be used to cover the loss reported in separate financial statements and is not subject to distribution for other purposes.

By virtue of resolutions adopted by the General Meeting of the Parent Company, reserve capital may be used, in particular, to increase the share capital or to pay dividends to shareholders.

29.4 Retained earnings

	As at	
	31.12.2017	**31.12.2016 adjusted**
Net profit	76 965	104 575
Undistributed profit/loss	31 286	41 121
	108 251	**145 696**

Undistributed profit/loss arises from the valuation of non-current assets to fair values as defined at the moment of transition of the Group to IFRS, the valuation of retirement benefits and from the fundamental error correction referred to in note 6, less any deferred tax.

As at 31 December 2017, there are no dividend payment restrictions (31 December 2016: did not occur)

29.5 Minority share

	Change 2016	2016
As at 1 January	3 206	3 662
Dividend pay-out to non-controlling shareholders	-	-
Share in the result of subsidiaries	105	(13)
Capital increase in a subsidiary, transaction with non-controlling shareholders	-	(443)
As at 31 December	**3 311**	**3 206**

29.6 Financial reporting in hyperinflationary economies

Under IAS 29 „Financial Reporting in Hyperinflationary Economies", it is required that economic entities which conducted business activity in hyperinflationary economy restate equity items (except for retained earnings and any surpluses related to the assets revaluation) by applying the general price index, commencing from dates when these equities were contributed or were otherwise created. It is assumed that hyperinflation occurred in Poland in the years 1989–1996.

In the opinion of the Management Board, recognition of the above adjustment as uncovered loss from previous years may be doubtful, since it is not clear what are the effects of the adjustment on the basis of the Commercial Companies Code. Therefore, according to the Management Board, recognition of the hyperinflation adjustment directly in the Group's equity presented in the balance sheet could be misleading to the readers of these financial statements, hence, taking into account the provisions of IAS 1. 17 appropriate amounts and method of conversion are included in the following table (in PLN) only. Given the information outlined below, the financial statements present fairly the property and financial position as well as cash flows of the Group, and are in compliance with IFRS.

Share capital in the books at the end of 1996	17 308
Share capital taking into account hyperinflation indicators	25 758
Result of hyperinflation adjustment on share capital	**(8 450)**
Supplementary capital in the books at the end of 1996	50 273
Supplementary capital taking into account hyperinflation indicators	60 277
Result of hyperinflation adjustment on supplementary capital	**(10 004)**
Total result of hyperinflation adjustment on retained earnings	**(18 454)**

30. Interest-bearing bank loans and borrowings

Short-term	Nominal interest rate %	Repayment date	31.12.2017	31.12.2016 adjusted
mBank S.A. – investment loan of EUR 2 400 thousand – short-term part	1M EURIBOR	by 31.12.2018	2 307	2 654
PKO BP S.A. – investment loan of EUR 3 500 thousand – short-term part	1M EURIBOR	by 22.12.2018	3 744	4 075
ING Bank Śląski S.A. – investment loan part A of EUR 985 thousand – short-term part	3M EURIBOR	by 29.09.2017	-	2 615

ING Bank Śląski S.A. – investment loan part A1 of EUR 1 265 thousand – short-term part	3M EURIBOR	by 31.03.2020	1 759	133
ING Bank Śląski S.A. – investment loan part B of EUR 4 250 thousand – short-term part	3M EURIBOR	by 31.12.2021	3 940	2 089
ING Bank Śląski S.A. – investment loan part B of PLN 15 500 thousand	1M WIBOR	by 15.09.2017	-	15 500
ING Bank Śląski S.A. – investment loan part A of PLN 130 000 thousand	1M WIBOR	by 16.12.2019	21 259	-
PKO BP S.A. and BGK – investment loan of EUR 140 000 thousand	3 M EURIBOR	by 17.10.2024	12 282	-
Total short-term			**45 291**	**27 066**

Long-term	**Nominal interest rate %**	**Repayment date**	**31.12.2017**	**31.12.2016 adjusted**
PKO BP S.A.– revolving loan of PLN 100 000 thousand – long-term part	depending on the currency used 1M WIBOR or 1M EURIBOR	by 09.06.2019	44 764	61 936
ING Bank Śląski S.A. – revolving loan of PLN 100 000 thousand – long-term part	depending on the currency used 1M WIBOR or 1M EURIBOR or 1M LIBOR	by 30.06.2019	54 717	79 736
mBank S.A. – revolving loan of EUR 5 000 thousand – long-term part	depending on the currency used O/N WIBOR or O/N EURIBOR or O/N LIBOR	by 12.12.2019	15 834	5 533
PKO BP S.A. – investment loan of EUR 3 500 thousand – long-term part	1M EURIBOR	by 22.12.2018	-	2 447
mBank S.A. – investment loan of EUR 2 400 thousand – long-term part	1M EURIBOR	by 31.12.2018	-	3 156
ING Bank Śląski S.A. – investment loan part A1 of EUR 1 265 thousand – short-term part	3M EURIBOR	by 31.03.2020	2 198	399
ING Bank Śląski S.A. – investment loan part B of EUR 4 250 thousand – long-term part	3M EURIBOR	by 31.12.2021	11 819	16 715

ING Bank Śląski S.A. – investment loan part B1 of EUR 750 thousand – long-term part	3M EURIBOR	by 31.12.2021	3 126	-
ING Bank Śląski S.A. – investment loan part A of PLN 130 000 thousand	1M WIBOR	by 16.12.2019	100 514	125 643
PKO BP S.A. i BGK – investment loan of EUR 140 000 thousand	3 M EURIBOR	by 17.10.2024	294 777	95 698
Total long-term			**527 749**	**391 263**

Collaterals for bank loans	**As at 31 December 2017**
PKO BP S.A. – investment loan of EUR 3 500 thousand	1. Registered pledge on purchased movable property of not less than EUR 5 130 thousand 2. Assignment of rights from insurance policy 3. Blank promissory note with a promissory note declaration
mBank S.A. – investment loan of EUR 2 400 thousand	1. Registered pledge on purchased machinery and equipment up to the maximum collateral amount of EUR 3 600 thousand 2. Assignment of rights from insurance policy
PKO BP S.A. – revolving loan of PLN 100 000 thousand	1. Joint contractual capped mortgage up to PLN 120 000 thousand established on the perpetual usufruct right to developed properties and buildings located thereon that constitute objects of property separated from land, located in Hajnówka at ul. 3-go Maja and Ostrów Mazowiecka at ul. Biała 2. Blanc promissory note with a promissory note declaration 3. Assignment of rights from insurance policy 4. Registered pledge on inventories of items specified as to their kind, located in the Branch in Hajnówka
ING Bank Śląski S.A. – revolving loan of PLN 100 000 thousand	1. Registered pledge on movable property of the factory in Suwałki and Ostrów Mazowiecka up to the maximum collateral amount of PLN 120 000 thousand 2. Joint capped mortgage up to PLN 54 000 thousand established on the perpetual usufruct of land and the ownership right to buildings of the factory in Suwałki, along with the assignment of rights from insurance policy 3. Registered pledge on inventories with a minimum value of PLN 65 000 in the factory in Suwałki and Ostrów Mazowiecka up to the maximum collateral amount of PLN 120 000 4. Assignment of rights from insurance policy
mBank S.A. – revolving loan of EUR 5 000 thousand	1. Blank promissory note with a promissory note declaration 2. Registered pledge on fixed assets up to the maximum collateral amount of EUR 6 000 thousand
ING Bank Śląski S.A. – investment loan totalling EUR 7 250 thousand	1. Joint mortgage up to the amount of EUR 6 000 thousand established on the ownership right to land, buildings and premises located at ul. Biała in Ostrów Mazowiecka 2. Registered pledge on equipment of the high bay warehouse in Ostrów Mazowiecka 3. Assignment of rights from insurance policy 4. Surety provided by the Parent Company
ING Bank Śląski S.A. – investment loan A and B totalling 130 000 thousand	1. Joint mortgage up to the amount of PLN 174 600 thousand established on the perpetual usufruct of land and the ownership right to buildings and facilities constituting real properties located: in Wrocław at ul. Brücknera, ul. Robotnicza; in Przemyśl at ul. Bakończycka, on a cooperative ownership right to commercial premises located in Kraków at ul. Aleksandry 2. Registered pledge on the protection right to word and figurative marks containing "FORTE" up to the maximum collateral amount of PLN 174 600 thousand

3. Financial pledge on investment certificates up to the maximum collateral amount of PLN 174 600 thousand
4. Financial and registered pledge on shares of companies acquired by the company or companies being assets of the Fund, up to the maximum collateral amount of PLN 174 600 thousand
5. Assignment of rights under licence agreement with respect to word and figurative marks containing "FORTE", made by TERCEIRA and FABRYKI MEBLI „FORTE" S.A.;
6. Assignment of rights from insurance policy covering real property on which mortgages were established
7. Blank promissory note with a promissory note declaration

PKO BP S.A. and BGK – investment loan of EUR 140 000 thousand

1. Surety provided by the Parent Company up to the amount of EUR 105 000 thousand for liabilities of TANNE Sp. z o.o. towards PKO BP under loan agreement,
2. Surety provided by the Parent Company up to the amount of EUR 105 000 thousand for liabilities of TANNE Sp. z o.o. towards BGK under loan agreement,
3. Surety provided by the Parent Company up to the amount of EUR 18 564 thousand for liabilities of TANNE Sp. z o.o. towards PKO BP under hedging agreement,
4. Surety provided by the Parent Company up to the amount of EUR 21 750 thousand for liabilities of TANNE Sp. z o.o. towards BGK under hedging agreement,
5. Guarantee Agreement signed by the Parent Company,
6. Agreement subordinating claims of the Parent Company against TANNE Sp. z o.o. to claims of PKO BP and BGK under loan agreement and hedging agreements,
7. Establishing by the Parent Company, as security for the Bank's claims, limited property rights in the form of financial pledges and registered pledges on the shares of TANNE Sp. z o.o. held by the Parent Company,
8. Declaration made by the Parent Company in favour of PKO BP on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to all of the Company's assets up to amount of EUR 105 000 thousand, in connection with the surety securing the loan agreement,
9. Declaration made by the Parent Company in favour of BGK on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to all of the Company's assets up to amount of EUR 105 000 thousand, in connection with the surety securing the loan agreement,
10. Declaration made by the Parent Company in favour of PKO BP on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to all of the Company's assets up to amount of EUR 18 564 thousand, in connection with the surety securing the hedging agreement,
11. Declaration made by the Parent Company in favour of BGK on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to all of the Company's assets up to amount of EUR 21 750 thousand, in connection with the surety securing the hedging agreement,
12. Declaration made by the Parent Company in favour of PKO BP on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to the shares subject to registered pledge established for PKO BP as pledge administrator (to secure claims under loan agreement) up to the amount of EUR 210 000 thousand,
13. Declaration made by the Parent Company in favour of PKO BP on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to the shares subject to registered pledge established for PKO BP as pledge administrator (to secure claims under hedging agreements) up to the amount of EUR 40 314 thousand,
14. Establishing a registered pledge over a set of things and rights included in TANNE Sp. z o.o. in favour of PKO BP as pledge administrator,
15. Entering into a management agreement or a lease agreement with respect to TANNE Sp. z o.o., in the event of PKO BP, as pledge administrator, seeking satisfaction from the pledged property, with entities designated by PKO BP in a manner specified in the pledge agreement, as well as granting powers of attorney in accordance with the pledge agreement,
16. Establishing limited property rights in the form of mortgages on the ownership right of TANNE Sp. z o.o. to real property located in Suwałki, consisting of a plot of land no. 32812/6,
17. Entering into and performing an agreement on assigning rights under agreements, pursuant to which TANNE Sp. z o.o. will transfer to PKO BP, as a transferee and security agent, TANNE's monetary rights and monetary claims under documents, to which it is a party or a beneficiary (now or in the future),
18. Establishing by TANNE Sp. z o.o. limited property rights in the form of financial pledges and registered pledges on the rights arising from the bank accounts opened and maintained for the Company, as well as granting powers of attorney to manage and make dispositions with regard to the accounts opened and maintained for the Company,
19. Entering into and performing by TANNE Sp. z o.o. an agreement subordinating claims

of the Company's creditors to claims of Banks arising from the Loan Agreement and Hedging Agreements,

20. Entering into and performing by TANNE Sp. z o.o. direct contracts with PKO BP (acting on behalf of Banks as security agent) or business partners of the Company,
21. Declaration made by TANNE Sp. z o.o. in favour of PKO BP on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to monetary obligation of the Company towards PKO BP under the Loan Agreement, for the repayment of all amounts due to PKO BP related to the loan, up to the amount of EUR 105 000 thousand,
22. Declaration made by TANNE Sp. z o.o. in favour of PKO BP on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to monetary obligation of the Company towards PKO BP under the Hedging Agreement, up to the amount of EUR 18 564 thousand,
23. Declaration made by TANNE Sp. z o.o. in favour of BGK on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to monetary obligation of the Company towards BGK under the Hedging Agreement, up to the amount of EUR 21 750 thousand

In addition to the nominal interest rate, negotiated bank margins, which reflect the risk related to financing the Group, should be taken into account.

Breakdown of loans by currency (translated into PLN in, '000 PLN)

Currency	As at	
	31.12.2017	**31.12.2016 adjusted**
PLN	237 088	141 143
EUR	335 952	253 853
USD	-	23 333
	573 040	**418 329**

31. Long-term deferred income and provisions

31.1 Long-term deferred income

Long-term deferred income	As at	
	31.12.2017	**31.12.2016 adjusted**
Long-term part of the grant	18 771	13
Short-term part of the grant	280	24
	19 051	**37**

Deferred income in the amount of PLN 19 038 thousand refers to an investment grant related to the construction of a wood-based panel production plant, obtained by the subsidiary TANNE Sp. z o.o. from the Ministry of Development and Finance as part of the Programme for supporting investments of strategic importance for Polish economy. The maximum amount granted under the programme may amount to PLN 57 000 thousand.

31.2 Provisions

	As at	
	31.12.2017	**31.12.2016 adjusted**
Short-term provisions:		
Short-term provision for post-employment benefits	432	422
Provision for warranty repairs	2 284	2 133
	2 716	**2 555**

For details of post-employment benefits, refer to note 17.2.

Change in provisions were as follows:

Provision	Opening balance	Use	Reversal	Increase	Closing balance
Warranty repairs	2 133	-	-	151	2 284

The Group creates a provision for the costs of expected warranty repairs and returns of products sold during the last year based on the level of warranty repairs and returns recorded in previous years. Assumptions used to calculate the provision for warranty repairs and returns are based on current sales levels and currently available information about returns and 1-year guarantee and warranty period for all sold products.

32. Trade and other liabilities (short-term)

	As at	
	31.12.2017	31.12.2016 adjusted
Trade liabilities	**80 632**	**70 166**
To related entities	355	411
To other entities	79 153	69 168
Advances received for deliveries	1 124	587
Tax, customs, social security and other liabilities	**7 637**	**6 558**
VAT	840	606
Personal income tax	1 445	1 284
Social security	4 760	4 041
Other	592	627
Other liabilities	**95 912**	**37 406**
Payroll liabilities to employees	14 122	13 200
Investment liabilities	79 210	22 159
Other liabilities	2 580	2 047
Accruals due to:	**48 555**	**55 801**
Commissions on sales	2 446	3 331
Bonuses for customers	27 652	30 041
Holiday benefits	4 441	2 577
Annual bonus for the Management Board	5 341	7 670
Costs of auditing financial statements	197	46
Third-party services	5 783	11 253
Conventional penalties	1 750	-
Other	945	883
	232 736	**169 931**
Corporate income tax liabilities	**-**	**10 176**
Total liabilities	**232 736**	**180 107**

Terms and conditions of the above financial liabilities

For terms and conditions of related party transactions, refer to point 38 of explanatory notes. Trade liabilities do not bear interest and they are usually payable within 7 to 45 days. Other liabilities do not bear interest and are payable within 1 month.

The amount resulting from the difference between liabilities and receivables from taxes on goods and services is paid to the competent tax authorities on a monthly basis.

Interest liabilities are normally settled at maturity throughout the financial year.

33. Contingent liabilities

- On 28.06.2016, the Parent Company provided a surety and committed to pay all monetary liabilities of its subsidiary DYSTRI-FORTE Sp. z o.o. with its registered office in Warsaw, ul. Nowogrodzka 50 lok. 515, arising from the loan agreement of 14.12.2015 made by DYSTRI-FORTE Sp. z o.o. and ING Bank Śląski SA. The Parent Company agreed to satisfy any and all liabilities of the Borrower, covering, in particular, full repayment of the principal amount of the loan, interest, commissions, fees and other costs, up to the amount of EUR 8 700 000, until 29.10.2024. As at 31.12.2017, the loan balance amounts to PLN 22 842 thousand.
- In the reporting period ended 31.12.2017, the Parent Company provided the following collateral securities on investment liabilities of its subsidiary TANNE Sp. z o.o.:
  - to SIEMPELKAMP Maschinen- und Anlagenbau GmbH arising from the agreement for design, delivery, installation and launching part of the production line to manufacture chipboard. Total net value of the agreement amounts to EUR 23 650 thousand. Investment project completion is planned for July 2018. The balance of outstanding liabilities at the end of the reporting period is EUR 4 363 thousand.
  - to Büttner Energie- und Trocknungstechnik GmbH arising from the agreement for design, delivery, installation and launching part of the production line to manufacture chipboard. Total net value of the agreement amounts to EUR 15 000 thousand. Investment project completion is planned for March 2018. The balance of outstanding liabilities at the end of the reporting period is EUR 2 767 thousand.
  - to PAL SRL arising from the agreement for design, delivery, installation and launching part of the production line to manufacture chipboard. Total net value of the investment amounts to EUR 22 947 thousand. Investment project completion is planned for May 2018. The balance of outstanding liabilities at the end of the reporting period is EUR 8 031 thousand.
  - to EWK Umwelttechnik GmbH arising from the agreement for comprehensive implementation of an investment task in the form of designing and installing the air cleaning system. Total net value of the agreement amounts to EUR 4 700 thousand. The liability expires at 31.12.2019. The balance of outstanding liabilities at the end of the reporting period is EUR 2 350 thousand.
  - to H.K. Produkcyjny Ośrodek Maszynowy Sp. z o.o. for the supply of wood storage supports on the yard worth PLN 298 thousand. The liability expires at 31.03.2018. The balance of outstanding liabilities at the end of the reporting period is PLN 146 thousand.
- In the reporting period ended 31.12.2017, the following collaterals for loan liabilities of the subsidiary TANNE Sp. z o.o. were effective:
  - surety provided by the Parent Company up to the amount of EUR 105 000 thousand for TANNE's liabilities to PKO BP arising from the Loan Agreement,
  - surety provided by the Parent Company up to the amount of EUR 105 000 thousand for TANNE's liabilities to BGK arising from the Loan Agreement,
  - surety provided by the Parent Company up to the amount of EUR 18 564 thousand for TANNE's liabilities to PKO BP arising from the Hedging Agreement,
  - surety provided by the Parent Company up to the amount of EUR 21 750 thousand for TANNE's liabilities to BGK arising from the Hedging Agreement,
  - Guarantee Agreement signed by the Parent Company,
  - agreement subordinating claims of the Parent Company against TANNE to claims of PKO BP and BGK arising from the Loan Agreement and Hedging Agreements,
  - establishing by the Parent Company, as security for the Bank's claims, limited property rights in the form of financial pledges and registered pledges on TANNE shares held by the Parent Company,
  - declaration made by the Parent Company in favour of PKO BP on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to all of the Company's assets up to amount of EUR 105 000 thousand, in connection with the surety securing the Loan Agreement,
  - declaration made by the Parent Company in favour of BGK on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to all of the Company's assets up to amount of EUR 105 000 thousand, in connection with the surety securing the Loan Agreement,
  - declaration made by the Parent Company in favour of PKO BP on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to all of the Company's assets up to amount of EUR 18 564 thousand, in connection with the surety securing the Hedging Agreement,
  - declaration made by the Parent Company in favour of BGK on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to all of the Parent Company's assets up to amount of EUR 21 750 thousand, in connection with the surety securing the Hedging Agreement,

- declaration made by the Parent Company in favour of PKO BP on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to the shares subject to registered pledge established for PKO BP as pledge administrator (to secure claims under the Loan Agreement) up to the amount of EUR 210 000 thousand,
- declaration made by the Parent Company in favour of PKO BP on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to the shares subject to registered pledge established for PKO BP as pledge administrator (to secure claims under Hedging Agreements) up to the amount of EUR 40 314 thousand,
- establishing a registered pledge over a set of things and rights included in the TANNE company in favour of PKO BP as pledge administrator,
- entering into a management agreement or a lease agreement with respect to the TANNE company, in the event of PKO BP, as pledge administrator, seeking satisfaction from the pledged property, with entities designated by PKO BP in a manner specified in the pledge agreement, as well as granting powers of attorney in accordance with the pledge agreement,
- establishing limited property rights in the form of mortgages on TANNE's ownership right to real property located in Suwałki, consisting of plots of land no. 32812/6, 32812/5, 32810/1, 32813, 32812/7,
- entering into and performing an agreement on assigning rights under agreements, pursuant to which TANNE will transfer to PKO BP, as a transferee and security agent, TANNE's monetary rights and monetary claims under documents, to which it is a party or a beneficiary (now or in the future),
- establishing by TANNE limited property rights in the form of financial pledges and registered pledges on the rights arising from the bank accounts opened and maintained for TANNE, as well as granting powers of attorney to manage and make dispositions with regard to the accounts opened and maintained for TANNE,
- entering into and performing by TANNE an agreement subordinating claims of TANNE's creditors to claims of Banks arising from the Loan Agreement and Hedging Agreements,
- entering into and performing by TANNE direct contracts with PKO BP (acting on behalf of Banks as a security agent) or business partners of TANNE,
- declaration made by TANNE in favour of PKO BP on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to financial obligation of TANNE towards PKO BP under the Loan Agreement, for the repayment of all amounts due to PKO BP related to the loan, up to the amount of EUR 105 000 thousand,
- declaration made by TANNE in favour of BGK on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to financial obligation of TANNE towards BGK under the Loan Agreement, for the repayment of all amounts due to BGK related to the loan, up to the amount of EUR 105 000 thousand,
- declaration made by TANNE in favour of PKO BP on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to monetary obligation of TANNE towards PKO BP under the Hedging Agreement, up to the amount of EUR 18 564 thousand,
- declaration made by TANNE in favour of BGK on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to monetary obligation of TANNE towards BGK under the Hedging Agreement, up to the amount of EUR 21 750 thousand

Hypothetical cost to be borne by the Group in connection with granted sureties is equal to the balance of unpaid loans along with interest and commissions as well as the balance of unpaid investment liabilities. Since both DYSTRI-FORTE Sp. z o.o. and TANNE Sp. z o.o. carry out operating activities exclusively for the Parent Company, which provides them with a stable cash flow, the materialisation of the risk of non-repayment of contingent liabilities is estimated by the Group as unlikely.

34. Legal proceedings

There are no legal proceedings whose total value constitutes at least 10% of the Group's equity.

35. Financial instruments

35.1 Carrying value

Classification of financial instruments according to IAS MSR 39 as at 31 December 2017

	Financial assets available for sale	Loans and receivables	Financial liabilities at amortised cost	Hedging instruments	Financial assets excluded from the scope of IAS 39	**Total**
Non-current financial assets:	**109 307**	**10 313**	**-**	**33 433**	**-**	**153 053**
Financial assets	109 307	10 313	-	-	-	119 620
Receivables from derivatives	-	-	-	33 433	-	33 433
Current financial assets:	**107**	**184 567**	**-**	**18 210**	**-**	**202 884**
Trade and other receivables	-	131 607	-	-	-	131 607
Receivables from derivatives	-	-	-	18 210	-	18 210
Cash and cash equivalents	-	52 868	-	-	-	52 868
Other financial assets	107	92	-	-	-	199
Long-term financial liabilities:	-	-	**(527 749)**	-	**(301)**	**(528 050)**
Interest-bearing loans and borrowings	-	-	(527 749)	-	-	(527 749)
Financial liabilities under lease	-	-	-	-	(301)	(301)
Other financial liabilities	-	-	-	-	-	-
Short-term liabilities:	**-**	**-**	**(256 268)**	**(1 492)**	**(679)**	**(258 439)**
Trade and other liabilities	-	-	(210 977)	-	-	(210 977)
Liabilities under derivatives	-	-	-	(1 492)	-	(1 492)
Current part of bank loans and borrowings	-	-	(45 291)	-	-	(45 291)
Financial liabilities under lease	-	-	-	-	(679)	(679)
	109 414	**194 880**	**(784 017)**	**50 151**	**(980)**	**(430 552)**

 The accounting principles (policy) and the enclosed explanatory notes form an integral part of these consolidated financial statements.

Classification of financial instruments according to IAS MSR 39 as at 31 December 2016 (adjusted)

	Financial assets available for sale	Loans and receivables	Financial liabilities at amortised cost	Hedging instruments	Financial assets excluded from the scope of IAS 39	**Total**
Non-current financial assets:	**157 203**	**88**	**-**	**-**	**-**	**157 291**
Financial assets	157 203	88	-	-	-	157 291
Current financial assets:	**124**	**391 097**	**-**	**-**	**-**	**391 221**
Trade and other receivables	-	294 181	-	-	-	294 181
Receivables from derivatives	-	-	-	-	-	-
Cash and cash equivalents	-	95 878	-	-	-	95 878
Other financial assets	124	1 038	-	-	-	1 162
Long-term financial liabilities:	-	-	**(391 263)**	**(13 916)**	**(842)**	**(406 021)**
Interest-bearing loans and borrowings	-	-	(391 263)	-	-	(391 263)
Financial liabilities under lease	-	-	-	-	(842)	(842)
Other financial liabilities	-	-	-	-	-	-
Liabilities under derivatives	-	-	-	(13 916)	-	(13 916)
Short-term liabilities:	**-**	**-**	**(177 240)**	**(4 744)**	**(1 076)**	**(183 060)**
Trade and other liabilities	-	-	(150 174)	-	-	(150 174)
Liabilities under derivatives	-	-	-	(4 744)	-	(4 744)
Current part of bank loans and borrowings	-	-	(27 066)	-	-	(27 066)
Financial liabilities under lease	-	-	-	-	(1 076)	(1 076)
	157 327	**391 185**	**(568 503)**	**(18 660)**	**(1 918)**	**(40 569)**

 The accounting principles (policy) and the enclosed explanatory notes form an integral part of these consolidated financial statements.

35.2 Fair value

	As at 31 Dec 2017		As at 31 Dec 2016 adjusted	
	Carrying value	Fair value	Carrying value	Fair value
Non-current financial assets	119 620	119 620	157 291	157 291
Long-term receivables from derivatives	33 433	33 433	-	-
Cash and cash equivalents	52 868	52 868	95 878	95 878
Other current financial assets	199	199	1 162	1 162
Short-term receivables from derivatives	18 210	18 210	-	-
Interest-bearing bank loans and borrowings	(527 749)	(527 749)	(391 263)	(391 263)
Long-term financial liabilities under lease	(301)	(301)	(842)	(842)
Long-term liabilities under derivatives	-	-	(13 916)	(13 916)
Current part of bank loans and borrowings	(45 291)	(45 291)	(27 066)	(27 066)
Short-term financial liabilities under lease	(679)	(679)	(1 076)	(1 076)
Short-term liabilities under derivatives	(1 492)	(1 492)	(4 744)	(4 744)

The Group does not compare carrying values and fair values of these classes of financial instruments that are classified as receivables or short-term liabilities.
Stocks and shares included in the category of financial assets available for sale refer to unquoted entities, for which it is impossible to reliably determine their fair value by alternative methods and are valued at purchase price less any impairment losses.

35.3 Fair value hierarchy

The following note presents disclosures only for financial instruments measured at fair value in the balance sheet.

	As at 31 Dec 2017		As at 31 Dec 2016 adjusted	
	Level 2	Level 3	Level 2	Level 3
Non-current financial assets	-	3	-	3
Receivables from derivatives	51 643	-	-	-
Liabilities under derivatives	(1 492)	-	(18 660)	-
	50 151	**3**	**(18 660)**	**3**

Methods of determining the fair value of financial instruments

Level I
In the reporting period ended 31 December 2017, the Group had no financial instruments measured at fair value classified to level I (as at 31 December 2016: none).

Level II

Receivables or liabilities under derivatives are classified by the Group to level II. Changes in the fair value of derivatives that meet the criteria of hedge accounting are included in the effective part to equity of the Group and in the ineffective part to the profit and loss account. When the hedged sales revenue is realised, changes in the fair value of hedging instruments are recognised in the current financial result. Changes in the fair value of derivatives that do not meet the criteria of hedge accounting are recognised directly in the financial result for the financial year.

The fair value of derivatives is determined based on models for the valuation of financial instruments using generally available exchange rates (EUR - 4. 4240) and interest rates (1M -12 M WIBID, 1M-12M EURIBOR). Exchange rate volatility indices are obtained from Reuters or Bloomberg websites.

For the valuation of European options, the Company uses the Garman - Kohlhagen model.

Exchange rates at which currency options are concluded are presented in note 36.2.

Level III

Level III includes shares held in unquoted companies for which it is not possible to reliably determine their fair value. For these companies, there are no active markets or comparable transactions with the use of the same instruments. In the statement of financial position, these shares are valued at purchase price less any impairment losses.

	As at	
	31.12.2017	**31.12.2016 adjusted**
Opening balance	3	3
Impairment allowances	-	-
Sales	-	-
Closing balance	**3**	**3**

In the reporting period, there was no reclassification or shifting of financial instruments between different levels (in the comparative period: none).

35.4 Items of income, expense, profit and loss related to financial instruments recognised in the profit and loss account.

Items of income, expense, profit and loss (incl. interest income and expense) as at 31 December 2017						
	Financial assets available for sales	Loans and receivables	Financial liabilities at amortised cost	Hedging instruments	Financial assets excluded from the scope of IAS 39	**Total**
Interest income/(expense)	-	134	(2 481)	-	(60)	**(2 407)**
Foreign exchange profit/(loss)	-	(688)	9 528	-	23	**8 863**
Impairment allowances/(reversals)	-	(65)	-	-	-	**(65)**
Dividends	8	-	-	-	-	**8**
Adjustment of sales on hedging transactions	-	-	-	2 725	-	**2 725**
Profit/(loss) on the valuation of derivatives	-	-	-	(406)	-	**(406)**
Total net profit/(loss)	**8**	**(619)**	**7 047**	**2 319**	**(37)**	**8 718**

Items of income, expense, profit and loss (incl. interest income and expense) as at 31 December 2016 (adjusted)	Financial assets available for sales	Loans and receivables	Financial liabilities at amortised cost	Hedging instruments	Financial assets excluded from the scope of IAS 39	**Total**
Interest income/(expense)	-	546	(1 683)	-	(69)	(1 206)
Foreign exchange profit/(loss)	-	6 934	(10 059)	-	(32)	(3 157)
Impairment allowances/(reversals)	-	(576)	-	-	-	(576)
Dividends	11	-	-	-	-	11
Adjustment of sales on hedging transactions	-	-	-	131	-	131
Profit/(loss) on the valuation of derivatives	-	-	-	(7 189)	-	(7 189)
Total net profit/(loss)	**11**	**6 904**	**(11 742)**	**(7 058)**	**(101)**	**(11 986)**

36. Financial risk management objectives and policies

In addition to derivatives, the main financial instruments used by the Group include bank loans, bonds, cash and short-term deposits. The main purpose of these financial instruments is to raise funds for the Group's operations. The Group also has other financial instruments such as trade receivables and liabilities, which arise directly in the course of its business. The Group also concludes transactions involving derivatives, primarily *zero-cost option strategies* and interest rate risk hedging instruments (Interest Rate Swap). The purpose of these transactions is to manage interest rate risk and currency risk arising in the course of the Company's operations.
The principle applied by the Group currently and throughout the period covered by the report is not to trade in financial instruments.
The main risks arising from the Group's financial instruments include interest rate risk, liquidity risk, currency risk and credit risk. The Management Board verifies and agrees policies for managing each of these risks - these policies are briefly discussed below. The Group also monitors the market price risk for all financial instruments it holds. The Group's accounting policies regarding derivatives are presented in notes 8.19 and 8.20.

36.1 Interest rate risk

The Group's exposure to the risk caused by changes in interest rates relates primarily to long-term financial liabilities, which bear interest at variable interest rates (WIBOR, EURIBOR, LIBOR) increased by a margin. In order to analyse the sensitivity to changes in the interest rate of the Group's long-term financial liabilities, i.e. loans and finance lease liabilities, their interest rates were assumed to increase per year for EURIBOR by 0.03 pp, for WIBOR by 0.25 pp and for LIBOR by 0.60% pp.

Interest rate risk hedging (IRS)

As at 31 December 2017, the fair value of currency contracts that met the criterion of being included in hedge accounting amounted to PLN (1 492) thousand and as an effective value of PLN (1 549) thousand, it was recognised in the revaluation reserve and as an ineffective part in the amount of PLN 57 thousand, it was recognised in the profit and loss account under profit from derivative financial instruments.

The basic terms and conditions of the IRS transaction concluded between the subsidiary TANNE Sp. z o.o. and PKO BP S.A. are as follows:

- date of the transaction: 31.01.2017,
- nominal amount and currency of the transaction - EUR 49 000 (35% of the nominal amount of the loan),
- reference rate: EURIBOR 3M,
- beginning of the first interest period - 20.09.2018,
- first exchange of interest payments - 20.12.2018,
- IRS transaction end date - October 14, 2024,
- depreciation and interest periods - in accordance with the agreed schedule,
- interest base for both swap legs (fixed and variable interest payments) - Act / 360.

Interest rate risk – sensitivity analysis

The sensitivity of gross financial result to reasonably possible changes in interest rates, assuming that other factors remain unchanged in relation to liabilities with a variable interest rate is presented in the table below. The impact on the Group's equity is not presented.

	Change in percentage points	Impact on gross financial result
Year ended 31.12.2017		
PLN	+0.25%	540
EUR	+0.03%	94
USD	+0.60%	-
Year ended 31.12.2016 (adjusted)		
PLN	-0.10%	(1)
EUR	-0.01%	(24)
USD	0.55%	128

The carrying amount of the Company's financial instruments exposed to interest rate risk, broken down by age category

31 December 2017 – variable interest rate

	<1 year	1–2 years	2-5 years	>5 years	Total
Bank loans	45 291	186 943	230 265	110 541	573 040
Finance lease	679	301	-	-	980

31 December 2016 (adjusted) – variable interest rate

	<1 year	1–2 years	2-5 years	>5 years	Total
Bank loans	27 066	42 959	247 790	100 514	418 329
Finance lease	1 076	842	-	-	1 918

As at 31 December 2017, the effective interest rate for loans contracted by the Group was 1.6030% (2016: 1.5494 %). Interest on financial instruments classified as variable rate is re-priced at intervals of less than one year. Interest on financial instruments with a fixed interest rate is fixed throughout the period until the maturity / due date of these instruments. Other financial instruments of the Group, which are not included in the above tables, are not interest-bearing and therefore they are not subject to interest rate risk.

36.2 Currency risk

The Group is exposed to currency risk due to its sales transactions. Such risk arises as a result of sales or purchases made by the entity in other currencies than its valuation currency. About 84% of sales transactions concluded by the Group are expressed in currencies other than the reporting currency of the entity.

The Group seeks to negotiate the terms of hedging derivatives in such a way as to match the terms of the hedged item and thus ensure maximum effectiveness of the hedge.

The sensitivity of gross financial result due to a change in the fair value of monetary assets and liabilities to reasonably possible fluctuations in the EUR, GBP and USD exchange rate (together), assuming that other factors remain unchanged, is presented in the table below.

The following assumptions regarding exchange rate fluctuations were adopted for the analysis: for data as at 31 December 2017, the EUR exchange rate was increased by 2% and USD by 7% (2016: increase by 1% for EUR and 5% for USD) and the EUR and USD exchange rate decreased by 1% during the year (2016: EUR decrease by 5%).

The parameters adopted in the presented sensitivity analysis were determined based on available market forecasts regarding the development of these parameters over the next 12 months. Differences between 2016 and 2017 arise from changes in these forecasts.

	Percentage change in exchange rates	Impact on gross financial result	Impact on equity
31 December 2017			
Trade receivables	2%	2 288	
Loans granted	2%	140	
Cash	2%/7 %	871	
Hedging instruments*	2%	-	(32 241)
Trade liabilities	2%/7 %	(2 363)	
Bank loans	2%	(6 719)	
Finance lease	2%	(3)	
Total impact of increase in exchange rates		**(5 786)**	**(32 241)**
Trade receivables	-1%	(1 144)	
Loans granted	-1%	(70)	
Cash	-1%	(366)	
Hedging instruments*	-1%		16 121
Trade liabilities	-1%	1 182	
Bank loans	-1%	3 360	
Finance lease	-1%	1	
Total impact of decrease in exchange rates		**2 963**	**16 121**

	Percentage change in exchange rates	Impact on gross financial result	Impact on equity
31 December 2016 (adjusted)			
Trade receivables	+1%/ +5%	1 380	-
Loans granted	+1%	1	-
Cash	+1%/ +5%	189	-
Hedging instruments	1%	-	(8 482)
Trade liabilities	+1%/ +5%	(335)	-
Bank loans	+1%/ +5%	(3 705)	-
Finance lease	+1%	(24)	-
Total impact of increase in exchange rates		**(2 494)**	**(8 482)**
Trade receivables	-5 %	(6 875)	-
Loans granted	-5 %	(4)	-
Cash	-5 %	(947)	-
Hedging instruments	-5 %	-	43 710
Trade liabilities	-5 %	1 675	-
Bank loans	-5 %	12 926	-
Finance lease	-5 %	(365)	-
Total impact of decrease in exchange rates		**6 410**	**43 710**

* The sensitivity analysis applies to intrinsic value of currency options only.

Currency risk hedging

The basic method of currency risk management are hedging strategies using derivative instruments.

The Group uses symmetrical option strategies to hedge future foreign exchange transactions.

Impact of derivatives on the statement of financial position

As at 31 December 2017, the fair value of open positions in derivatives amounted to PLN 50 151 thousand. PLN 57 746 thousand was recognised in the derivative instruments revaluation reserve as intrinsic value, while the amount PLN (7 595) thousand was recognised in the profit and loss account as time value.

Impact of derivatives on the financial result and other comprehensive income

In the reporting period ended 31 December 2017, the result on derivatives amounted to PLN 2 319 thousand and related to the implementation of expiring option strategies included in hedge accounting in the amount of PLN 2 725 thousand and PLN (406) thousand as a result of current valuation in the amount of PLN (7 595) thousand and of reversal of the valuation from 2016 in the amount of PLN 7 189 thousand.

	01.01.- 31.12.2017	01.01.- 31.12.2016 adjusted
Impact on sales revenue	2 725	131
Impact on other operating revenue/costs, incl.:	(406)	(7 189)
- due to the valuation of derivatives during the period	*(406)*	*(7 189)*
Total impact of derivatives on the result of the period:	**2 319**	**(7 058)**

Hedge accounting

A summary of more important hedge accounting policies is presented in note 8.20. According to them, changes in intrinsic value of hedging option contracts are recognised in equity of the Group, while changes in their fair value are recognised in the profit and loss account. When the hedged sales revenue is realised, changes in fair value of hedging instruments are recognised in the current financial result.

Not less frequently than at hedge inception and on the last day of each month, the prospective effectiveness is tested by comparing the cumulative change in intrinsic value of hedging options to the cumulative change in the value of future cash flows.

At the end of each month, the hedge effectiveness (retrospective effectiveness) is tested by comparing the cumulative change in intrinsic value of hedging options established under hedge accounting to the cumulative change in future cash flows estimated on the basis of currency market data as of the valuation date.

Hedging instruments revaluation reserve (options)

The hedging instruments revaluation reserve is presented in note 29.3. of the explanatory notes.

The hedging instruments revaluation reserve includes:

- valuation of financial instruments hedging cash flows in the amount of: PLN 59 294 thousand
- valuation of financial instruments hedging the amount of interest rates in the amount of: PLN (1 549) thousand
- deferred tax liability for hedging instruments: PLN (11 266) thousand

Total hedging instruments revaluation reserve: PLN 49 479 thousand

Fair value of foreign exchange contracts

As at 31 December 2017, the fair value of foreign exchange contracts that meet the criteria for hedge accounting amounted to PLN 51 643 thousand.

The table below contains aggregate data on fair values and settlement dates, as well as aggregate information on the amount (volume) being the basis for future payments and the price of the implementation of effective forward contracts. The dates of settlements are convergent with the dates in which the amounts charged to the revaluation reserve in respect of these transactions will be recognised in the profit and loss account.

Currency	Amount in currency	Type of transaction	Date of conclusion	Date of performance	Forward rate	Bank name	Fair value
EUR	12 000	Put Option	08.2015	01-06.2018	4.2800	PKO BP S.A.	1 161
EUR	12 000	Call Option	08.2015	01-06.2018	4.6670	PKO BP S.A.	(18)
EUR	30 000	Put Option	10.2015	01-09.2018	4.3000	PKO BP S.A.	3 467
EUR	30 000	Call Option	10.2015	01-09.2018	4.6300	PKO BP S.A.	(254)
EUR	12 000	Put Option	11.2015	10.2018-11.2018	4.3000	PKO BP S.A.	1 427
EUR	12 000	Call Option	11.2015	10.2018-11.2018	4.7070	PKO BP S.A.	(211)
EUR	24 000	Put Option	04.2016	01-03.2019	4.3500-4.4000	PKO BP S.A.	3 946
EUR	24 000	Call Option	04.2016	01-03.2019	4.8500-4.9250	PKO BP S.A.	(482)
EUR	18 000	Put Option	08.2016	07-08.2019	4.4000	PKO BP S.A.	4 087
EUR	18 000	Call Option	08.2016	07-08.2019	4.8650	PKO BP S.A.	(875)
EUR	8 000	Put Option	10.2016	10.2019	4.4500	PKO BP S.A.	3 303
EUR	8 000	Call Option	10.2016	10.2019	4.8850	PKO BP S.A.	(720)
EUR	8 000	Put Option	11.2016	11.2019	4.5000	PKO BP S.A.	3 810
EUR	8 000	Call Option	11.2016	11.2019	5.1400	PKO BP S.A.	(505)
EUR	42 000	Put Option	07.2017	12.2019-05.2020	4.3500	PKO BP S.A.	5 914
EUR	42 000	Call Option	07.2017	12.2019-05.2020	4.7300	PKO BP S.A.	(3 368)
Total						**PKO BP S.A.**	**20 682**
EUR	12 000	Put Option	08.2015	01-06.2018	4.2800	mBank S.A.	1 152
EUR	12 000	Call Option	08.2015	01-06.2018	4.6400	mBank S.A.	(17)
EUR	25 500	Put Option	12.2015	08-11.2018	4.3500	mBank S.A.	3 998
EUR	25 500	Call Option	12.2015	08-11.2018	4.6700	mBank S.A.	(192)

EUR	5 000	Put Option	05.2016	01-04.2019	4.4500	mBank S.A.	1 123
EUR	5 000	Call Option	05.2016	01-04.2019	4.9250	mBank S.A.	(106)
EUR	7 000	Put Option	10.2016	09.2019	4.4000	mBank S.A.	2 469
EUR	7 000	Call Option	10.2016	09.2019	4.9075	mBank S.A.	(574)
EUR	37 000	Put Option	08.2017	01-06.2020	4.4000	mBank S.A.	6 034
EUR	37 000	Call Option	08.2017	01-06.2020	4.7110	mBank S.A.	(3 276)
EUR	32 000	Put Option	09.2017	06-09.2020	4.4500	mBank S.A.	7 112
EUR	32 000	Call Option	09.2017	06-09.2020	4.8165	mBank S.A.	(3 552)
Total						**mBank S.A.**	**14 171**
EUR	32 000	Put Option	01.2016	10.2017-12.2018	4.4500	ING Bank Śląski S.A.	7 979
EUR	32 000	Call Option	01.2016	10.2017-12.2018	4.7800	ING Bank Śląski S.A.	(282)
EUR	15 000	Put Option	04.2016	01-03.2019	4.4000	ING Bank Śląski S.A.	2 924
EUR	15 000	Call Option	04.2016	01-03.2019	4.8950	ING Bank Śląski S.A.	(269)
EUR	10 000	Put Option	05.2016	04.2019	4.4500	ING Bank Śląski S.A.	2 276
EUR	10 000	Call Option	05.2016	04.2019	4.9600	ING Bank Śląski S.A.	(200)
EUR	22 000	Put Option	06.2016	05-06.2019	4.4500	ING Bank Śląski S.A.	4 924
EUR	22 000	Call Option	06.2016	05-06.2019	4.9300	ING Bank Śląski S.A.	(562)
Total						**ING Bank Śląski S.A.**	**16 790**

Risks related to forward foreign exchange contracts include interest rate, exchange rate and insolvency risks of a counterparty to the transaction. However, credit risk is limited as the counterparty to the transaction are banks with high financial standing.

36.3 Credit risk

Credit risk is related to the creditworthiness and solvency of customers with whom the Group concludes sales transactions.

The Group has a procedure for awarding a trade credit limit to the counterparty and specifying the form of its collateral. All customers who wish to use trade credits are subject to initial verification procedures.

The maximum credit risk exposure for trade receivables from other entities is limited to the amount of the deductible and own contribution specified in the terms of the receivables insurance policy, and for space rental – to the amount of receivables. As at 31.12.2017, the estimated maximum credit exposure was PLN 3 490 thousand.

Basically, all receivables, with the exception of receivables from related entities, are insured or secured with bank guarantees as part of the so-called central payment processing system. In addition, counterparty receivables are regularly monitored by sales and financial services. In the event of overdue receivables, sales are suspended and debt collection is started.

In the case of loans granted, the Company monitors the financial position of its debtors on an ongoing basis. Loans granted are secured with blank promissory notes. The maximum credit risk exposure in respect of loans granted is equal to the balance of loan receivables presented in notes 22 and 27.

With respect to other financial assets of the Group, such as cash and cash equivalents, financial assets available for sale and derivatives with a positive fair value, the Group's credit risk arises as a result of the counterparty's failure to make the payment. There are no significant concentrations of credit risk in the Group.

36.4 Liquidity risk

The Group monitors the risk of lack of funds using a periodic liquidity planning tool. This tool takes into account the maturity dates of both investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operating activities.
The Group's goal is to maintain a balance between continuity and flexibility of financing through the use of various sources of financing, such as bank loans and finance lease agreements.
The Group's financial liabilities as at 31 December 2017 and as at 31 December 2016 by their maturity date based on contractual undiscounted payments are presented in the table below.

31 December 2017	<1 year	1–2 years	2-5 years	>5 years	Total
Bank loans	45 291	186 943	230 265	110 541	573 040
Finance lease	679	301	-	-	980
Trade and other liabilities	232 736	-	-	-	232 736
	278 706	**187 244**	**230 267**	**110 541**	**806 756**

31 December 2016 (adjusted)	<1 year	1–2 years	2-5 years	>5 years	Total
Bank loans	27 066	42 959	247 790	100 514	418 329
Finance lease	1 076	842	-	-	1 918
Trade and other liabilities	169 932	-	-	-	169 932
	198 074	**43 801**	**247 790**	**100 514**	**590 179**

37. Equity management

The primary objective of the Group's equity management is to maintain a good credit rating and safe equity ratios that would support the operating activities of the Group and increase its value for the shareholders.
The Group manages its equity structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust its equity structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. In the year ended 31 December 2017 and 31 December 2016, no changes were made in the objectives, policies and processes applicable in this area.
The Group monitors its equity using the leverage ratio, which is calculated as the ratio of net debt to net debt plus total equity.

	31.12.2017	31.12.2016 adjusted
Interest-bearing loans and borrowings	573 040	418 329
Finance lease	980	1 918
Trade and other liabilities, provisions, accruals	272 055	207 129
Cash and cash equivalents	(52 868)	(95 878)
Net debt	**793 207**	**531 498**
Convertible preference shares	-	-
Share capital	23 931	23 901
Share premium	114 556	113 214
Other reserve capital	358 807	249 079
Revaluation reserve	46 479	(9 291)
Other revaluation reserve	(21 142)	17 654
Incentive scheme	2 354	2 354
Retained earnings	108 251	145 696
Exchange differences on translation of foreign operations	(586)	797
Equity of non-controlling shareholders	3 311	3 206
Total equity	**635 961**	**546 610**

Equity and net debt	**1 429 168**	**1 078 108**
Leverage ratio	**55.51%**	**49.30%**

38. Related party disclosures

Financial data of the company
Total amounts of transactions concluded with related entities are presented in the table below.
The transactions relate to sales of products, goods and services and to purchases of services.

Related entity		**Sales to related entities**	**Purchases from related entities**	**Receivables from related entities**	**Liabilities to related entities**
TM Handel Sp. z o.o.	31.12.2017	11	359	98	37
	31.12.20156	4 145	438	267	187
Forte Baldai UAB	31.12.2017	-	178	-	15
	31.12.2016	-	184	-	14
Forte SK S.r.o	31.12.2017	-	1 121	-	92
	31.12.2016	9	1 154	-	97
Forte Furniture Ltd	31.12.2017	-	757	-	61
	31.12.2016	-	731	-	-
FORTE IBERIA SLU	31.12.2017	-	1 581	-	129
	31.12.2016	9	1 314	-	111
FORTE FURNITURE PRODUCTS INDIA PVT	31.12.2017	1 194	-	1 176	-
	31.12.2016	-	-	-	-
ANTWERP FP SP. z o.o	31.12.2017	1 141	17	1 382	21
	31.12.2016	-	-	-	-
Total	**31.12.2017**	**2 346**	**4 013**	**2 656**	**355**
	31.12.2016	**4 163**	**3 821**	**267**	**411**

The balance of loans granted to related entities as at 31.12.2017 is presented in the table below:

Related entity	Loan amount	Loan currency	Repayment date	Loan balance as at 31.12.2017	Interest due as at 31.12.2017
Subsidiaries:					
FORTE MOBILIER S.a.r.l.	40	EUR	December 2019	125	-
FORTE FURNITURE PRODUCTS INDIA Ltd	1 642	EUR	March 2025	6 850	7
Total:				**6 975**	**7**
Including:					
Short-term part:					
FORTE MOBILIER S.a.r.l.				62	-
FORTE FURNITURE PRODUCTS INDIA Ltd				-	7
Total:				**62**	**7**

***Long-term part*:**		
FORTE MOBILIER S.a.r.l.	63	-
FORTE FURNITURE PRODUCTS INDIA Ltd	6 850	
Total:	**6 913**	**-**

The above loans were granted on market terms (variable interest based on EURIBOR / WIBOR plus margin).

The balance of loans granted to related entities as at 31 December 2016 is as follows:

Related entity	Loan amount	Loan currency	Repayment date	Loan balance as at 31.12.2016	Interest due as at 31.12.2016
Subsidiaries:					
FORTE MOBILIER S.a.r.l.	10	EUR	December 2019	88	-
ANTWERP Sp. z o.o.	30	PLN	June 2017	30	-
Total:				**118**	**-**
Including:					
Short-term part:					
ANTWERP Sp. z o.o.				30	-
Total:				**30**	**-**
***Long-term part*:**					
FORTE MOBILIER S.a.r.l.				88	-
Total:				**88**	**-**

The above loans were granted on market terms (variable interest based on EURIBOR / WIBOR plus margin).

In the reporting period ended 31 December 2017, the Parent Company entered into the following loan agreements with related entities:

- on 12 October 2017, a loan agreement with its subsidiary Forte Furniture Products India Ltd totalling USD 2 000 thousand with a repayment date of at least 5 years, not later than March 2025, interest payable quarterly starting from December 2017.

38.1 Parent Company of the Group

The Parent Company of the Capital Group Fabryki Mebli FORTE is Fabryki Mebli FORTE S.A.

38.2 Entity with significant influence over the Group:

Information on entities holding more than 5% shares in the capital of the Parent Company is presented in note 29.

38.3 Joint venture in which the Parent Company is a venturer

The Parent Company of the Group does not carry out joint ventures.

38.4 Information on entities bound by personal links

MaForm SARL Luxemburg holds a 32.44% stake in the share capital of Fabryki Mebli „FORTE" S.A.
MaForm Holding Luxemburg SARL holds a 100% stake in the share capital of MaForm SARL Luxemburg.
MaForm Holding AG holds a 90.34% stake in the share capital of MaForm Holding Luxemburg SARL. The remaining 9.66% stake in the share capital of MaForm Holding Luxemburg SARL is held by Ms Maria Florczuk – Member of the Management Board of Fabryki Mebli „FORTE" S.A.
Mr Maciej Formanowicz – President of the Management Board of Fabryki Mebli „FORTE" S.A. together with his wife have a 100% stake in MaForm Holding AG.

38.5 Terms and conditions of transactions with related entities

All transactions with related entities are carried out under terms and conditions used by the Company in relations with unrelated entities.

38.6 Transactions with participation of the Management Board, key management or members of their immediate families.

Incentive scheme for Members of the Management Board of the Parent Company and issue of D, E and F series subscription warrants with the exclusion of pre-emptive rights to series D, E and F subscription warrants

On 10 June 2014, the Annual General Meeting of FABRYKI MEBLI "FORTE" SA approved the introduction of an incentive scheme for Members of the Management Board of the Parent Company (the "Incentive Scheme").
The purpose of the Incentive Scheme is to strive to develop the Capital Group and its subsidiaries (the "Capital Group") by creating incentive mechanisms for persons responsible for management, which would refer to financial results of the Capital Group and an increase in the value of shares of the Parent Company.
The issue price of the H series shares was determined by the resolution of the Supervisory Board of 27 October 2014 for the amount of 46.19. Each Warrant entitles to take up one series H share at an issue price.
The rights from Warrants may be exercised not earlier than one year after the formal decision to take them up and no later than on 30 November 2018.
The number and weighted average exercise prices of warrants are as follows:

	Series	Number of warrants	Weighted average exercise prices
Outstanding as at 01.01.2017, incl.:		**237 480**	
	D	118 740	46.19
	F	118 740	46.19
Change during the reporting period			
Exercised in 2017		29 685	46.19
Outstanding as at 31.12.2017, incl.:		**207 795**	
Exercisable as at 31.12.2017	D	89 055	46.19
	F	118 740	46.19

38.7 Remuneration of senior management of the Group

The remuneration paid to members of the Management Board and members of the Supervisory Board of the Company (Parent Company) and to the Management Boards / Supervisory Board Members of the Group's related entities was as follows:
Remuneration paid or payable to members of the Management Board and members of the Supervisory Board of the Company:

	12 months ended	
	31.12.2017	**31.12.2016**
Remuneration for the Management Board, incl.:	**11 350**	**13 748**
in the Issuer's enterprise	**10 599**	**12 960**
Maciej Formanowicz	4 157	5 416
Gert Coopmann	2 620	2 956
Klaus Dieter Dahlem	1 642	2 008
Maria Florczuk	992	1 152
Mariusz Gazda	1 188	1 428
for performing functions in governing bodies of subsidiaries	**751**	**788**
Maciej Formanowicz	520	547
Gert Coopmann	231	241
Supervisory Board:	**324**	**324**
Zbigniew Sebastian	84	84
Stanisław Krauz	60	60
Tomasz Domagalski	60	60
Stefan Golonka	23	60
Bernard Woźniak	37	-
Jerzy Smardzewski	60	60

Detailed changes in the composition of the Supervisory Board are presented in item 10 of corporate governance.

Remuneration paid or payable to other members of key management personnel:

	Year ended 31.12.2017	31.12.2016
Short-term employee benefits (salaries and overheads)	12 936	10 086
Jubilee awards	-	-
Post-employment benefits	37	79
Employment termination benefits	64	-
Share-based employee benefits	-	-
Total remuneration paid to key management personnel (except for members of the Management Board and the Supervisory Board)	**13 037**	**10 165**

38.8 Participation of senior management staff in employee shares scheme

No employee shares schemes were in operation in the reporting period.

39. Employment structure

Average employment in the Group in the period from January to December 2017 was as follows:

	2017	2016
Management Board of the Parent Company	5	5
Management Boards of related entities	11	11
Administration	236	224
Sales area	121	489
Production area	2 480	2 417
Other	652	164
Total	**3 505**	**3 310**

40. Post balance sheet events

On 2 February 2018, a change in the registered office of the subsidiary DYSTRI-FORTE Sp. z o.o. from ul. Nowogrodzka 50 lok. 515, 00-695 Warszawa, to ul. Biała 1, 07-300 Ostrów Mazowiecka, was registered.

On 5 February, the Management Board of the Parent Company made with Pfleiderer Polska Sp. z o.o. with its registered office in Wrocław, a contract for delivery of strategic material for the production of furniture, such as wood-based panels. The contract provides for the delivery of raw chipboard, laminated chipboard, raw HDF board and lacquered HDF board in the quantities agreed by the Parties to the production plants of the Company. The contract was made for two years, i.e. until 31 December 2019.

Due to the fact that the price of materials delivered will be determined in accordance with the price formula included in the contract, based on the prices of basic raw materials for the production of wood-based panels, the Parties to the contract anticipate that the estimated value of the contract will be about PLN 132 000 thousand. In the opinion of the Management Board, conclusion of an agreement with Pfleiderer Polska Sp. z o.o. guarantees the continuity of deliveries and the possibility of carrying out orders placed for furniture.

On 15 February, a change in the name of the subsidiary TERCEIRA Sp. z o.o. to FORTE BRAND Sp. z o.o. and a change in its registered office from ul. Syta 99B / 6, 02-987 Warszawa to ul. Biała 1, 07-300 Ostrów Mazowiecka, was registered.

On 13 February 2018, a change in the registered office of the subsidiary TANNE Sp. z o.o. from ul. Nowogrodzka 50 lok. 515, 00-695 Warszawa to ul. Biała 1, 07-300 Ostrów Mazowiecka, was registered.

On 28 February 2018, the Parent Company agreed to establish a joint contractual mortgage up to PLN 174 600 thousand in favour of ING Bank Śląski SA to secure the bank's claims against FORTE BRAND Sp. z o.o. under a loan agreement of 16 December 2016.
On 15 March 2018, the Company made an annex with PKO Bank Polski S.A. to the loan agreement of 14 February 2000, as amended, under which maximum acceptable debt ratios were increased.

Signature of the person in charge of bookkeeping

Anna Wilczyńska

....

Signatures of all Members of the Management Board:

President of the Management Board
Maciej Formanowicz

....

Member of the Management Board
Gert Coopmann

....

Member of the Management Board
Klaus Dieter Dahlem

....

Member of the Management Board
Maria Florczuk

....

Member of the Management Board
Mariusz Gazda

....

Ostrów Mazowiecka, 5 April 2018

FABRYKI MEBLI „FORTE"S.A. CAPITAL GROUP

Management board's report on the operations of the Fabryki Mebli FORTE capital group for the period ended 31th December 2017

FABRYKI MEBLI „FORTE" S.A.
ul. Biała 1
07-300 Ostrów Mazowiecka
Polska
www.forte.com.pl

Ostrów Mazowiecka, 5th April, 2018

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I. CURRENT FINANCIAL AND OPERATIONAL POSITION

This Management Board's Report on the operations of Fabryki Mebli "FORTE" S.A. Capital Group in 2017 has been drawn up on the basis of § 91 of the Minister of Finance Regulation of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state (Journal of Laws Dz.U. of 28 January 2014, item 133).

1. Basic information on the Fabryki Mebli „FORTE” S.A. Capital Group

1.1. Information on the Parent Company of the Group

FABRYKI MEBLI "FORTE” S.A. was created as a result of the transformation of FABRYKI MEBLI "FORTE” Sp. z o.o. into a joint stock company on 9 December 1994. Initially, i.e. from 17 June 1992, the Company conducted activities under the name "FORTE” Sp. z o.o. On 25 November 1993, pursuant to a notarial deed, "FORTE” Sp. z o.o. was merged with FABRYKI MEBLI "FORTE” Sp. z o.o. Prior to its transformation into a joint stock company, the Company conducted activities under the name FABRYKI MEBLI "FORTE” Sp. z o. o.

The Company is entered into the register of entrepreneurs of the National Court Register maintained by the District Court for the capital city of Warsaw, 14th Commercial Division of the National Court Register (former 21st Commercial Division), under KRS number 21840.

The Company was assigned REGON statistical number: 550398784.

The duration of the Company is indefinite.

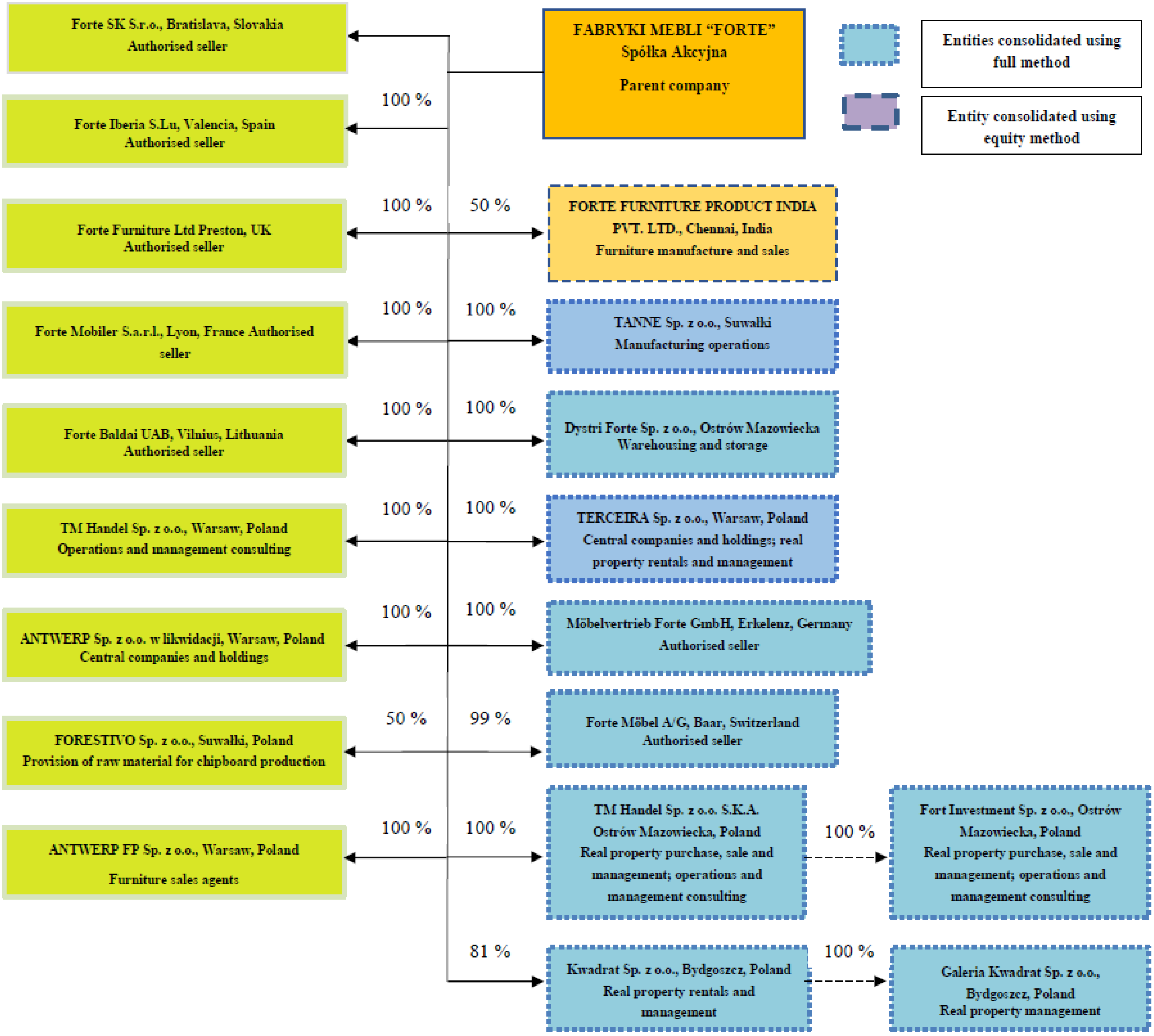
Main activities of the Company include:

- production of furniture,
- provision of services in the scope of marketing, promotion, organisation of exhibitions or conferences,
- conducting trading activities domestically and abroad.

Fabryki Mebli „FORTE” S.A. operates through four national Branches:

- Ostrów Mazowiecka ul. Biała 1 – Headquarters – the Company’s head office, including the Management Board and a manufacturing site;
- Suwałki ul. Północna 30 – manufacturing site;
- Hajnówka ul. 3-go Maja 51 – manufacturing site;
- Białystok ul. Generała Andersa 11 – manufacturing site;

and furniture showrooms in Ostrów Mazowiecka, Suwałki, Wrocław and Toruń.



1.2. Management Board of the Parent Company

Composition of the Management Board as at 31 December 2017

Maciej Formanowicz – President of the Management Board

Gert Coopmann – Member of the Management Board

Klaus Dieter Dahlem – Member of the Management Board

Maria Florczuk – Member of the Management Board

Mariusz Gazda – Member of the Management Board

Changes in the composition of the Management Board

In the reporting period, there were no changes in the composition of the Management Board.

1.3. Supervisory Board of the Parent Company

Composition of the Supervisory Board as at 31 December 2017

- Zbigniew Sebastian – Chairman
- Bernard Woźniak – Vice-Chairman
- Stanisław Krauz – Member
- Tomasz Domagalski – Member
- Jerzy Smardzewski – Member

Changes in the composition of the Supervisory Board

On 12 April 2017, the Company received a statement that Mr Stefan Golonka resigned from his function as a Member of the Supervisory Board of the Issuer with effect from the day of the Annual General Meeting of FABRYKI MEBLI „FORTE" S.A. approving the financial statements and the Management Board's report on the Company's operations in the financial year 2016. The reason for his resignation was the intention to start providing services to FABRYKI MEBLI „FORTE" S.A.

On 17 May 2017, the Annual General Meeting of FABRYKI MEBLI „FORTE" S.A. appointed Mr Bernard Woźniak as a Member of the Supervisory Board of the current term (2014-2018). Mr Bernard Woźniak does not participate in any other company or legal entity conducting business competitive to FABRYKI MEBLI „FORTE" S.A. with its registered office in Ostrów Mazowiecka as its partner or a member of its body.

1.4. The most important awards and distinctions, as well as trade events in which the Parent Company participated in the reporting period

2017	• **12-14 January 2017** – BEGROS fair in Cologne, Germany FORTE presented on an area of 240 m2 two exclusive collections of ready-to-assemble furniture and assembled furniture. The RTA collection featured two programmes for living room and dining room (VICKY and MARBELLA), the MORTEL wall unit and three bedrooms (MANTU, ROSEVILLE, ROCKFORD). For a group of assembled furniture, three programmes were presented for living room and dining room (VITO GLORY, VITO TERANA, SKY VIEW), VITO CHIP youth room and VITO STEEL and VITO BIG bedrooms. The collections enjoyed great interest, which translated into positive implementation decisions. • **22 – 25 January 2017** – NEC fair in BIRMINGHAM, Great Britain As was the case last year, the January furniture fair in Great Britain in 2017 was held in five halls of the NEC complex on the outskirts of the city of Birmingham in Central England. During 4 days, Forte presented its products on a 450 m2 stand, among which day rooms, dining rooms, bedrooms and wardrobes dominated. The most popular programmes included: Geneva - both as living room and bedroom as well as Lennox, Bronte, Chelsea, Starlet Plus and Toronto. • **31.01- 02.02.2017 -** PARTNERTAGE in Barntrup, Germany Light concrete, as well as dark concrete, are one of several new leading colours of the new products presented by FORTE during the fair. At a permanent exhibition of approx. 2000m2, many programs representing this colour scheme were presented. Other important decors were two oaks (Bianco Oak and Tabak Oak), or furniture using new glass, which were included in many new programs appreciated by the customers. • **16 February 2017** – the results of one of the oldest industry competitions in Poland, i.e. "Meble Plus - Product of the Year" were announced at the official gala of the "Meble Plus" monthly held in Katowice. Products distinguished by above-average aesthetic values, innovative solutions and highly advanced technologies are awarded in this competition. The Colors youth furniture collection was distinguished in the "Children and youth furniture" category. • **14 - 17 March 2017** – International Furniture Fair, Poznań FORTE received as many as three Gold Medals of the Fair - prizes awarded for outstanding and above-average products. In the "Premieres" category, comprising novelties, prototypes developed especially for the fair, two FORTE collections: Bianko and Farra received medals, while in the "Confirmed quality" category comprising furniture which is already available in retail chains, the

Canne collection was awarded a medal. In addition, the FORTE stand ranked first in the 42nd edition of the StandOUT competition awarding best trade fair stands.

- **10 - 12 May 2017** – The Steinhoff Group fair in Barntrup (Germany)
  The Steinhoff International Holdings group is one of the world's largest companies operating in the interior furnishings and household products industry. Every year, it organises an in-house furniture fair for its key suppliers. Our Company developed a special collection dedicated to the Steinhoff group, comprising *inter alia* products from our latest collections, recently included in the offer.

- **14 - 17 May 2017** – PARTNERTAGE in Barntrup, Germany
  The PARTNERTAGE fair is a closed event, attended by the largest customers from the German market. During the fair, the Company presented a number of novelties, including products using digital printing technology. New collections were highly appreciated by the customers, which translated into positive implementation decisions.

- **14 - 17 May 2017** – The Jubilee FORTE „Partner Days"
  During three days of the fair, FORTE's headquarters were visited by several hundred distributors from Poland and abroad, including from Germany, Spain, Portugal, Lithuania, the Czech Republic, Hungary, Morocco, Pakistan, Serbia, Montenegro, Israel. On an area of 3,500 m2, the Company presented about 100 furniture arrangements, including over 30 new products - various collections for day and youth rooms, bedrooms and a completely new modular office furniture programme. Decors were dominated by oak in several new versions, white gloss and grey, including new decors imitating concrete. Wardrobes with graphics on the fronts made in Digital Print technology aroused great interest among the customers.

- **21 - 12 June 2017** – Europa Muebles fair in Madrid, Spain
  On a small area of 36 m2, the Company presented two day programmes, a bedroom, wall unit and a hall. Despite such a small exhibition, customers appreciated the new collection.

- **17 - 21 September 2017** – The MOW fair in Bad Salzuflen, Germany
  The MOW fair is one of the largest fairs in the furniture industry in Europe. About 400 companies from 50 countries showed up this year. Since the FORTE Group built its own exhibition centre at the fair premises, FORTE was one of the largest exhibitors, offering customers a collection of almost 700 new items.
  The exhibition area of the new hall is approx. 4,000 m2. The building is distinguished by a modern façade with lots of glazing and wooden elements. The interior is maintained in a minimalist loft style, in which glass, metal and wood dominate. By creating a year-round furniture exhibition in Bad Salzuflen, the FORTE Group strengthens its image on the markets of Western Europe, thus setting clear goals for the future.

- **19 - 22 September 2017 -** Feria Habitat fair in Valencia, Spain
  It is an annual international trade fair taking place in Spain.
  In addition to furniture, there are also stands with decorations and lighting. This year, the 200-meter FORTE stand was dominated by bedrooms, of which four have already been included in the offer.

- **27 September 2017** – The construction of a new furniture factory and a chipboard factory in the Suwałki Special Economic Zone was awarded in the "TOP Investments of Eastern Poland" competition. The competition was organised by the editorial office of portalsamorządowy.pl and the PTWP Group – organisers of the Eastern Economic Congress in Bialystok.

- **11 - 12 November 2017 –** The ALLIANCE group fair in Rheinbach, Germany
  The ALLIANCE fair is a closed trade fair and only selected and invited suppliers exhibit on them. FORTE as one of the leading suppliers presented at its stand a furniture collection of nearly 200 m2, which was previously carefully developed and discussed with customers. This fair is the final stage of product development for ALLIANCE, where final purchase decisions are made. The fair was very successful, which translated into production implementations.

- **14 December 2017 –** The Warsaw Stock Exchange announced a new composition of the Respect Index, under which socially responsible companies are quoted. As a result of a multi-stage verification process, companies with good liquidity levels which comply with the principles of corporate governance, take into account ecological, social and employee aspects in their operations and maintain good relations with their environment are included in the index. FORTE has been a member of this elite group of companies for the second year in a row.

2. Information on organisational or capital links between the Issuer and other entities and identification of its main domestic and foreign investments, including capital investments made outside its group of related entities and description of their financing methods

Information on organisational and capital links is included in section 1 of this report.

3. Information on basic products, goods and services

Value-based sales in individual assortments (in PLN '000):

Assortment	2017		2016 adjusted		Change during the period
	Value	**Share**	**Value**	**Share**	**%**
Furniture	1 072 591	97.84%	1 062 951	97.5%	0.9%
Goods	7 993	0.7%	9 023	0.8%	-11.4%
Materials	8 175	0.7%	11 560	1.1%	-29.3%
Services	7 471	0.7%	6 873	0.6%	8.7%
Total	**1 096 230**	**100%**	**1 090 407**	**100%**	

Due to the diversity of its assortment, the Group does not present a quantitative structure of its sales, because the value structure gives a full picture of the sales structure and its changes.

In line with the strategy pursued by the Group, it focuses its activity on manufacturing residential furniture for self-assembly. Complementarity and consistency of the offer are additionally provided by the assembled furniture in a higher price segment, imported tables, chairs and decorative accessories. Products offered by the Group for many years are well recognised in the market and are very much appreciated by customers.

4. Information on sales markets, broken down by domestic and foreign markets

In 2017, export sales of the FORTE Group totalled PLN 933 837 thousand and accounted for 85.2 % of total sales (in 2016 – PLN 923 111 thousand – 84.7%). The main export markets included: Germany, France and Spain, whose total turnover accounts for 63.4% of total sales. Sales in the Polish market amounted to PLN 162 393 thousand (14.8%) compared to PLN 167 296 thousand (15.3%) in 2016.

The largest customers of the Group are Roller GmbH based in Germany and Steinhoff International Group based in South Africa. The share of turnover with Roller GmbH and Steinhoff Group exceeded 10% of FORTE's sales revenue. There are no formal links between the customers and the Company.

5. Information on suppliers of materials used in production, goods and services

In 2017, purchases of materials, goods and services from domestic suppliers accounted for 83% of the Group's total purchases.

The Pfleiderer Group is the key supplier of the Group's raw materials. The share of turnover of the Pfleiderer Group in the sales revenue of the FORTE Group exceeded 10%. There are no formal links between the supplier and the Group.

Import purchases in 2017 amounted to 17% of total purchases. The main direction of the Group's imports was Germany - 39.1%, Lithuania - 25.5% and Austria - 10.3% of total purchases.

6. Information on contracts relevant for the activity

Insurance contracts entered into by the Group in 2017:

- in co-insurance with Genarali T.U. S.A, TUiR "WARTA" S.A., Gothaer Towarzystwo Ubezpieczeń S.A., and InterRisk Towarzystwo Ubezpieczeń S.A Vienna Insurance Group: insurance period 25.09.2017-24.09.2018
  - property insurance against random events of Fabryki Mebli „FORTE" S.A.– sum insured PLN 566 602 thousand
  - property insurance against random events of DYSTRI-FORTE Sp. z o.o.– sum insured PLN 34 268 thousand
  - property insurance against random events of TERCEIRA Sp. z o.o. – sum insured PLN 31 721 thousand
  - property insurance against random events of TANNE Sp. z o.o. – sum insured PLN 83 839 thousand
  - loss of profit insurance – sum insured PLN 298 383 thousand
  - electronic equipment insurance against all risks – sum insured PLN 6 271 thousand
  - business liability insurance – sum insured PLN 40 000 thousand
  - cargo in transport insurance – sum insured PLN 720 091 thousand
  - insurance of machinery and equipment of Fabryki Mebli „FORTE" S.A. against all risks – sum insured PLN 8 259 thousand
  - insurance of machinery and equipment of DYSTRI-FORTE Sp. z o.o. against all risks – sum insured PLN 1 393 thousand
  - insurance of facilities, equipment and construction machinery of TANNE Sp. z o.o. against all risks – sum insured PLN 6 056 thousand
- TUiR „WARTA" S.A: insurance period 24.09.2017-23.09.2018
  - property insurance against random events of GALERIA KWADRAT Sp. z o.o. – sum insured PLN 9 231 thousand
- Württembergische Versicherung AG: insurance period 19.09.2017- 09.09.2022
  - property insurance against random events of MV FORTE GMBH – sum insured EUR 5 100 thousand
- with AIG Europe Limited Sp. z o.o.: insurance period 01.04.2017 – 31.03.2018
  - third party liability insurance for Members of the Issuer's Bodies – sum insured EUR 25 000 thousand
- with Towarzystwo Ubezpieczeń Euler Hermes S.A.: insurance period 01.12.2017 – 30.11.2018
  - trade credit risk insurance with the option of debt collection – the maximum sum insured is 70 times the premium paid for the given insurance year, not less than 70 times the minimum premium amounting to PLN 271 thousand.

7. Information on material transactions concluded with related entities on other than arm's length terms

All transactions with related entities are carried out on arm's length terms used by the Issuer in relations with unrelated entities.

Detailed information on transactions concluded with related entities is included in note 38 of the consolidated financial statements.

8. Information on loans and borrowings

Short-term	Nominal interest rate %	Repayment date	31.12.2017	31.12.2016 adjusted
mBank S.A. – investment loan of EUR 2 400 thousand – short-term part	1M EURIBOR	by 31.12.2018	2 307	2 654
PKO BP S.A. – investment loan of EUR 3 500 thousand – short-term part	1M EURIBOR	by 22.12.2018	3 744	4 075
ING Bank Śląski S.A. – investment loan part A of EUR 985 thousand – short-term part	3M EURIBOR	by 29.09.2017	-	2 615

ING Bank Śląski S.A. – investment loan part A1 of EUR 1 265 thousand – short-term part	3M EURIBOR	by 31.03.2020	1 759	133
ING Bank Śląski S.A. – investment loan part B of EUR 4 250 thousand – short-term part	3M EURIBOR	by 31.12.2021	3 940	2 089
ING Bank Śląski S.A. – investment loan part B of PLN 15 500 thousand	1M WIBOR	by 15.09.2017	-	15 500
ING Bank Śląski S.A. – investment loan part A of PLN 130 000 thousand	1M WIBOR	by 16.12.2019	21 259	-
PKO BP S.A. and BGK – investment loan of EUR 140 000 thousand	3 M EURIBOR	by 17.10.2024	12 282	-
Total short-term			**45 291**	**27 066**

Long-term	**Nominal interest rate %**	**Repayment date**	**31.12.2017**	**31.12.2016 adjusted**
PKO BP S.A.– revolving loan of PLN 100 000 thousand – long-term part	depending on the currency used 1M WIBOR or 1M EURIBOR	by 09.06.2019	44 764	61 936
ING Bank Śląski S.A. – revolving loan of PLN 100 000 thousand – long-term part	depending on the currency used 1M WIBOR or 1M EURIBOR or 1M LIBOR	by 30.06.2019	54 717	79 736
mBank S.A. – revolving loan of EUR 5 000 thousand – long-term part	depending on the currency used O/N WIBOR or O/N EURIBOR or O/N LIBOR	by 12.12.2019	15 834	5 533
PKO BP S.A. – investment loan of EUR 3 500 thousand – long-term part	1M EURIBOR	by 22.12.2018	-	2 447
mBank S.A. – investment loan of EUR 2 400 thousand – long-term part	1M EURIBOR	by 31.12.2018	-	3 156
ING Bank Śląski S.A. – investment loan part A1 of EUR 1 265 thousand – short-term part	3M EURIBOR	by 31.03.2020	2 198	399
ING Bank Śląski S.A. – investment loan part B of EUR 4 250 thousand – long-term part	3M EURIBOR	by 31.12.2021	11 819	16 715

ING Bank Śląski S.A. – investment loan part B1 of EUR 750 thousand – long-term part	3M EURIBOR	by 31.12.2021	3 126	-
ING Bank Śląski S.A. – investment loan part A of PLN 130 000 thousand	1M WIBOR	by 16.12.2019	100 514	125 643
PKO BP S.A.and BGK – investment loan of EUR 140 000 thousand	3 M EURIBOR	by 17.10.2024	294 777	95 698
Total long-term			**527 749**	**391 263**

Collaterals for bank loans	**As at 31 December 2017**
PKO BP S.A. – investment loan of EUR 3 500 thousand	1. Registered pledge on purchased movable property of not less than EUR 5 130 thousand 2. Assignment of rights from insurance policy 3. Blank promissory note with a promissory note declaration
mBank S.A. – investment loan of EUR 2 400 thousand	1. Registered pledge on purchased machinery and equipment up to the maximum collateral amount of EUR 3 600 thousand 2. Assignment of rights from insurance policy
PKO BP S.A. – revolving loan of PLN 100 000 thousand	1. Joint contractual capped mortgage up to PLN 120 000 thousand established on the perpetual usufruct right to developed properties and buildings located thereon that constitute objects of property separated from land, located in Hajnówka at ul. 3-go Maja and Ostrów Mazowiecka at ul. Biała 2. Blanc promissory note with a promissory note declaration 3. Assignment of rights from insurance policy 4. Registered pledge on inventories of items specified as to their kind, located in the Branch in Hajnówka
ING Bank Śląski S.A. – revolving loan of PLN 100 000 thousand	1. Registered pledge on movable property of the factory in Suwałki and Ostrów Mazowiecka up to the maximum collateral amount of PLN 120 000 thousand 2. Joint capped mortgage up to PLN 54 000 thousand established on the perpetual usufruct of land and the ownership right to buildings of the factory in Suwałki, along with the assignment of rights from insurance policy 3. Registered pledge on inventories with a minimum value of PLN 65 000 in the factory in Suwałki and Ostrów Mazowiecka up to the maximum collateral amount of PLN 120 000 4. Assignment of rights from insurance policy
mBank S.A. – revolving loan of EUR 5 000 thousand	1. Blank promissory note with a promissory note declaration 2. Registered pledge on fixed assets up to the maximum collateral amount of EUR 6 000 thousand
ING Bank Śląski S.A. – investment loan totalling EUR 7 250 thousand	1. Joint mortgage up to the amount of EUR 6 000 thousand established on the ownership right to land, buildings and premises located at ul. Biała in Ostrów Mazowiecka 2. Registered pledge on equipment of the high bay warehouse in Ostrów Mazowiecka 3. Assignment of rights from insurance policy 4. Surety provided by the Parent Company
ING Bank Śląski S.A. – investment loan A and B totalling 130 000 thousand	1. Joint mortgage up to the amount of PLN 174 600 thousand established on the perpetual usufruct of land and the ownership right to buildings and facilities constituting real properties located: in Wrocław at ul. Brücknera, ul. Robotnicza; in Przemyśl at ul. Bakończycka, on a cooperative ownership right to commercial premises located in Kraków at ul. Aleksandry 2. Registered pledge on the protection right to word and figurative marks containing "FORTE" up to the maximum collateral amount of PLN 174 600 thousand 3. Financial pledge on investment certificates up to the maximum collateral amount of PLN 174 600 thousand

4. Financial and registered pledge on shares of companies acquired by the company or companies being assets of the Fund, up to the maximum collateral amount of PLN 174 600 thousand
5. Assignment of rights under licence agreement with respect to word and figurative marks containing "FORTE", made by TERCEIRA and FABRYKI MEBLI „FORTE" S.A.;
6. Assignment of rights from insurance policy covering real property on which mortgages were established
7. Blank promissory note with a promissory note declaration

PKO BP S.A. and BGK – investment loan of EUR 140 000 thousand	1. Surety provided by the Parent Company up to the amount of EUR 105 000 thousand for liabilities of TANNE Sp. z o.o. towards PKO BP under loan agreement, 2. Surety provided by the Parent Company up to the amount of EUR 105 000 thousand for liabilities of TANNE Sp. z o.o. towards BGK under loan agreement, 3. Surety provided by the Parent Company up to the amount of EUR 18 564 thousand for liabilities of TANNE Sp. z o.o. towards PKO BP under hedging agreement, 4. Surety provided by the Parent Company up to the amount of EUR 21 750 thousand for liabilities of TANNE Sp. z o.o. towards BGK under hedging agreement, 5. Guarantee Agreement signed by the Parent Company, 6. Agreement subordinating claims of the Parent Company against TANNE Sp. z o.o. to claims of PKO BP and BGK under loan agreement and hedging agreements, 7. Establishing by the Parent Company, as security for the Bank's claims, limited property rights in the form of financial pledges and registered pledges on the shares of TANNE Sp. z o.o. held by the Parent Company, 8. Declaration made by the Parent Company in favour of PKO BP on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to all of the Company's assets up to amount of EUR 105 000 thousand, in connection with the surety securing the loan agreement, 9. Declaration made by the Parent Company in favour of BGK on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to all of the Company's assets up to amount of EUR 105 000 thousand, in connection with the surety securing the loan agreement, 10. Declaration made by the Parent Company in favour of PKO BP on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to all of the Company's assets up to amount of EUR 18 564 thousand, in connection with the surety securing the hedging agreement, 11. Declaration made by the Parent Company in favour of BGK on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to all of the Company's assets up to amount of EUR 21 750 thousand, in connection with the surety securing the hedging agreement, 12. Declaration made by the Parent Company in favour of PKO BP on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to the shares subject to registered pledge established for PKO BP as pledge administrator (to secure claims under loan agreement) up to the amount of EUR 210 000 thousand, 13. Declaration made by the Parent Company in favour of PKO BP on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to the shares subject to registered pledge established for PKO BP as pledge administrator (to secure claims under hedging agreements) up to the amount of EUR 40 314 thousand, 14. Establishing a registered pledge over a set of things and rights included in TANNE Sp. z o.o. in favour of PKO BP as pledge administrator, 15. Entering into a management agreement or a lease agreement with respect to TANNE Sp. z o.o., in the event of PKO BP, as pledge administrator, seeking satisfaction from the pledged property, with entities designated by PKO BP in a manner specified in the pledge agreement, as well as granting powers of attorney in accordance with the pledge agreement, 16. Establishing limited property rights in the form of mortgages on the ownership right of TANNE Sp. z o.o. to real property located in Suwałki, consisting of a plot of land no. 32812/6, 17. Entering into and performing an agreement on assigning rights under agreements, pursuant to which TANNE Sp. z o.o. will transfer to PKO BP, as a transferee and security agent, TANNE's monetary rights and monetary claims under documents, to which it is a party or a beneficiary (now or in the future), 18. Establishing by TANNE Sp. z o.o. limited property rights in the form of financial pledges and registered pledges on the rights arising from the bank accounts opened and maintained for the Company, as well as granting powers of attorney to manage and make dispositions with regard to the accounts opened and maintained for the Company, 19. Entering into and performing by TANNE Sp. z o.o. an agreement subordinating claims of the Company's creditors to claims of Banks arising from the Loan Agreement and Hedging Agreements, 20. Entering into and performing by TANNE Sp. z o.o. direct contracts with PKO BP (acting on behalf of Banks as security agent) or business partners of the Company, 21. Declaration made by TANNE Sp. z o.o. in favour of PKO BP on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to monetary obligation of the Company towards PKO BP under the Loan Agreement, for the repayment of all amounts due to PKO BP related to the loan, up to the amount of EUR 105 000

thousand,

22. Declaration made by TANNE Sp. z o.o. in favour of PKO BP on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to monetary obligation of the Company towards PKO BP under the Hedging Agreement, up to the amount of EUR 18 564 thousand,
23. Declaration made by TANNE Sp. z o.o. in favour of BGK on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to monetary obligation of the Company towards BGK under the Hedging Agreement, up to the amount of EUR 21 750 thousand

In addition to the nominal interest rate, negotiated bank margins, which reflect the risk related to financing the Group, should be taken into account.

Breakdown of loans by currency (translated into PLN, in PLN '000)

Currency	As at	
	31.12.2017	**31.12.2016 adjusted**
PLN	237 088	141 143
EUR	335 952	253 853
USD	-	23 333
	573 040	**418 329**

9. Information on loans granted in the financial year.

Loans and borrowings granted to related entities

In the reporting period ended 31 December 2017, the Company entered into the following agreements and annexes to loan agreements with related companies:

- on 30 March 2017, an annex to the loan agreement with the subsidiary FORT INVESTMENT Sp. z o.o. , according to which the loan will be repaid in 8 equal instalments from 31 March 2018;

- on 30 May 2017, an annex to the loan agreement with the subsidiary MV FORTE GmbH, pursuant to which the loan was extended until 30.06.2017 and the repayment period determined - in 12 instalments by 31 December 2020;

- on 29 June 2017, an annex to the loan agreement with the subsidiary DYSTRI-FORTE Sp. z o.o., pursuant to which the loan amount was increased to EUR 700 thousand. The loan may be used until 31 March 2018. A detailed repayment schedule will be agreed between the Companies after the loan is terminated and the repayment will start from 30.09.2018;

- on 30 June 2017, an annex to the loan agreement with the subsidiary TM- HANDEL Sp. z o.o. SKA, pursuant to which the loan amount was increased to PLN 20 000 and the repayment date was set to 30 June 2018;

- on 7 September 2017, a loan agreement with the subsidiary Terceira Sp. z o.o. in the amount of PLN 500 thousand in connection with the modernisation of the facility at ul. Robotnicza in Wroclaw with repayment date by December 2020;

- on 18 September 2017, a loan agreement with the subsidiary Terceira Sp. z o.o. in the amount of PLN 3 000 thousand. The last drawdown may take place until 31 December 2018, after that date the amounts and dates of instalments to be repaid will be determined;

- on 12 October 2017, a loan agreement with the subsidiary Forte Furniture Products India Ltd in the equivalent of USD 2 000 thousand with a repayment date of at least 5 years, not later than March 2025, interest payable quarterly starting from December 2017.

The balance of loans granted to related entities as at 31.12.2017 is presented in the table below:

Related entity	Loan amount in currency in '000	Loan currency	Repayment date	Loan balance as at 31.12.2017 in PLN '000	Interest due as at 31.12.2017
KWADRAT Sp. z o. o.	439	EUR	July 2021	1 358	4
GALERIA KWADRAT Sp. z o.o.	1 254	PLN	June 2023	1 020	6
FORT INVESTMENT Sp. z o.o.	5 000	PLN	December 2019	660	4
DYSTRI-FORTE Sp. z o.o.	700	EUR	-	2 920	8
FORTE MOBILIER S.a.r.l.	40	EUR	December 2019	125	-

TANNE Sp. z o.o.		PLN	June 2023	-	9
TANNE Sp. z o.o.	20 000	EUR	June 2023	55 056	145
TM- HANDEL Sp. z o.. SKA	20	PLN	June 2018	20	-
MV FORTE GmbH	3 400	EUR	March 2020	14 181	36
TERCEIRA Sp. z o.o.	3 000	PLN	-	1 000	7
TERCEIRA Sp. z o.o.	500	PLN	December 2020	500	2
FORTE FURNITURE PRODUCTS INDIA Ltd	1 642	EUR	March 2025	6 850	7
Total:				**83 690**	**228**
Including:					
Short-term part:					
KWADRAT Sp. z o. o.				340	4
GALERIA KWADRAT Sp. z o.o.				170	6
FORT INVESTMENT Sp. z o.o.				330	4
DYSTRI-FORTE Sp. z o.o.				947	8
FORTE MOBILIER S.a.r.l.				62	-
TANNE Sp. z o.o.				-	9
TANNE Sp. z o.o.				5 506	145
TM- HANDEL Sp. z o.. SKA				20	-
MV FORTE GmbH				4 727	36
TERCEIRA Sp. z o.o.				-	7
TERCEIRA Sp. z o.o.				-	2
FORTE FURNITURE PRODUCTS INDIA Ltd				-	7
Total:				**12 102**	**228**
Long-term part:					
KWADRAT Sp. z o. o.				1 018	
GALERIA KWADRAT Sp. z o.o.				850	
FORT INVESTMENT Sp. z o.o.				330	
DYSTRI-FORTE Sp. z o.o.				1 973	
FORTE MOBILIER S.a.r.l.				63	
TANNE Sp. z o.o.				49 550	
TANNE Sp. z o.o.				-	
TM- HANDEL Sp. z o.. SKA				9 454	
MV FORTE GmbH				1 000	
TERCEIRA Sp. z o.o.				500	
FORTE FURNITURE PRODUCTS INDIA Ltd				6 850	
Total:				**71 588**	

Loans and borrowings granted to other entities

On 6 March 2017, an annex to the loan agreement of 23.06.2016 was concluded with FURNIREX Sp. z o.o. Under this annex, the loan amount was increased to PLN 3 400 thousand. The final repayment date of the loan was set to 31.01.2020.

The above loans were granted on market terms (variable interest based on EURIBOR / WIBOR plus margin).

10. Information on sureties and guarantees provided or received in the financial year

- On 28 June 2016, the Company provided a surety and agreed to pay all monetary liabilities of its subsidiary DYSTRI-FORTE Sp. z o.o. with its registered office in Warsaw, ul. Nowogrodzka 50 lok. 515, arising from the loan agreement of 14 December 2015 made by DYSTRI-FORTE Sp. z o.o. and ING Bank Śląski SA. The Company agreed to satisfy any and all liabilities of the Borrower, covering, in particular, full repayment of the principal amount of the loan, interest, commissions, fees and other costs, up to the amount of EUR 8 700 thousand by 29 October 2024. As at 31 December 2017, the loan balance amounts to PLN 22 842 thousand (as at 31 December 2016: PLN 21 951 thousand).
- The Company provided the following sureties for investment liabilities of the subsidiary TANNE Sp. z o. o.:

- to SIEMPELKAMP Maschinen- und Anlagenbau GmbH arising from the agreement for design, delivery, installation and launching part of the production line to manufacture chipboard. Total net value of the agreement amounts to EUR 23 650 thousand. Investment project completion is planned for July 2018. The balance of outstanding liabilities at the end of the reporting period is EUR 4 363 thousand;
- to Büttner Energie- und Trocknungstechnik GmbH arising from the agreement for design, delivery, installation and launching part of the production line to manufacture chipboard. Total net value of the agreement amounts to EUR 15 000 thousand. Investment project completion is planned for March 2018. The balance of outstanding liabilities at the end of the reporting period is EUR 2 767 thousand;
- to PAL SRL arising from the agreement for design, delivery, installation and launching part of the production line to manufacture chipboard. Total net value of the investment amounts to EUR 22 947 thousand. Investment project completion is planned for May 2018. The balance of outstanding liabilities at the end of the reporting period is EUR 8 031 thousand;
- to EWK Umwelttechnik GmbH arising from the agreement for comprehensive implementation of an investment task in the form of designing and installing the air cleaning system. Total net value of the agreement amounts to EUR 4 700 thousand. The liability expires at 31.12.2019. The balance of outstanding liabilities at the end of the reporting period is EUR 2 350 thousand;
- to H.K. POM arising from the agreement for comprehensive implementation of an investment task in the form of developing supports on the wood storage yard. Total net value of the agreement amounts to PLN 298 thousand. The liability expires at 31.03.2018. The balance of outstanding liabilities for the end of the reporting period is PLN 146 thousand.

- Collaterals for loan liabilities of the subsidiary TANNE Sp. z o.o.:
  - surety provided by the Company up to the amount of EUR 105 000 thousand for TANNE's liabilities to PKO BP arising from the Loan Agreement,
  - surety provided by the Company up to the amount of EUR 105 000 thousand for TANNE's liabilities to BGK arising from the Loan Agreement,
  - surety provided by the Company up to the amount of EUR 18 564 thousand for TANNE's liabilities to PKO BP arising from the Hedging Agreement,
  - surety provided by the Company up to the amount of EUR 21 750 thousand for TANNE's liabilities to BGK arising from the Hedging Agreement,
  - Guarantee Agreement signed by the Company,

Agreement on subordination of claims of the Company against TANNE to claims of PKO BP and BGK arising from the Loan Agreement and Hedging Agreements.

11. Description of Issuer's use of proceeds from issue of securities

In the reporting period, there was no issue of securities.

12. Explanation of differences between financial results disclosed in the annual report and previously published forecasts for the financial year

The Group did not publish financial forecasts for 2017.

13. Evaluation along with its justification, regarding the management of financial resources

Net working capital	2017	2016 adjusted
Current assets	437 845	564 743
Short-term liabilities	(283 194)	(215 572)
Net working capital (current assets – short-term liabilities)	154 651	349 171
Net working capital ratio (net working capital/total assets)	10.4%	29.7%

Debt analysis	2017	2016 adjusted
Total liabilities	846 075	627 376
Total debt ratio (total liabilities/total equity and liabilities)	57.1%	53.4%
Credit rating ((net profit+depreciation)/total liabilities)	12.3%	20.3%

As at 31 December 2017, the Group's long-term liabilities amounted to PLN 562 881 thousand and consisted primarily of liabilities under loans and borrowings (PLN 527 749 thousand), accounting for 93.8% of total long-term liabilities.

Short-term liabilities as at 31 December 2017 amounted to PLN 283 194 thousand and included mainly trade liabilities and other liabilities (PLN 232 736 thousand), accounting for 82.2% of total short-term liabilities.

In the opinion of the Management Board, there are no threats to the ability of the Group to meet its contracted liabilities.

14. Assessment of the feasibility of investment plans as compared to the amount of funds held

The FORTE Group is in the process of implementing a strategic plan for the development of its production capacity. The investment plan of the FORTE Group for 2018 amounts to approx. PLN 320 000 thousand and covers in particular expenses related to the launch of a chipboard factory in the amount of approx. PLN 120 000 thousand, construction of the fifth furniture factory in the amount of approx. PLN 160 000 thousand and the purchase of modern machinery and equipment for the existing furniture factories in the amount of approx. PLN 40 000 thousand, part of which will be used for the automation of processes.

The investment related to the construction of the furniture factory will be financed with a long-term investment loan and own funds - up to the amount of the required own contribution. The Management Board of the Parent Company obtained offers to finance the construction of the furniture factory and is at the stage of negotiating financing terms.

The subsidiary TANNE Sp. z o. o., implementing the investment related to the construction of the chipboard factory, received in 2017, on the basis of an agreement on financial support for the investment entered into with the Ministry of Development, a government grant in the amount of PLN 19 156 thousand. The remaining amount of the grant is expected by the Group to be received mostly in 2018.

15. Information on financial instruments with respect to price change risk, credit risk, significant cash-flow disruptions and financial liquidity risk

The Group enters into transactions involving derivatives, primarily *zero-cost option strategies*. The purpose of these transactions is to manage currency risk arising in the course of the Company's operations.

In addition to derivatives, the main financial instruments used by the Group include bank loans, finance lease agreements with a purchase option, cash and short-term deposits and short-term corporate-bonds. The main purpose of these financial instruments is to raise funds to finance the Group's operations and to optimise the management of cash surpluses. The Group also has other financial instruments such as trade receivables and liabilities, which arise directly in the course of its business.

The principle applied by the Group currently and throughout the reporting period is not to trade in financial instruments.

The main risks arising from financial instruments held by the Group include interest rate risk, liquidity risk, currency risk and credit risk. The Management Board verifies and agrees policies for managing each of these risks - these policies are briefly presented below. The Company also monitors the market price risk for all financial instruments it holds.

15.1. Interest rate risk

The Group's exposure to the risk caused by changes in interest rates relates primarily to long-term financial liabilities, which bear interest at variable interest rates (WIBOR, EURIBOR, LIBOR) increased by a margin. In order to analyse the sensitivity to changes in the interest rate of the Company's long-term financial liabilities, i.e. loans and finance lease liabilities, their interest rates were assumed to increase per year for EURIBOR by 0.03 pp, for WIBOR by 0.25 pp and for LIBOR by 0.60% pp.

In the FORTE Group, the subsidiary TANNE Sp. z o.o. is the only company holding instruments as a hedge against interest rate risk. These are (Interest Rate Swap) contracts.

The basic terms and conditions of the IRS transaction concluded between the subsidiary TANNE Sp. z o.o. and PKO BP S.A. are as follows:
- date of the transaction: 31.01.2017,
- nominal amount and currency of the transaction - EUR 49 000 (35% of the nominal amount of the loan),
- reference rate: EURIBOR 3M,
- beginning of the first interest period - 20.09.2018,
- first exchange of interest payments - 20.12.2018,
- IRS transaction end date - October 14, 2024,
- depreciation and interest periods - in accordance with the agreed schedule,
- interest base for both swap legs (fixed and variable interest payments) - Act / 360.

Interest rate risk – sensitivity analysis

The sensitivity of gross financial result to reasonably possible changes in interest rates is presented in note 36 of explanatory notes to the consolidated financial statements.

15.2. Currency risk

The Company is exposed to currency risk due to its sales transactions. Such risk arises as a result of sales or purchases made by the entity in other currencies than its valuation currency. About 84% of sales transactions concluded by the Company are expressed in currencies other than the reporting currency of the Company. The Company seeks to negotiate the terms of hedging derivatives in such a way as to match the terms of the hedged item and thus ensure maximum effectiveness of the hedge.

The sensitivity of gross financial result to reasonably possible currency fluctuations is presented in note 36.2 of the consolidated financial statements.

Currency risk hedging

The basic method of currency risk management are hedging strategies using derivative instruments. The Group uses symmetrical option strategies to hedge future foreign exchange transactions.

Impact of derivatives on the statements

As at 31 December 2017, the fair value of open positions in derivatives amounted to PLN 50 151 thousand. PLN 57 746 thousand was recognised in the derivative instruments revaluation reserve as intrinsic value, while the amount PLN (7 595) thousand was recognised in the profit and loss account as time value.

In the reporting period ended 31 December 2017, the result on derivatives amounted to PLN 2 319 thousand and related to the implementation of expiring option strategies qualified for hedge accounting in the amount of PLN 2 725 thousand and PLN (406) thousand as a result of current valuation in the amount of PLN (7 595) thousand and of reversal of the valuation from 2016 in the amount of PLN 7 189 thousand.

Impact of derivatives on the result of the period

	01.01.- 31.12.2017	01.01.- 31.12.2016 adjusted
Impact on sales revenue	2 725	131
Impact on other operating revenue/costs, incl.:	(406)	(7 189)
- due to the valuation of derivatives during the period	*(406)*	*(7 189)*
Impact of derivatives on the result of the period, in total:	**2 319**	**(7 058)**

Hedge accounting

A summary of more important hedge accounting policies is presented in note 9.20 of the consolidated financial statements. According to them, changes in intrinsic value of hedging option contracts are recognised in equity of the Company, while changes in their fair value are recognised in the profit and loss account. When the hedged sales revenue is realised, changes in fair value of hedging instruments are recognised in the current financial result.

Not less frequently than at hedge inception and on the last day of each month, the prospective effectiveness is tested by comparing the cumulative change in intrinsic value of hedging options to the cumulative change in the value of future cash flows.

At the end of each month, the hedge effectiveness (retrospective effectiveness) is tested by comparing the cumulative change in intrinsic value of hedging options established under hedge accounting to the cumulative change in future cash flows estimated on the basis of currency market data as of the valuation date.

The financial instruments revaluation reserve is presented in note 29.3 of the consolidated financial statements.

Fair value of foreign exchange contracts

As at 31 December 2017, the fair value of foreign exchange contracts qualified for hedge accounting amounted to PLN 51 643 thousand.

Aggregate data on fair values and settlement dates, as well as aggregate information on the amount (volume) being the basis for future payments and the price of the implementation of effective forward contracts are presented in note 36.2 of the consolidated financial statements. The dates of settlements are convergent with the dates in which the amounts charged to the revaluation reserve in respect of these transactions will be recognised in the profit and loss account.

15.3. Credit risk

Credit risk is related to the creditworthiness and solvency of customers with whom the Group concludes sales transactions.
The Group has a procedure for awarding a trade credit limit to the counterparty and specifying the form of its collateral. All customers who wish to use trade credits are subject to initial verification procedures.
The maximum credit risk exposure for trade receivables from other entities is limited to the amount of the deductible and own contribution specified in the terms of the receivables insurance policy, and for space rental – to the amount of receivables. As at 31.12.2017, the estimated maximum credit exposure was PLN 3 490 thousand.
Basically, all receivables, except for receivables from related entities, are insured or secured with bank guarantees as part of the so-called central payment processing system. In addition, counterparty receivables are regularly monitored by sales and financial services. In the event of overdue receivables, sales are suspended and debt collection is started.
In the case of loans granted, the Company monitors the financial position of its debtors on an ongoing basis. Loans granted are secured with blank promissory notes. The maximum credit risk exposure in respect of loans granted is equal to the balance of loan receivables presented in section 9 of this report.
With respect to other financial assets of the Group, such as cash and cash equivalents, financial assets available for sale and derivatives with a positive fair value, the Group's credit risk arises as a result of the counterparty's failure to make the payment.
There are no significant concentrations of credit risk within the Group.

15.4. Liquidity risk

The Group is exposed to liquidity risk resulting from the relation of short-term liabilities to current assets The Group monitors the risk of lack of funds using a periodic liquidity planning tool. This tool takes into account the maturity dates of both investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operating activities.

The Group's goal is to maintain a balance between continuity and flexibility of financing through the use of various sources of financing, such as bank loans and finance lease agreements.

Detailed information on liquidity risk is presented in point 36.4. of explanatory notes to the consolidated financial statements.

16. Comments on key financial data of the Group

Item	2017	2016 adjusted	% change
Sales revenue	1 096 230	1 090 407	0.5%
Cost of sales	(699 395)	(663 438)	5.4%
Gross profit on sales	396 835	426 969	-7.1%
Gross margin on sales %	36.2%	39.2%	
Selling costs	(238 929)	(225 684)	5.9%
G&A costs	(52 061)	(51 262)	1.6%
Operating profit (EBIT)	98 691	144 483	-31.7%
EBITDA	125 637	167 182	-24.8%
Gross profit	93 994	132 033	-28.9%

Net profit	77 070	104 562	-26.3%
Net profit margin %	7.0%	9.6%	
Return on equity (ROE)	12.1%	19.1%	
Return on assets (ROA)	5.2%	8.9%	

After a period of several years of stable growth, 2017 was the first year in which the Group did not maintain its positive growth trend in sales and net profit.

In 2017, **sales revenue** amounted to PLN 1 096 230 thousand and was higher by 0.5% (PLN 5 823 thousand in terms of value) as compared to the previous year. Lack of high dynamics in comparison to previous years is a result of two factors – in the 1st half of the year, we could observe our major customers withholding their orders due to the ongoing negotiations of trade agreements for the next years. In the 2nd half of the year, an increased number of orders from our customers resulting from the completed negotiations and a very wide product offer (between March and September, we increased our offer from 3,300 to 4,300 products) revealed inefficiency of our internal processes and insufficient production capacity. As a result, we were not able to complete some orders.

Gross margin on sales stood at a level of 36.2%, which is 3 percentage points lower than in the previous year. The main reasons for this drop in profitability are the lower EUR exchange rate, which negatively affected the profitability of export revenues and an increase in the cost of chipboard (basic raw material for chipboard production) in the second half of the year by about 20% against 2016.

Selling costs – the selling costs to revenue ratio stood at 21.8%, compared to 20.7% in the corresponding period last year. In terms of value, the selling costs increased by PLN 13 245 thousand.

G&A costs – the G&A costs to revenue ratio was at a similar level as in 2016 and amounted to 4.7%.

Operating profit totalled PLN 98 691 thousand (9% of revenue), compared to PLN 144 483 thousand (13.3% of revenue) in 2016.

Net profit in the reporting period amounted to PLN 77 070 thousand (7% of revenue), compared to PLN 104 562 thousand in the corresponding period (9.6% of revenue).

17. Assessment of factors and unusual events affecting the result on operations in the financial year, including the extent to which these factors or unusual events have affected the earned result

There were no unusual events other than those presented in section 16 of this report.

18. Description of external and internal factors significant for the development of the Group, including development perspectives

For the Group, 2017 was the second year of implementation of the adopted development strategy for 2016-2021.
Capital expenditures incurred by the Group in 2017 amounted to PLN 464 608 thousand and will be continued in the following years as part of the implementation of the adopted investment programme, which included the construction of a chipboard factory and the fifth furniture factory along with storage facilities. The adopted investment programme is implemented as scheduled. The construction of the chipboard factory has been virtually completed. On 16 March 2018, the Subsidiary obtained permits to operate the chipboard factory along with the accompanying technical and road infrastructure. It means that after the decision becomes final and the physical and physicochemical properties are determined, the chipboard factory will be able to launch production of wood-based panels, which will ultimately satisfy the entire demand of furniture factories of the FORTE Group. In 2018, the plant should achieve annual production capacity of 400 thousand m3, and in 2019 about 500 thousand m3. In the opinion of the Management Board, the start-up of the wood-based panel factory will satisfy the Company's raw materials needs in the coming years, at the same time making the level of production costs independent of market fluctuations.

An important project started in Q4 2017, which should be completed by the end of Q3 2018, is the reorganisation of production and design processes aimed at increasing the production capacity for the season 2018/2019. Due to seasonality in Q2 and Q3 (the so-called low season), the current capacity is sufficient to cover the higher production resulting from the expected increase in sales dynamics.

Another project, which, in the opinion of the Management Board, will have a positive impact on the development of the FORTE Group in the next few years, is the launch of production and sales activities in India. The new company, which is 50% dependent on FORTE, started its operations on 01.04.2017. The Indian market is a very large and promising market that perfectly fits into the dynamic development strategy of the FORTE Group.

19. Changes in the basic principles of managing the Issuer’s enterprise and its capital group

Did not occur.

20. Any agreements made between the Issuer and members of its managing bodies, providing for compensation in the event of their resignation or dismissal from their positions without an important reason, or if their resignation or dismissal is due to the Issuer’s merger by acquisition

The Parent Company concluded with its managers:

• an agreement providing that if a Manager is dismissed from the role, he/she is entitled to compensation in the amount equal to his/her 6 monthly salaries, unless the basis for the dismissal is any of the following reasons: committing an offence by the Manager against the Company, serious violation of securities laws or other regulations by the Manager, violation of essential contractual obligations, existence of an impediment to the exercise by the Manager of his/her duties as a member of the Management Board lasting longer than 2 months. The agreement further stipulates that the Manager may terminate the agreement in the event of the Company’s breach of relevant obligations under the agreement. In this case, the Manager will be entitled to compensation in the amount equal to his/her 6 monthly salaries. Also, if the Manger is not appointed for the Management Board's term in 2014-2019, the Manager will be entitled to compensation in the amount equal to his/her 6 monthly salaries, except for the aforementioned cases attributable to the Manager.

21. Remuneration, bonuses or benefits, including those under incentive or bonus schemes based on the Issuer’s equity

On 10 June 2014, the Annual General Meeting of FABRYKI MEBLI "FORTE" SA approved the introduction of an incentive scheme for Members of the Management Board (the "Incentive Scheme").
The purpose of the Incentive Scheme is to strive to develop the Capital Group of the Company and its subsidiaries (the "Capital Group") by creating incentive mechanisms for persons responsible for management, which would refer to financial results of the Capital Group and an increase in the value of the Company's shares.
The issue price of the Company’s H series shares was set by the resolution of the Supervisory Board of 27 October 2014 at 46.19. Each Warrant entitles to acquire one series H share at an issue price.
The Warrant rights may be exercised not earlier than one year after the formal decision to take them up and no later than on 30 November 2018.

Series of Warrants which may by exercised as at the balance sheet date:

Series of Warrants	Number of Warrants
Total	**207 795**
D	89 055
F	118 740

Remuneration paid or due to members of the Management Board and members of the Supervisory Board of the Company:

	12 months ended	
	31.12.2017	**31.12.2016**
Remuneration for the Management Board, incl.:	**11 350**	**13 748**
in the Issuer’s enterprise	**10 599**	**12 960**
Maciej Formanowicz	4 157	5 416
Gert Coopmann	2 620	2 956
Klaus Dieter Dahlem	1 642	2 008
Maria Florczuk	992	1 152
Mariusz Gazda	1 188	1 428
for performing functions in governing bodies of subsidiaries	**751**	**788**
Maciej Formanowicz	520	547

Gert Coopmann	231	241

Supervisory Board	324	324
Zbigniew Sebastian	84	84
Stanisław Krauz	60	60
Tomasz Domagalski	60	60
Bernard Woźniak	37	-
Stefan Golonka	23	60
Jerzy Smardzewski	60	60

22. Total number and nominal value of all shares of the Issuer, held by managing and supervising persons

Managing and supervising persons of the Issuer		Number of shares with a nominal value of PLN 1 each
Gert Coopmann	Member of the Management Board	79 685
Mariusz Gazda	Member of the Management Board	4 700
Klaus Dieter Dahlem	Member of the Management Board	34 170
Zbigniew Sebastian	Chairman of the Supervisory Board	300

23. Shares of Fabryki Mebli „FORTE" S.A.

Shares of Fabryki Mebli „Forte" are listed on the Warsaw Stock Exchange in the continuous trading system.

Key data on FORTE shares.

Key data	2017	2016 adjusted
Company's net profit in PLN '000	54 405	91 372
Highest share price in PLN	86.00	79.60
Lowest share price in PLN	46.11	46.52
Share price at year end in PLN	50.00	76.00
P/E ratio at year end	21.99	19.88
Number of outstanding shares (in items)	23 930 769	23 901 084
Average daily trading volume (in items)	13 703	14 355

24. Information on agreements known to the Issuer, as a result of which changes in shareholding may occur in the future

The Issuer has no knowledge of such agreements.

25. Information on the system of control of employee share schemes

Did not occur.

26. Information on legal proceedings whose total value accounts for at least 10% of the Issuer's equity

Did not occur.

27. Information on the date of the agreement entered into by the Issuer with an entity authorised to audit financial statements for audit or review of the financial statements, the term of the agreement

and total remuneration due under the agreement

In the reporting period, the Group entered into the following agreements with BDO Spółka z o.o. as an entity authorised to audit financial statements:

On 5 June 2017:

• for the audit of separate financial statements of subsidiaries TANNE Sp. z o.o., TERCEIRA Sp. z o.o. and DYSTRI-FORTE Sp. z o.o. prepared as at 31 December 2017. For the performance of the above-mentioned activities, the parties agreed the remuneration in the total amount of PLN 55 thousand net.

On 7 August 2017:

• for the review of the interim separate financial statements of the Parent Company and the consolidated financial statements of the Capital Group prepared as at 30 June 2017. For the performance of the above-mentioned activities, the parties agreed the remuneration of PLN 36 thousand net.

• for the audit of the separate financial statements of the Parent Company and the consolidated financial statements of the Capital Group prepared as at 31 December 2017. For the performance of the above-mentioned activities, the parties agreed the remuneration of PLN 61 thousand net.

28. Characteristics of assets and liabilities

Liquidity and efficiency analysis	2017	2016
Current ratio (current assets/short-term liabilities)	1.5	2.6
Quick ratio (current assets – inventory/short-term liabilities)	0.9	2.0
Receivable turnover in days (average trade receivables*365/sales revenue)	47	50
Inventory turnover in days (average inventory*365/cost of sales)	82	77
Liability turnover in days (average trade liabilities*365/cost of sales)	39	34
Current asset turnover in days (average current assets*365/sales revenue)	167	160

Characteristics of balance sheet items	2017		2016 adjusted		% change
	PLN '000	% of balance sheet total	PLN '000	% of balance sheet total	2017/2016
Non-current assets	1 044 191	70%	609 243	52%	71%
Current assets	437 845	30%	564 743	48%	-22%
Total assets	**1 482 036**	**100%**	**1 173 986**	**100%**	
Equity	635 961	43%	546 610	47%	16%
Long-term liabilities and provisions	562 881	38%	411 804	35%	37%
Short-term liabilities and provisions	283 194	19%	215 572	18%	31%
Total liabilities	**1 482 036**	**100%**	**1 173 986**	**100%**	

Non-current assets rose by PLN 434 948 thousand, mainly as a result of an increase in tangible fixed assets in the amount of PLN 436 254 thousand, an increase in the valuation of a long-term part of derivatives in the amount of PLN 33 433 thousand and a decrease in the value of financial assets amounting to PLN 37 679 thousand.

The most significant increase in tangible fixed assets relates to expenditures incurred for the construction of a chipboard factory with equipment in the amount of PLN 421 685 thousand. A decrease in the value of financial assets is related to a decrease in the value of investment certificates of TERCEIRA Sp. z o.o.

In **current assets** a decrease was recorded for trade and other receivables (PLN 134 724 thousand), which is primarily due to the reclassification of receivables from advance payments as tangible fixed assets in the amount of PLN 136 129 thousand. Cash decreased by PLN 43 010 thousand, mainly as a result of its use for partial repayment of working capital loans and for partial financing of the Group's capital expenditure.

The most significant increase in current assets was recorded for inventory (PLN 26 505 thousand) and receivables from derivatives (PLN 18 210 thousand) a result of the valuation of a short-term part of option strategies and income tax receivables (PLN 6 311 thousand).

On the **liabilities** side, the most significant change relates to an increase in the reserve from the valuation of derivatives qualified for hedge accounting (PLN 57 320 thousand) and the related deferred tax liability (PLN 11 195 thousand) and an increase in bank loan liabilities PLN (154 711) thousand.

29. Major events which have a significant impact on the Issuer's operations and financial results in the financial year and after the end of the financial year or which are likely to have such impact in the following years

In 2017, the most important events included:

• increase in prices of basic raw material - chipboard, which had a negative impact on the results of H2 2017 and first months of 2018.

• completion of the investment made in the chipboard factory in TANNE, which will allow the Group to become independent from price changes on the chipboard market,

• maintaining by the Parent Company its position on the list of an elite group of 25 companies of the Warsaw Stock Exchange listed in the Respect Index, i.e. companies managed in a responsible and sustainable manner,

• making a decision to establish a joint venture manufacturing and selling furniture in India,

• following the company's conscious policy focused on employees' development - continuation of the "Forte Academy"

30. Description of the structure of major capital deposits or major capital investments made in the financial year

On 18 January 2017, the Parent Company entered into a joint venture agreement with INDIAN FURNITURE PRODUCTS LIMITED ('IFPL') based in Chennai, India, an entity of the ADVENTZ Capital Group, concerning the production and sale of furniture in the Indian market. Part of the joint venture agreement was establishing an entity operating under the name FORTE FURNITURE PRODUCTS INDIA PVT. LTD ('FFPI') based in Chennai, India, in which each of the shareholders, i.e. FORTE and IFPL holds a 50% stake. The cash contribution made to the share capital of FFPI by each shareholder amounted to the equivalent of approx. EUR 2 million. The core activities of FFPI include the production and sale of furniture. FFPI's operations are based on the existing production facilities and a sales network in India, which were previously owned by IFPL, and the know-how, design, product development and production technology delivered by FORTE. FFPI started its operating activities in April 2017.
On 30.06.2017, the company was included in consolidation using the equity method. In the opinion of the Management Board, the Indian company should reach a positive level of profitability around mid-2018.

31. Description of the organisation of the Issuer's Capital Group, specifying entities subject to consolidation and a description of changes in the organisation of the Issuer's Capital Group with their reasons.

Such description is included in section 1 of this report.

32. Specification of policy related to development directions of the Issuer's Capital Group. The Group's main development directions.

In the coming years, the FORTE Group will continue the development of furniture sales on European markets by further increasing its share in the markets of individual countries and appropriate adjustment of production capacity and securing the supply of basic raw materials. In the longer term, the Group's development will also take place outside Europe, which starts with establishing a JV company in India.

33. The nature, purpose and value of significant off-balance-sheet items

- On 28 June 2016, the Company provided a surety and agreed to pay all cash liabilities of its subsidiary DYSTRI-FORTE Sp. z o.o. with its registered office in Warsaw, ul. Nowogrodzka 50 lok. 515, arising from the loan agreement of 14 December 2015 concluded between DYSTRI-FORTE Sp. z o.o. and ING Bank Śląski SA. The Company agreed to satisfy any and all liabilities of the Borrower, covering, in particular, full repayment of the principal amount of the loan, interest, commissions, fees and other costs, up to the amount of EUR 8 700 000 by 29 October 2024. As at 31 December 2017, the loan balance amounts to PLN 22 842 thousand (as at 31 December 2016: PLN 21 951 thousand).
- The Company provided the following collateral securities on investment liabilities of its subsidiary TANNE Sp. z o.o.:
  - to SIEMPELKAMP Maschinen- und Anlagenbau GmbH arising from the agreement for design, delivery, installation and launching part of the production line to manufacture chipboard. The total net value of the agreement amounts to EUR 23 650 thousand. Investment project completion is planned for July 2018. The balance of outstanding liabilities for the end of the reporting period is EUR 4 363 thousand.
  - to Büttner Energie- und Trocknungstechnik GmbH arising from the agreement for design, delivery, installation and launching part of the production line to manufacture chipboard. The total net value of the agreement amounts to EUR 15 000 thousand. Investment project completion is planned for March 2018. The balance of outstanding liabilities for the end of the reporting period is EUR 2 767 thousand.
  - to PAL SRL arising from the agreement for design, delivery, installation and launching part of the production line to manufacture chipboard. The total net value of the investment amounts to EUR 22 947 thousand. Investment project completion is planned for May 2018. The balance of outstanding liabilities for the end of the reporting period is EUR 8 031 thousand.
  - to EWK Umwelttechnik GmbH arising from the agreement for comprehensive implementation of an investment task in the form of designing and installing the air cleaning system. The total net value of the agreement amounts to EUR 4 700 thousand. The liability expires at 31.12.2019. The balance of outstanding liabilities for the end of the reporting period is EUR 2 350 thousand.
  - to H.K. POM arising from the agreement for comprehensive implementation of an investment task in the form of developing supports on the wood storage yard. The total net value of the agreement amounts to PLN 298 thousand. The liability expires at 31.03.2018. The balance of outstanding liabilities for the end of the reporting period is PLN 146 thousand.

- Collateral securities on credit facilities of the subsidiary TANNE Sp. z o.o.:
  - surety provided by the Company up to the amount of EUR 105 000 thousand for TANNE's liabilities to PKO BP arising from the Loan Agreement,
  - surety provided by the Company up to the amount of EUR 105 000 thousand for TANNE's liabilities to BGK arising from the Loan Agreement,
  - surety provided by the Parent Company up to the amount of EUR 18 564 thousand for TANNE's liabilities to PKO BP arising from the Hedging Agreement,
  - surety provided by the Company up to the amount of EUR 21 750 thousand for TANNE's liabilities to BGK arising from the Hedging Agreement,
  - Guarantee Agreement signed by the Company,
  - agreement subordinating claims of the Parent Company against TANNE to claims of PKO BP and BGK arising from the Loan Agreement and Hedging Agreements,
  - establishing by the Company, as security for the Bank's claims, limited property rights in the form of financial pledges and registered pledges on TANNE shares held by the Company,
  - declaration in favour of PKO BP on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to all of the Company's assets up to amount of EUR 105 000 thousand, in connection with the guarantee in respect of the Loan Agreement,
  - declaration in favour of BGK on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to all of the Company's assets up to amount of EUR 105 000 thousand, in connection with the surety securing the Loan Agreement,
  - declaration in favour of PKO BP on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to all of the Company's assets up to amount of EUR 18 564 thousand, in connection with the surety securing the Hedging Agreement,
  - declaration in favour of BGK on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to all of the Parent Company's assets up to amount of EUR 21 750 thousand, in connection with the surety securing the Hedging Agreement,
  - declaration in favour of PKO BP on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to the shares subject to registered pledge established for PKO BP as pledge administrator (to secure claims under the Loan Agreement) up to the amount of EUR 210 000 thousand,

- declaration in favour of PKO BP on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to the shares subject to registered pledge established for PKO BP as pledge administrator (to secure claims under Hedging Agreements) up to the amount of EUR 40 314 thousand,
- establishing a registered pledge over a set of things and rights included in the TANNE company in favour of PKO BP as pledge administrator,
- entering into a management agreement or a lease agreement with respect to the TANNE company, in the event of PKO BP, as pledge administrator, seeking satisfaction from the pledged property, with entities designated by PKO BP in a manner specified in the pledge agreement, as well as granting powers of attorney in accordance with the pledge agreement,
- establishing limited property rights in the form of mortgages on TANNE's ownership right to real property located in Suwałki, consisting of a plot of land no. 32812/6,
- entering into and performing an agreement on assigning rights under agreements, pursuant to which TANNE will transfer to PKO BP, as a transferee and security agent, TANNE's monetary rights and monetary claims under documents, to which it is a party or a beneficiary (now or in the future),
- establishing by TANNE limited property rights in the form of financial pledges and registered pledges on the rights arising from the bank accounts opened and maintained for TANNE, as well as granting powers of attorney to manage and make dispositions with regard to the accounts opened and maintained for TANNE,
- entering into and performing by TANNE an agreement subordinating claims of TANNE's creditors to claims of Banks arising from the Loan Agreement and Hedging Agreements,
- entering into and performing by TANNE direct contracts with PKO BP (acting on behalf of Banks as a security agent) or business partners of TANNE,
- declaration made by TANNE in favour of PKO BP on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to financial obligation of TANNE towards PKO BP under the Loan Agreement, for the repayment of all amounts due to PKO BP related to the loan, up to the amount of EUR 105 000 thousand,
- declaration made by TANNE in favour of BGK on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to financial obligation of TANNE towards BGK under the Loan Agreement, for the repayment of all amounts due to BGK related to the loan, up to the amount of EUR 105 000 thousand,
- declaration made by TANNE in favour of PKO BP on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to monetary obligation of TANNE towards PKO BP under the Hedging Agreement, up to the amount of EUR 18 564 thousand,
- declaration made by TANNE in favour of BGK on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to monetary obligation of TANNE towards BGK under the Hedging Agreement, up to the amount of EUR 21 750 thousand.

Hypothetical cost to be borne by the Company in connection with granted sureties is equal to the balance of unpaid loans with interest and commissions as well as to the balance of unpaid investment liabilities. Since both DYSTRI-FORTE Sp. z o.o. and TANNE Sp. z o.o. carry out operating activities exclusively for the Parent Company, which provides them with a stable cash flow, the materialisation of the risk of non-repayment of contingent liabilities is estimated by the Company as unlikely.

34. Selected financial data were calculated using the following exchange rates

• Individual items of assets and liabilities as at 31 December 2017 were calculated using the average exchange rate of EUR 1 of 29.12.2017 (EUR 1 = PLN 4.1709), whereas the items of the profit and loss account and the cash flow statement for 2017 were measured at the exchange rate being the arithmetic average of the average exchange rates on the last day of each month (EUR 1 average for 2017 = PLN 4.2447).

• Individual items of assets and liabilities as at 31 December 2016 were calculated using the average exchange rate EUR 1 of 31.12.2016 (EUR 1 = 4.4240 PLN), whereas the items of the profit and loss account and the cash flow statement for 2016 were measured at the exchange rate being the arithmetic average of the average exchange rates on the last day of each month (EUR 1 average for 2016 = PLN 4.3757).

35. Declaration of the Management Board regarding the entity authorised to audit the financial statements of the Issuer

The Management Board of Fabryki Mebli "FORTE" S.A. declares that the entity authorised to audit financial statements, auditing the Issuer's annual financial statements, was selected in accordance with the applicable laws and that this entity and statutory auditors who performed the audit fulfilled the requirements to express an impartial and independent opinion on the audited financial statements, according to the applicable laws and professional standards.

36. Declaration of the Management Board regarding the reliability of the financial statements of the Issuer

The Management Board of Fabryki Mebli "FORTE" S.A. declares that, to the best knowledge of the Management Board, the Issuer's annual financial statements for 2017 and comparative data have been prepared in accordance with the applicable accounting principles and they give a true, clear and fair view of the Issuer's assets, financial standing and its financial result.

In addition, the Management Board declares that the Management Board's annual report gives a true picture of the Issuer's development, achievements and standing, including description of basic risks and threats.

President of the Management Board **Maciej Formanowicz**	**Member of the Management Board** **Gert Coopmann**
....	....
Member of the Management Board **Klaus Dieter Dahlem**	**Member of the Management Board** **Maria Florczuk**
....	....
Member of the Management Board **Mariusz Gazda**	

Ostrów Mazowiecka, 5 April 2018

II CORPORATE GOVERNANCE

Acting in accordance with § 91(5)(4) of the Minister of Finance Regulation of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state (Journal of Laws Dz.U. of 28.01.2014, item 133 as amended), the Management Board of FABRYKI MEBLI "FORTE" S.A. with its registered office in Ostrów Mazowiecka (hereinafter: "Company" or "FORTE") submits a statement on the Company's compliance with the principles of corporate governance in 2017. The statement concerning the Company's compliance with the principles of corporate governance in 2017 forms a separate part of the report on the operations of FORTE and is published on the Company's website.

1. Set of corporate governance principles observed by the Issuer and the place where their content is available for the public

As od 1 January 2016, the Company has applied the principles of corporate governance contained in the document "Best Practice for WSE Listed Companies 2016" attached to Resolution No. 26/1413/2015 of the WSE Council of 13 October 2015. The WSE Rules do not impose on the Company an absolute obligation to comply with the aforementioned set of principles, but they require submitting reports on the compliance therewith.

The above-mentioned document is publicly available on the WSE website at:
https://www.gpw.pl/pub/GPW/files/PDF/GPW_1015_17_DOBRE_PRAKTYKI_v2.pdf

2. Corporate governance principles which have been waived by the Issuer and the reasons therefor

In 2017, the Company did not comply with the following recommendations or detailed principles of corporate governance:

Part I
Detailed principle I. Z. 1.20.
„An audio or video recording of a general meeting"

The Company does not comply with this principle. In the opinion of the Management Board, the general meetings of FABRYKI MEBLI "FORTE" S.A. held so far have not created the need to make and post an audio or video recording on the website. General meetings are held at the registered office of the Company, therefore participation in them is not in any way difficult for shareholders interested therein. In addition, the Company, in accordance with the applicable laws, publishes on its website a notice of the general meeting along with the agenda, draft resolutions and all required documentation and provides the public with this information in the form of a current report. All proceedings of general meetings are recorded in detailed minutes by a notary. In addition, publishing the required current reports and providing relevant information on the Company's website provides shareholders with all relevant information regarding general meetings. These rules ensure transparency of general meetings and provide for full and real proceedings thereof. The Company does not exclude the possibility to comply with the above principle in the future.

Part IV
Recommendation IV R 2.

„If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:
1) real-life broadcast of the general meeting;
2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting;
3) exercise of the right to vote during a general meeting either in person or through a plenipotentiary"

In view of the fact that it is not possible to meet the requirements allowing for proper verification of identity of a shareholder and ensuring an appropriate level of security of electronic communication at the General Meeting, in particular in the voting process at the General Meeting, the Company decided not to apply this recommendation in part. At the General Meeting, shareholders may exercise their voting rights in person or through a proxy.

Detailed principle IV. Z. 2.

„If justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings".

The Company does not comply with this principle. In the opinion of the Management Board, the current concentrated shareholding structure of the Company does not justify bearing additional significant costs associated with the organisation of broadcasts. The rules of participation in general meetings, which are currently in use, are compliant with the applicable regulations of the Commercial Companies Code, the Company's Articles of Association and other laws. The proceedings of general meetings are organised in a way that the interests of all shareholders are adequately protected. The Company will consider the possibility and desirability of complying with the above principle in the future.

Part V
Detailed principle V. Z. 6.

„In its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may arise in the company, as well as the rules of conduct where a conflict of interest has arisen or may arise. The company's internal regulations should among others provide for ways to prevent, identify and resolve conflicts of interest, as well as rules of excluding members of the management board or the supervisory board from participation in reviewing matters subject to a conflict of interest which has arisen or may arise."

Currently, the Company partly complies with this principle. The Company's internal regulations (Regulations of the Management Board, Regulations of the Supervisory Board) provide for the rules of conduct in the event of a conflict of interest, however, they are not described in such detail as in the above principle.

Part IV
Detailed principle VI. Z. 4.

"In this activity report, the company should report on the remuneration policy including at least the following:
1) general information about the company's remuneration system;
2) information about the conditions and amounts of remuneration of each management board member broken down by fixed and variable remuneration components, including the key parameters of setting the variable remuneration components and the terms of payment of severance allowances and other amounts due on termination of employment, contract or other similar legal relationship, separately for the company and each member of its group;
3) information about non-financial remuneration components due to each management board member and key manager;
4) significant amendments of the remuneration policy in the last financial year or information about their absence;
5) assessment of the implementation of the remuneration policy in terms of achievement of its goals, in particular long-term shareholder value creation and the company's stability"

The Company has adopted remuneration regulations defining the principles of remuneration and granting cash benefits to FORTE employees. In accordance with the applicable laws and the Company's Articles of Association, the principles of granting remuneration and the amount of remuneration for members of the Supervisory Board are determined by the General Meeting, while the amount of remuneration for the Management Board is determined by the Supervisory Board.
The remuneration of members of the Company's governing bodies and other benefits granted to these persons in the financial year are presented in the annual financial statements of the Company.

3. Description of the main characteristics of internal control and risk management systems applied by the Issuer with respect to preparing financial statements and consolidated financial statements

The Management Board is responsible for keeping the Company's accounts in accordance with the International Financial Reporting Standards (IFRS) approved by the International Accounting Standards Board and for the internal control system and its effectiveness in the process of preparing financial statements.
Substantive supervision over the process of preparing financial statements and periodic reports of the Company is provided by the Member of the Management Board responsible for financial matters. Both separate and consolidated statements are prepared by employees of the Financial Department under the supervision of the Chief Accountant and the Member of the Management Board responsible for the Company's finance. The financial statements are then verified by an independent auditor - a statutory auditor appointed by the Company's Supervisory Board.

In order to ensure reliability and correctness of the process of preparing financial statements, a number of control mechanisms have been developed and implemented, which are an integral part of the reporting system. These mechanisms provide, in particular, for permanent verification of reporting data with accounting records, analytical data and other documents forming the basis for preparing financial statements as well as with all applicable laws related to accounting and preparing financial statements.
The process of preparing financial data for reporting purposes is automated, subject to formalised operating and acceptance procedures.
The Company has appropriate procedures for preparing financial statements to ensure the completeness and correctness of accounting for all business transactions. These procedures include in particular:
- proper internal communication with respect to planning the process of preparing financial statements,
- detailed planning of all activities related to the preparation of financial statements and producing a detailed schedule of activities along with assigning the responsibility for particular tasks to particular employees.

Monitoring the completeness of economic events is additionally supported by the V-desk electronic document circulation system. In particular, all invoices received by the Company, employee business trips, all contracts made by the Issuer are registered in this system. Authorised employees of the Company are granted access within their competencies to the electronic circulation of documents.
The V-desk system provides for registration, content description, assignment and acceptance of invoices - in line with the powers granted by the Board.
Accepted invoices are imported into the SAP R3 operating system after prior verification of the correctness of accounting descriptions made by employees of the Accounting Department.
FABRYKI MEBLI „FORTE"S.A. maintains its accounting books in the integrated SAP R/3 system, in accordance with the Company's accounting policy approved by the Management Board, based on International Accounting Standards.
The structure of the system provides for a transparent division of competences, coherence of accounting records and control between the general leger and subledgers. High flexibility of the system allows for its ongoing adaptation to changing accounting principles or other legal regulations.

The company has adopted an investment policy whose main purpose is to enable full supervision over each stage of investment planning and implementation. An ongoing analysis of investment processes provides for reliable financial, material and substantive information about an investment. It allows us to immediately identify any errors, deviations or irregularities detected while implementing individual investment stages. As a result, it is possible to make necessary corrections to investment processes on an ongoing basis, in particular to perform correct and reliable calculations.
The Company manages risk in relation to the process of preparing financial statements, also by ongoing monitoring of changes in external laws and regulations concerning reporting requirements and by preparing for their implementation well ahead of time.
A certified auditor is appointed by the Supervisory Board upon recommendation of the Management Board. Annual and semi-annual financial statements are subject to independent audit and review by the Company's auditor. The results of the audit are presented by the auditor to the management of the Company at the summary meetings.

4. Indication of significant direct and indirect shareholdings

According to the information available to the Company, the shareholding structure is as follows:

No.	Shareholder	Number of shares and votes held	% stake in share capital	% share in total number of votes
1.	MaForm SARL	7 763 889	32.44%	32.44%
2.	Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	2 300 000	9.61%	9.61%
3.	Skarbiec Towarzystwo Funduszy Inwestycyjnych S.A.*	2 149 448	8.98%	8.98%
4.	ING Otwarty Fundusz Emerytalny	1 200 000	5.01%	5.01%

* incl. Bentham Sp. z o. o. 2,050,000 shares, a 8.57% share in the share capital and in total number of votes

5. Indication of holders of any securities with special control rights and a description of those rights

The Company has not issued securities granting special control rights.

6. Indication of any restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or systems whereby, with the company's cooperation, the financial rights attaching to securities are separated from the holding of securities

In the Company, there are no restrictions on voting rights.

7. Indication of any restrictions on the transfer of securities of the Issuer

There are no restrictions on the transfer of securities of the Company.

8. Description of rules regarding appointment or dismissal of managing persons and their powers, in particular the right to decide on the issue or redemption of shares

In accordance with the Company's Articles of Association, the Management Board consists of one to seven members appointed for a joint term of office. The number of Management Board Members is determined by the Supervisory Board, which elects the President of the Management Board and other Members of the Management Board. The Management Board is appointed for a joint five-year term. Pursuant to the Commercial Companies Code, Members of the Management Board may be dismissed by the Supervisory Board at any time. The Supervisory Board determines the terms and conditions for remunerating Members of the Management Board, including the provisions of contracts and appointment letters binding Members of the Management Board with the Company. In accordance with the Company's Articles of Association, the Management Board manages the Company's affairs and represents it. The work of the Management Board is managed by the President of the Management Board. The scope of activities of the Management Board includes all matters related to managing the Company's affairs which are not reserved for other governing bodies of Company. The powers of the Management Board regarding the right to decide on redemption of shares do not deviate from the regulations contained in the Commercial Companies Code.

9. Description of the rules for amending the Articles of Association of the Issuer

The Company's Articles of Association are amended in accordance with mandatory provisions of the Commercial Companies Code, i.e. Art. 430 et seq., by way of a resolution of the General Meeting of the Company.
The General Meeting of the Company may authorise the Supervisory Board to agree upon the uniform text of the amended Articles of Association.

The Management Board, acting in accordance with the Minister of Finance Regulation of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state (Journal of Laws Dz.U. 2014, item 133 as amended)) notifies the shareholders of intended amendments to the Articles of Association and of a uniform text of the Articles of Association taking account of the amendments introduced thereto, by way of publishing current reports and the uniform text of the Articles of Association on the Company's website.

10. Rules of procedure of the General Meeting and fundamental powers thereof as well as rights of shareholders and the manner of exercising such rights, in particular rules arising from the regulations of the general meeting, if such rules have been adopted, unless such information is directly determined by applicable laws

The rules of procedure of the General Meeting of FABRYKI MEBLI "FORTE" SA, its powers and the rights of shareholders and the manner of exercising such rights are specified in the following documents:
1. Commercial Companies Code,
2. Company's Articles of Association,
3. Regulations of General Meetings.
The schedule of work on organising General Meetings is planned in such a way as to ensure that the obligations towards shareholders are properly met and to enable them to exercise their rights.
The General Meeting was convened on 12 April 2017 by the Management Board by way of an announcement made on the Company's website at least 26 days prior to the date of the General Meeting and in a manner specified for providing current and periodic information in accordance with the provisions on public offering and conditions governing the introduction of financial instruments to organized trading and on public companies. Resolutions adopted by the General Meeting were published on the Company's website.
Resolutions of the General Meeting are adopted by a simple majority of votes cast, unless otherwise provided for in the applicable laws or the Company's Articles of Association. Votes in favour or against a resolution are considered as votes cast.
The following matters have been reserved in the Articles of Association for the exclusive decision of the General Meeting:
- terms and manner of redeeming shares of the Company,
- terms of issuing utility certificates in exchange for redeemed shares,
- creating reserve capital and earmarked funds,
- allocating reserve capital,
- allocating pure profit earned by the Company.

A resolution of the General Meeting is not required for the purchase and sale of real property, perpetual usufruct or a share in real property, sale and transfer of rights to use or encumber real property, establishment of limited property rights on the Company's assets (decisions on such matters are reserved for the Company's Supervisory Board).
Representatives of the media may be present during the General Meetings.
Participants of the Annual General Meeting of the Company always include: Members of the Management Board and the Supervisory Board and the Company's certified auditor.
In 2017, the Annual General Meeting was held in compliance with the provisions of the Commercial Companies Code and the Company's Regulations of General Meetings. Members of the Management Board, the Supervisory Board and the certified auditor of the Company present during the Meeting were ready to provide explanations and to respond to shareholders' questions within the limits of their competence and in accordance with the applicable laws.

Shareholders may participate in the General Meeting and exercise their voting rights in person or by proxy.

11. The Issuer's management, supervisory or administrative bodies and their committees, their composition and changes thereto in the last financial year and their rules of procedure

<u>SUPERVISORY BOARD</u>

The Supervisory Board operates in accordance with the provisions of the Commercial Companies Code, the Company's Articles of Association and the Regulations of the Supervisory Board of FABRYKI MEBLI "FORTE" S.A. based in Ostrów Mazowiecka. The Supervisory Board consists of five to seven members. The General Meeting determines the number of members of the Supervisory Board and appoints the Chairman of the Supervisory Board. The Board appoints from among themselves a Vice-Chairman and, if needed, a Secretary. If the composition of the Supervisory Board falls below the minimum number specified in the Commercial Companies Code, the General Meeting supplements /appoints/ the Supervisory Board for the remainder of the term of office.
The term of office of the Supervisory Board is four years. The Annual General Meeting of FABRYKI MEBLI "FORTE" SA held on 10 June 2014 appointed five members to the Company's Supervisory Board for the current term of office.
At the end of 2017, the Supervisory Board of FABRYKI MEBLI "FORTE" S.A. was composed of:
Zbigniew Sebastian – Chairman,
Bernard Woźniak – Vice-Chairman,
Tomasz Domagalski – Member,
Stanisław Krauz – Member,
Jerzy Smardzewski – Member.
Changes in the composition of the Company's Supervisory Board throughout 2017 were as follows:

- On 12 April 2017, Mr Stefan Golonka resigned from his position as a Member of the Supervisory Board, with effect from the day of the Annual General Meeting of FABRYKI MEBLI "FORTE" S.A. approving the financial statements and the Management Board's report on the operation of the Company in the financial year 2016, i.e. on 17 May 2017.
- On 17 May 2017, Mr Bernard Woźniak was appointed to the Supervisory Board.

The responsibilities of the Supervisory Board include, in particular, adopting resolutions with respect to:

a. purchasing and selling real property, perpetual usufruct or a share in real property, selling and transferring rights to use real property, encumbering real property, or establishing limited property rights on the Company's assets,
b. taking out loans exceeding the Company's financial plan,
c. granting sureties to a total amount exceeding the equivalent of EUR 150,000,
d. taking over the obligations of third parties,
e. accepting and establishing pledges and other collaterals, except for a pledge and collaterals related to the ordinary business of the Company in a total amount not exceeding the equivalent of EUR 150,000,
f. concluding, terminating and amending lease agreements and other agreements of this kind, if they are concluded for a period longer than 3 years and when the annual lease rent paid by the Company exceeds the equivalent of EUR 150,000,
g. leasing the enterprise or part thereof,
h. purchasing and selling establishments and branches of the Company,
i. selling the Company's enterprise or part thereof,
j. approving employee participation in profits and granting special pension rights,
k. establishing an annual plan for the enterprise /in particular investment and financial plans/, as well as strategic plans,
l. granting borrowings outside the ordinary course of trade to a total amount exceeding the equivalent of EUR 50,000.

Meetings of the Supervisory Board are held as needed, however, not less than three times in a financial year.
Members of the Supervisory Board may cast their vote in writing through another Member of the Supervisory Board. The Supervisory Board may also adopt resolutions in writing or using means of direct remote communication. A resolution is valid if all Members of the Board have been notified of the content of the draft resolution.

With regard to Art. 128 of the Act of 11 May 2017 on statutory auditors, auditing firms and supervision of the public market (Journal of Laws Dz.U. 2017. 1089), the Supervisory Board of the Company decided to appoint an Audit Committee from among its members, which includes:
Bernard Woźniak – Chairman of the Audit Committee,
Zbigniew Sebastian – Member,
Jerzy Smardzewski – Member.
The basic tasks of the Audit Committee include monitoring, advising and supporting the Supervisory Board in the performance of its statutory control and supervisory functions, in particular with respect to:

a. monitoring the financial reporting process of the Company and the Capital Group of FABRYKI MEBLI "FORTE" S.A. (hereinafter: FORTE Capital Group),
b. monitoring the effectiveness of internal control systems and risk management systems as well as internal audit, including internal reporting,
c. monitoring the performance of financial audit activities, in particular, the audit carried out by an auditing firm,
d. controlling and monitoring the independence of the statutory auditor and the auditing firm,
e. assessing the independence of the auditor and consenting to providing permitted non-audit services to the Company,
f. developing the policy of selecting an auditing firm to conduct the audit,
g. developing the policy of providing permitted non-audit services by the auditing firm conducting the audit, by entities related to this firm and by a member of the auditing firm's group;
h. developing the procedure for selecting an auditing firm,
i. presenting recommendations regarding the selection of an entity conducting the audit of the financial statements as well as the change thereof, evaluation of its work, in particular in terms of its independence,
j. submitting recommendations aimed at ensuring the reliability of the financial reporting process in the Company and/or the FORTE Capital Group.

No other committees have been appointed in the Company.

MANAGEMENT BOARD

The Management Board operates in accordance with the provisions of the Commercial Companies Code, the Company's Articles of Association and the Regulations of the Management Board of FABRYKI MEBLI "FORTE" S.A. based in Ostrów Mazowiecka. The Management Board consists of one to seven members appointed for a joint term of office. The Management Board of FABRYKI MEBLI "FORTE" S.A. was appointed for a new five-year term, for the years 2014-2019. In the period from 1 January to 31 December 2017, the Management Board was composed of:
Maciej Formanowicz – President of the Management Board,
Gert Coopmann – Member of the Management Board,
Klaus Dieter Dahlem – Member of the Management Board,
Maria Małgorzata Florczuk – Member of the Management Board,
Mariusz Jacek Gazda – Member of the Management Board.
In accordance with the Company's Articles of Association, the Management Board manages the Company's affairs and represents it. The work of the Management Board is managed by the President of the Board. The responsibilities of the Management Board include all matters related to the management of the Company's affairs which are not reserved for other governing bodies of the Company. Resolutions of the Management Board are adopted by a simple majority of votes cast. In the event of an equal number of votes, the President of the Management Board has a casting vote.
The following persons are authorised to make declarations of will and incur obligations on behalf of the Company: President of the Management Board acting alone, two Members of the Management Board acting jointly, one of the Members of the Management Board acting jointly with a proxy.

12. Description of diversity policy applied to the Issuer's administrative, management and supervisory bodies with regard to aspects such as age, gender or educational and professional backgrounds, the objectives of this policy, its implementation and results in the reporting period

On 16 March 2016, the Management Board adopted a resolution regarding the adoption of the Diversity Policy in FABRYKI MEBLI "FORTE" S.A. (hereinafter: Diversity Policy). The Diversity Policy defines the Company's strategy in the area of diversity management in relation to the Company's business activities and its employment policy. It is a commitment of the Company to apply universal principles of respect and tolerance for others and to effectively use the potential of each employee. Diversity Policy is to ensure the elimination of all forms of discrimination, whether on the grounds of age, gender, nationality, ethnic origin, political beliefs, health, disability, religion, lifestyle, sexual orientation or any other criterion or attitude prohibited by law.
The aim of the adopted Diversity Policy is to build the awareness and organisational culture of the Company open to diversity, which contributes to the success of the organisation, leads to increased work efficiency, counteracts any form of discrimination and mobbing, and improves the results achieved by the Company.

The Diversity Policy implemented in the Company covers the following areas of its activity:

1. diversity management in the workplace – diversification of employees in terms of sex, gender, education, competence, cultural and national origin,
2. education, training and personal development – every employee, regardless of their position, age or gender, has equal access to education and development of their competences and skills within the position held,
3. breaking down barriers in the workplace – we have a diversified environment of employees in terms of their country of origin, we conduct extensive cooperation with foreign partners,
4. efforts to prevent discrimination and mobbing in the workplace – in accordance with the adopted recruitment procedure, the key criterion in the recruitment process is the candidate's experience, skills and knowledge,
5. intergenerational dialogue,
6. creating the right atmosphere at the workplace,
7. monitoring and controlling the application of the adopted Diversity Policy.

The Management Board assumes that the implementation and monitoring of the application of the Diversity Policy can bring measurable benefits to the Company in the long term. The implementation of the Diversity Policy is constantly and continuously monitored by the Management Board.

President of the Management Board
Maciej Formanowicz

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Member of the Management Board
Gert Coopmann

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Member of the Management Board
Klaus Dieter Dahlem

....

Member of the Management Board
Maria Florczuk

....

Member of the Management Board
Mariusz Gazda

....

Ostrów Mazowiecka, 5 April 2018