FABRYKI MEBLI „FORTE"S.A. CAPITAL GROUP

Consolidated financial statements for the period ended 31 december 2016

Statements prepared in accordance with the International financial reporting standards

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

Ostrów Mazowiecka, 20 March 2017

THE GROUP
where the holding company is
FABRYKI MEBLI FORTE S.A.
ul. Biała 1
07-300 Ostrów Mazowiecka

Independent Auditor's Opinion and Report on the consolidated financial statements for the period from 1 January to 31 December 2016

INDEPENDENT AUDITOR'S OPINION
for the General Meeting and Supervisory Board of
Fabryki Mebli FORTE S.A.

Report on the Audit of the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Fabryki Mebli Forte S.A. ("the Company") with its registered office in Ostrów Mazowiecka, ul. Biała 1, consisting of:

- the consolidated statement of financial position prepared as at 31 December 2016,
- the consolidated profit and loss account for the period from 1 January to 31 December 2016,
- the consolidated statement of comprehensive income for the period from 1 January to 31 December 2016,
- the consolidated statement of changes in equity for the period from 1 January to 31 December 2016,
- the consolidated statement of cash flows for the period from 1 January to 31 December 2016,
- additional information on accounting methods and other explanations.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

The Holding Company's Management is responsible for the preparation of the consolidated financial statements based on properly kept books of account, 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. The Holding Company's Management is also responsible for such internal controls as it considers necessary to ensure that the consolidated financial statements are free of material misstatements resulting from fraud or error.

In accordance with the Accounting Act, the Holding Company's Management 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 is to express an opinion on the consolidated financial statements based on our audit.

We performed the audit in accordance with the provisions of Chapter 7 of the Accounting Act, and in accordance with the International Standards on Auditing adopted as National Standards on Auditing in Resolution No. 2783/52/2015 passed by the National Council of Certified Auditors on 10 February 2015, with subsequent amendments. These standards 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 of material misstatements.

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 the Holding Company's internal controls. An audit also includes assessing 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the audited financial statements:

a) give a true and fair view of the Group's financial position as at 31 December 2016, as well as of its financial result and cash flows for the period from 1 January to 31 December 2016, 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 accounting methods (policies) adopted by the Holding Company,

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 submitted 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 (2016 Journal of Laws, item 860), 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 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.

In accordance with the Accounting Act and other binding regulations, the preparation of the Directors' Report on the Group's activities is the responsibility of the Holding Company's Management. The Holding Company's Management and members of its Supervisory Board are also responsible for ensuring that the Directors' Report on the Group's activities meets the requirements of the Accounting Act.

In connection with our audit of the consolidated financial statements our responsibility was to read the Directors' Report on the Group's activities and to indicate whether the information presented therein complies with the provisions of Article 49 of the Accounting Act and is consistent with the information presented in the accompanying consolidated financial statements. It was 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.

In our opinion, the information contained in the Directors' Report on the Group's activities complies with the provisions of Article 49 of the Accounting Act and with the requirements of the Minister's of Finance Decree of 19 February 2009 on the current and periodic information submitted 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 (2016 Journal of Laws, item 860), and is consistent with the information presented in the accompanying 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.

In connection with our audit of the consolidated financial statements it was also our responsibility to read the Holding Company's declaration on the application of corporate governance, constituting a separate section of the Directors' Report on the Group's activities. In our opinion, the declaration contains the information required by the implementing provisions issued based on Article 60 par. 2 of the Act on Trading in Financial Instruments of 29 July 2005 (2016 Journal of Laws, item 1639, with subsequent amendments). The information presented therein is consistent with the applicable regulations and with the information presented in the accompanying consolidated financial statements.

Warsaw, 20 March 2017

BDO Sp. z o.o.
ul. Postępu 12
02-676 Warszawa
Authorized Audit Company No. 3355

Auditor in charge:

Artur Staniszewski
Certified Auditor No. 9841

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

Dr. André Helin
Managing Partner
Certified Auditor No. 90004

Audit Report
on the consolidated financial statements of
THE GROUP
prepared by
FABRYKI MEBLI FORTE S.A.
for the period from 1 January to 31 December 2016

I. GENERAL INFORMATION

1. Information about the holding company

The holding company of the Fabryki Mebli FORTE Group ("the Group") is Fabryki Mebli FORTE Spółka Akcyjna ("the Holding Company", "the Company").

The Holding Company's registered office is ul. Biała 1, 07-300 Ostrów Mazowiecka.

In accordance with the entry in the National Court Register and the Company's Statute, the Holding Company's activities consist of the production and retail sale of furniture, mattresses and wood products.

The Holding Company operates on the basis of:

- the Company's Statute prepared in the form of a notarial deed on 22 November 1994 (Rep. A No. 4358/94) with subsequent amendments,
- the Code of Commercial Partnerships and Companies.

On 23 June 2001 the Company was entered in the National Court Register at the Regional Court for the Capital City of Warsaw, XIV Business Division Registration Section, in number KRS 21840.

The Company has been assigned tax identification number NIP: 759-000-50-82, as well as statistical identification number REGON: 550398784.

As at 31 December 2016 the Company's share capital amounted to 23 901 084 zł and consisted of 23 901 084 shares with a nominal value of 1 zł per share.

No changes were made in the Company's share capital in the year 2016 or before the end of the audit.

The Company's shareholders as at 31 December 2016, according to the information provided by the Management Board:

Shareholder	Number of shares	% of votes at General Meeting
MaForm SARL	7 763 889	32,48%
Aviva Open Pension Fund Aviva BZ WBK	2 300 000	9,62%
Skarbiec Towarzystwo Funduszy Inwestycyjnych S.A.*	2 149 448	8,99%
ING Open Pension Fund	1 200 000	5,02%

* of which Bentham Sp. z o. o. 2.050.000 shares 8,58% of share capital and total number of shares

As at 31 December 2016 the Holding Company's equity totaled 498 691 thousand zł.

The function of group manager is exercised by the Holding Company's Management Board.

As at 31 December 2016 the Holding Company's Management Board comprised:

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

No changes were made in the composition of the Holding Company's Management Board in the audited period or before the end of the audit.

2. Composition of the Group

The separate financial statements of the Holding Company for the financial year ended 31 December 2016 have been audited by BDO Sp. z o.o. and given an unqualified opinion.

As at 31 December 2016 the Fabryki Mebli FORTE Group comprised the following (direct and indirect) consolidated subsidiaries:

Company name	Auditor	Audit opinion	Consolidation method
MV Forte GmbH	Hans - Peter Anfang vereidigter Buchprufer	unqualified	acquisition accounting
Forte Möbel AG	Brag Buchhaltungs und Revisions AG	unqualified	acquisition accounting
Kwadrat Sp. z o.o.	not audited	n/a	acquisition accounting
Galeria Kwadrat Sp. z o.o.*	not audited	n/a	acquisition accounting
TM Handel Sp. z o.o. S.K.A.	not audited	n/a	acquisition accounting
Fort Investment Sp. z o.o.**	not audited	n/a	acquisition accounting
TANNE Sp. z o.o.	not audited	n/a	acquisition accounting
DYSTRI-FORTE Sp. z o.o	not audited	n/a	acquisition accounting
ANTWERP Sp. z o.o. spółka jawna ****	not audited	n/a	acquisition accounting
TERCEIRA Sp. z o.o.***	not audited	n/a	acquisition accounting

** indirectly related company – 100% subsidiary of Kwadrat Sp. z o.o.*

*** indirectly related company – 100% subsidiary of TM Handel Sp. z o.o. SKA*

**** indirectly related company - 100% subsidiary of ANTWERP Sp. z o.o. spółka jawna, since 26.07.2016 directly related*

***** the company was liquidated and deleted from the business register effective 29.07.2016.*

All of the consolidated entities had the same balance sheet date as the Holding Company.

3. Information about the authorized audit company and the auditor in charge

The consolidated financial statements of the Fabryki Mebli FORTE Group for the year 2016 have been audited by BDO Sp. z o.o. with its registered office in Warsaw, ul. Postępu 12, an entity authorized to audit financial statements, registered with the National Chamber of Certified Auditors in number 3355.

The auditor of the Holding Company's financial statements starting from the year 2012 was selected by the Holding Company's Supervisory Board in Resolution No. 14/2012 of 29 June 2012.

The audit was conducted based on an audit agreement signed on 3 August 2016, and performed under the direction of Artur Staniszewski, Certified Auditor No. 9841. The audit was performed at the registered office of the Holding Company and at the subsidiary companies, from 30 January 2017, intermittently until the issue of the audit opinion. It was preceded with a review of the consolidated financial statements for the 1st half of 2016 and an interim audit.

We hereby declare that BDO Sp. z o.o., its management, the certified auditor and team performing the audit of the above-described financial statements meet the conditions required to issue an objective and independent opinion on the audited financial statements – as provided for in Article 56 par. 3 and 4 of the Act on certified auditors and their self-government, entities authorized to audit financial statements and on public supervision (2009 Journal of Laws No. 77, item 649 with subsequent amendments).

The Holding Company's Management submitted all of the declarations, explanations and information requested by the auditor and necessary to perform the audit.

No limitations had been placed on the scope of the audit or on the methods selected by the auditor to perform the audit.

4. Information about the consolidated financial statements for the previous financial year

The Group's consolidated financial statements for the period from 1 January to 31 December 2015 had been audited by BDO Sp. z o.o. and given an unqualified opinion.

The Group's consolidated financial statements for the period from 1 January to 31 December 2015 were approved in Resolution No. 19/2016 passed by the General Meeting of 17 May 2016.

The Group's consolidated financial statements for the year 2015 were filed with the National Court Register on 23 May 2016.

II. FINANCIAL ANALYSIS

Presented below are selected items from the consolidated statement of financial position, consolidated profit and loss account and consolidated statement of comprehensive income, as well as key financial ratios, compared to analogical amounts for the previous years.

1. Main items from consolidated statement of financial position, consolidated profit and loss account and consolidated statement of comprehensive income (in '000 zł)

	31.12.2016	% of balance sheet total	31.12.2015	% of balance sheet total	31.12.2014	% of balance sheet total
Non-current assets	609 243	51,9	347 977	47,1	282 107	44,2
Current assets	564 743	48,1	390 373	52,9	356 623	55,8
Total assets	**1 173 986**	**100,0**	**738 350**	**100,0**	**638 730**	**100,0**
Total equity	552 396	47,1	478 458	64,8	421 284	66,0
Total liabilities	621 590	52,9	259 892	35,2	217 446	34,0
Total liabilities and equity	**1 173 986**	**100,0**	**738 350**	**100,0**	**638 730**	**100,0**

	1.01.2016 - 31.12.2016	% of revenue	1.01.2015 - 31.12.2015	% of revenue	1.01.2014 - 31.12.2014	% of revenue
Sales revenue	1 090 294	100,0	954 275	100,0	822 414	100,0
Cost of goods sold	(663 438)	(60,8)	(608 265)	(63,7)	(524 263)	(63,7)
Gross sales profit/loss	**426 856**	**39,2**	**346 010**	36,3	**298 151**	36,3
Sales costs	(225 684)	(20,7)	(200 267)	(21,0)	(166 673)	(20,3)
General administrative costs	(51 262)	(4,7)	(36 864)	(3,9)	(34 716)	(4,2)
Sales profit/loss	**149 910**	**13,7**	**108 879**	**11,4**	**96 762**	**11,8**
Profit/loss on other operating activities	(5 540)	(0,5)	(10 720)	(1,1)	(3 158)	(0,4)
Profit/loss on financial activities	(5 148)	(0,5)	683	0,1	1 319	0,2
Gross profit/loss	**139 222**	**12,8**	**98 842**	**10,4**	**94 923**	**11,5**
Income tax	(28 837)	(2,6)	(14 469)	(1,5)	(19 771)	(2,4)
Net profit/loss	**110 385**	**10,1**	**84 373**	**8,8**	**75 152**	**9,1**
				-		-
Total comprehensive income	**97 839**	**9,0**	**85 306**	**8,9**	**72 304**	**8,8**

2. Key financial ratios

	2016	2015	2014
Profitability ratios			
Gross sales profitability	13,7%	11,4%	11,8%
Net sales profitability	10,1%	8,8%	9,1%
Return on assets	9,4%	11,4%	11,8%
Return on equity	20,0%	17,6%	17,8%
Liquidity ratios			
Current ratio	2,5	1,8	3,2
Quick ratio	1,9	1,1	1,8
Operating ratios			
Receivable days	50	50	44
Inventory days	77	85	90
Debt ratios			
Payable days	34	29	28
Debt rate	0,53	0,35	0,34

3. Remarks

- Non-current assets account for 51,9% of total assets at the end of the audited period, having gone up from 47,1% at the end of 2015.
- Current assets increased by 44,7% in the audited period compared to the previous year and constitute 48,1% of total assets.
- Although equity went up by 15,5% in the audited period compared to the previous year, it accounts for 47,1% of total assets and liabilities at the end of 2016 compared to 64,8% last year.
- Sales revenue grew by 14,3% from the year 2015, whilst the cost of goods sold went up by 9,1%, as a result of which gross sales profit reached 426 856 thousand zł and was by 23,4% higher than last year.
- The rise in sales revenue resulted in a considerable increase in the Group's net result for the audited period (by 30,8% from the year 2015).
- Net sales profitability has increased from 8,8% last year to 10,1% in the audited period.
- The return on assets ratio has gone down from 11,4% in 2015 to 9,4% in the audited period due to a significant rise in total assets.
- The liquidity ratios have improved significantly: the current has grown from 1,8 to 2,5; the quick from 1,1 to 1,9.
- The inventory days ratio amounted to 77 days in the audited period, having improved from 85 days the year before.
- The receivable days ratio has not changed from last year and amounts to 50 days.
- The payable days ratio has grown by 5 days from the year 2015 and amounts to 34 days.

In the course of the audit of the financial statements we found no indications that as a result of discontinuing or significantly limiting its operations the Holding Company will not be able to continue as a going concern in at least the next reporting period.

III. DETAILED INFORMATION

1. Basis for the preparation of the consolidated financial statements

The consolidated financial statements of the Fabryki Mebli FORTE Group have been prepared in accordance with the International Financial Reporting Standards endorsed by the European Union.

2. Completeness and correctness of consolidation documentation

The Group's consolidation documentation has been prepared in accordance with the requirements of the Minister's of Finance Decree of 25 September 2009 on the detailed methods used by entities other than banks, insurers and re-insurers to prepare the consolidated financial statements of groups (2009 Journal of Laws No. 169, item 1327).

In the course of the audit we found no un-remedied misstatements in the consolidation documentation with a significant effect on the audited consolidated financial statements, including with regard to the fulfilment of the requirements that consolidation documentation should comply with.

3. Methods used to value assets, liabilities and equity

The entities covered by the Group's consolidated financial statements apply consistent accounting principles and methods in the valuation of their assets and liabilities. The financial data of foreign entities are for consolidation purposes restated in accordance with the Group's methods.

4. Information about consolidated financial statements items

The structure of the Group's assets, liabilities and equity has been presented in the consolidated financial statements for the financial year ended 31 December 2016.

The data disclosed in the Group's consolidated financial statements are consistent with the consolidation documentation.

5. Additional information

The information presented in the introduction and notes to the consolidated financial statements, containing a description of significant accounting methods and other information, has been presented completely and correctly in all material respects.

6. Management's Declaration

The Holding Company's Management submitted a written declaration about the completeness of the consolidated financial statements, disclosure of all contingent liabilities and absence of significant post-balance sheet events.

Warsaw, 20 March 2017

BDO Sp. z o.o.
ul. Postępu 12
02-676 Warszawa
Authorized Audit Company No. 3355

Auditor in charge:	**On behalf of BDO Sp. z o.o.:**
Artur Staniszewski Certified Auditor No. 9841	**Dr. André Helin** Managing Partner Certified Auditor No. 90004

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Ostrów Mazowiecka, 22.05.2017 r.

Ladies and Gentlemen, Dear Shareholders,

On behalf of the Management Board, I am pleased to present you with the Consolidated Annual Report of the FABRYKI MEBLI „FORTE" S.A. Group along with a summary of its activities for 2016.

It is my pleasure to inform you that another year in a row the FORTE Group may announce strong financial results, confirming the effectiveness of the adopted development strategy. For the first time ever, we have recorded more than one billion PLN in turnover and over 100 million in net profit.

Last year, we focused, as planned, on implementing the adopted development strategy. The past year was marked by significant investment outlays related to the future development of the Company. Total investment expenses incurred by the FORTE Group amounted to PLN 262 million, compared to PLN 68.3 million in 2015. The key investments made by the Group in 2016 include: expenditure incurred in connection with the construction of a chipboard factory in the Suwałki Special Economic Zone, the purchase of production lines and machinery to expand the production capacity in the existing plants, expenditure on the construction of an exhibition hall in Bad Salzuflen in Germany and the modernisation of our furniture showroom in Ostrów Mazowiecka. In accordance with the adopted schedule, the new chipboard plant will start production in 2018. The exhibition hall in Germany is scheduled to open in September 2017.

Another important project that should have a positive impact on our results in the next few years is the establishment of a joint venture with INDIAN FURNITURE PRODUCTS LIMITED (a member of the ADVENTZ Group) for the production and sale of furniture in India. The joint venture agreement was signed on 18 September 2017 and the joint venture company under the name of FORTE FURNITURE PRODUCTS INDIA PVT. LTD will start operations on 1 April 2017.

All business activities of our Company follow the highest standards of corporate governance, information governance as well as environmental, social and governance (ESG) standards. The Company's activities have been recognised by the Warsaw Stock Exchange, which, in December 2016, included FABRYKI MEBLI „FORTE" S.A. into the elite group of companies listed in the RESPECT INDEX.

Last year, our Company continued its conscious policy focused on the development of human resources, providing support for families of our employees and our active participation in social life. We carry out programmes aimed at the development of our staff and our immediate environment.

The „FORTE Academy" programme dedicated to management and production staff, carried out in cooperation with universities, including inter alia the Kozminski University, aims to raise awareness and knowledge of our employees. More than 400 FORTE employees participate in the programme every year. An inherent part of our personnel policy is also cooperation with secondary, technical and vocational schools. We offer various internship programmes for students and establish patronage classes at schools. In locations where FORTE factories are located, new classes offering such profiles of education as Wood Technology Technician (Ostrów Mazowiecka, Łomża, Białystok, Suwałki) and Carpenter (Łomża, Białystok, Suwałki) have been established.

FORTE actively participates in social life. One of the basic pillars of our social responsibility is open dialogue and cooperation with local communities. FORTE is present where its production operations are located – this is why a significant part of the projects it is involved in provide support to local communities. Our Company is involved in numerous activities to improve the quality of life of local people by developing and promoting education, culture, ecology and other issues – all in line with their needs and expectations. FORTE also encouraged its employees to take an active part in these activities. In 2016, the "FORMS" employee initiative programme was launched. As part of this programme, each employee may request financial or material support for their project addressed to local communities at one of FORTE's locations. This is how our employee volunteering has been established.

On behalf of the Management Board, I would like to thank all employees for their enormous dedication and commitment which formed the basis of the success of the Fabryki Mebli „FORTE" S.A. Group in 2016. I equally thank all our Shareholders for the trust they continue to place in us.

Maciej Formanowicz

President of the Management Board

Maciej Formanowicz

FABRYKI MEBLI „FORTE"S.A. CAPITAL GROUP

Consolidated financial statements for the period ended 31 december 2016

Statements prepared in accordance with the International financial reporting standards

FABRYKI MEBLI „FORTE" S.A.
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Ostrów Mazowiecka, 20 March 2017

TABLE OF CONTENTS

0
SELECTED FINANCIAL DATA 4
CONSOLIDATED PROFIT AND LOSS ACCOUNT 5
Consolidated statement of comprehensive income 6
Consolidated statement of financial situation (balance sheet) 7
Consolidated cash flow statement 8
Consolidated statement of changes in equity 9
Consolidated statement of changes in equity 11
Accounting Principles (Policy) and Additional Explanatory Notes 12
1 General information 12
2 Composition of the Group 12
3. Approval of the financial statements 14
4. Istotne wartości oparte na profesjonalnym osądzie i szacunkach 14
4.1..Judgments 14
4.3..Depreciation rates 14
4.4..Uncertainty of estimates 15
4.6.. Fair value of financial instruments 15
5. Basis for preparation of the consolidated financial statements 15
5.1 Declaration of compliance 15
5.2. Functional currency and presentation currency 15
6. Changes in accounting principles and error corrections. 16
7. Amendments to the existing standards and new regulations not binding for the periods beginning from 1 January 2016 17
8. 19
Summary of significant accounting policies 19
8.1. Consolidation principles 19
8.2 Revenues 20
8.3 Earnings per share 20
8.4 Leases 20
8.5. Foreign currency translation 20
8.6. Borrowing costs 21
8.7. Retirement benefits 21
8.8. Share-based payments 21
8.9. Taxes 22
8.10. Tangible fixed assets 23
8.11. Investment properties 23
8.12. Intangible assets 24
8.13. Impairment on non-financial non-current assets 24
8.14. Non-current assets held for sale 25
8.15. Inventory 25
8.16. Financial assets 25
8.17. Impairment of financial assets 26
8.18. Embedded derivative instruments 27
8.19. Financial derivatives 27
8.20. Hedge accounting 27

8.21. Trade and other receivables ... 28
8.22. Cash and cash equivalents ... 28
8.23. Interest-bearing loans and borrowings ... 28
8.24. Trade and other receivables ... 28
8.25. Provisions ... 29
9. Information on operating segments ... 29
10. Seasonality of operations ... 29
11. Revenue and costs ... 30
11.1. Sales revenue and geographic structure ... 30
11.2. Other operating revenue ... 30
11.3. Other operating costs ... 30
11.4 Financial revenue ... 31
11.5 Financial costs ... 31
2889 ... 31
11.6 Costs by type ... 31
11.7. Depreciation costs recognised in the profit and loss account ... 32
11.8. Costs of employee benefits ... 32
12. Income tax ... 32
12.1. Tax expense ... 32
12.2. Reconciliation of the effective tax rate ... 32
12.3. Deferred income tax ... 33
13. Social assets and liabilities ... 34
14. Earnings per share ... 35
15. Dividend paid and proposed ... 35
16. Leases ... 35
16.1. Financial lease and hire purchase commitments ... 35
16.2. Operating lease liabilities – the Group as a lessee ... 36
16.3. Operating lease receivables – the Group as a lessor ... 36
17. Employee benefits ... 36
17.1. Employee share incentive programmes ... 36
17.2. Pensions and other post-employment benefits ... 36
18. Tangible fixed assets ... 38
19. Investment properties ... 40
20. Intangible assets ... 41
21. Non-current assets held for sale ... 43
22. Long-term financial assets ... 43
23. Inventory ... 45
24. Trade and other receivables ... 45
25. Receivables from to derivative instruments of financial instruments ... 47
26. Deferrals ... 47
27. Other short-term financial assets ... 47
28. Cash and cash equivalents ... 47
29. Share capital and supplementary/reserve capital ... 48
29.1 Share capital ... 48
29.3. Other capital ... 48
29.4. Retained earnings ... 49

29.5. Minority share ... 49
29.6 Financial Reporting in Hyperinflationary Economies ... 50
30. Interest-bearing loans and borrowings ... 50
31. Provisions and accruals ... 55
31.1 Change in provisions ... 55
31.2 Deferred revenues and accruals ... 55
32. Trade and other liabilities (short-term) ... 56
33. Contingent liabilities ... 57
34. Court cases ... 58
35. Financial instruments ... 59
35.1 Carrying value ... 59
35.2 Fair value ... 61
35.3 Fair value hierarchy ... 61
35.4 Income, costs, profit and loss positions related to financial instruments recognised in the profit and loss account ... 63
36. Financial risk management objectives and policies ... 65
36.1 Interest rate risk ... 65
36.2 Currency risk ... 66
36.3 Credit risk ... 69
36.4 Liquidity risk ... 69
37. Capital management ... 70
38. Related party disclosures ... 70
38.1 Parent Company of the Group ... 72
38.2 Entity with significant influence over the Group ... 72
38.3 Joint venture in which the Parent Company is a venturer ... 72
38.4 Terms and conditions of transactions with related parties ... 72
38.5 Transactions involving the Management Board, key managerial staff and members of their immediate families. ... 72
38.6 Remuneration of the Group's senior management ... 74
38.7 Participation of senior executives in the employee programmes and schemes ... 74
39. Employment structure ... 75
40. Events occurring after balance end of reporting period ... 75

SELECTED FINANCIAL DATA

Data concerning consolidated financial statement	In thous. PLN 31.12.2016	In thous. PLN 31.12.2015	In thous. EUR 31.12.2016	In thous. EUR 31.12.2015
Net revenues from sales of products, goods and materials	1 090 294	954 275	249 170	228 034
Profit (loss) on operational activity	144 370	98 159	32 994	23 456
Pre-tax profit (loss)	139 222	98 842	31 817	23 619
Profit (loss) for period for shareholders of Parent Company	110 398	84 405	25 230	20 169
Net comprehensive profit for the period	97 839	85 306	22 360	20 385
Net cash flow from operating activities	190 622	78 164	43 564	18 678
Net cash flow from investment activities	(399 492)	(66 970)	(91 298)	(16 003)
Net cash flow from financial activities	249 112	(11 895)	56 931	(2 842)
(Decrease)/Increase of net monetary means	40 242	(701)	9 197	(168)
Number of shares (in items)	23 901 084	23 901 084	23 901 084	23 901 084
Profit (loss) per ordinary share (in PLN/ EUR)	4,62	3,55	1,06	0,85
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
Total assets	1 173 986	738 350	265 368	173 261
Total liabilities	621 590	259 892	140 504	60 986
Long-term liabilities	399 245	41 095	90 245	9 643
Short-term liabilities	222 345	218 797	50 259	51 343
Own capital (ascribed to Parent Company shareholders)	549 190	474 796	124 139	111 415
Company capital	23 901	23 901	5 403	5 609
Book value per share (in PLN /EUR)	22,98	19,87	5,19	4,66

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		For the reporting period ended	
		31 December 2016	31 December 2015
Continued operations	Nt		
Revenue from sales of goods, products and materials	11.1	1 083 421	947 694
Revenue from sales of services	11.1	6 873	6 581
Sales revenue		**1 090 294**	**954 275**
Cost of sales of sold goods, products and materials		(661 990)	(605 389)
Cost of sales of sold services		(1 448)	(2 876)
Cost of sales	11.6	**(663 438)**	**(608 265)**
Gross profit (loss) from sales		**426 856**	**346 010**
Other operating revenue	11.2	3 559	6 505
Costs of sales		(225 684)	(200 267)
General administrative costs		(51 262)	(36 864)
Other operating costs	11.3	(9 099)	(17 225)
Profit (loss) on operating activities		**144 370**	**98 159**
Financial revenue	11.4	806	1 317
Financial costs	11.5	(6 067)	(2 889)
Profit (loss) on derivative financial instruments	36.2	113	2 255
Profit (loss) before tax		**139 222**	**98 842**
Income tax	12	(28 837)	(14 469)
Profit (loss) on continued operations of the period		**110 385**	**84 373**
Discontinued operations		-	-
Profit (loss) on discontinued operations of the period		-	-
Profit (loss) of the period		**110 385**	**84 373**
Attributable to:			
Shareholders of the Parent Company		**110 398**	**84 405**
Non-controlling shareholders		(13)	(32)
Profit (loss) per share attributable to Shareholders of the : Parent Company in the period (in PLN)			
- basic		4,62	3,55
- diluted		4,62	3,55

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the reporting period ended	
	Note	31 December 2016	31 December 2015
Profit (loss) of the period		**110 385**	**84 373**
Other net comprehensive income, including:		**(12 546)**	**933**
Items which in the future will not be reclassified to the profit and loss account		**1 291**	**192**
Revaluation of employee benefit obligations	17.2	280	237
Deferred tax regarding employee benefits		(53)	(45)
Incentive Scheme	38.5	1 064	-
Items which in the future may be reclassified to the profit and loss account		**(13 837)**	**741**
Foreign exchange differences on translation of foreign operations		86	71
Hedge accounting	36.2	(17 189)	821
Income tax on other comprehensive income	36.2	3 266	(151)
Comprehensive income for the period		**97 839**	**85 306**
Attributable to:			
Shareholders of the Parent Company		97 852	85 388
Non-controlling shareholders		(13)	(32)

CONSOLIDATED STATEMENT OF FINANCIAL SITUATION (BALANCE SHEET)

	Note	31 December 2016	31 December 2015
ASSETS			
Non-current assets		**609 243**	**347 977**
Tangible fixed assets	18	361 969	259 403
Intangible assets	20	16 267	16 409
Financial assets	22	158 061	505
Deferred income tax assets	12.3	-	-
Investment properties	19	72 946	71 660
Prepayments and accruals			
		564 743	**390 373**
Current assets	23	143 746	139 022
Inventory	24	320 635	187 333
Trade and other receivables	25		
	36.2	-	5 673
services, as well as other liabilities payroll	24	91	274
Income tax receivables	26	3 231	2 946
Deferred revenues and accruals	27	1 162	93
Financial assets	28	95 878	55 032
TOTAL ASSETS		**1 173 986**	**738 350**
LIABILITIES			
Total equity		**552 396**	**478 458**
Equity (attributable to shareholders of the Parent Company), including:		**549 190**	**474 796**
Basic equity	29.1	23 901	23 901
Surplus of share sale above their nominal value	29.2	113 214	113 214
Exchange differences on translation of foreign operations		797	711
Revaluation reserve from hedging instruments	29.3	(9 328)	4 595
Incentive Scheme		17 654	17 654
Other reserve capital		2 354	1 290
Retained earnings	29.3	249 079	195 044
Capital attributable to non-controlling shareholders	29.4	151 519	118 387
	29.5	**3 206**	**3 662**
Long-term liabilities			
Interest-bearing loans and borrowings		**399 245**	**41 095**
Deferred income tax provision	30	391 263	29 325
Provision for benefits after the employment period	12.3	2 743	7 062
Other Provisions	17.2	3 395	3 440
Deferred revenues and accruals	31.1	-	-
Financial liabilities due to lease	31.2	13	37
Other long-term liabilities	16.1	842	1 231
		989	-
Short-term liabilities			
financial instruments financial		**222 345**	**218 797**
Liabilities due to financial derivative instruments	32	114 130	74 053
Current portion of interest-bearing loans and borrowings	30	27 066	105 109
Income tax liabilities	32	10 176	3 777
Provisions, deferred revenues and accruals	31	58 380	34 859
Financial liabilities due to lease	16.1	1 076	999
Total liabilities	25	11 517	-
	36.2		
		621 590	**259 892**
TOTAL LIABILITIES			
LIABILITIES		**1 173 986**	**738 350**

CONSOLIDATED CASH FLOW STATEMENT

	For the reporting period ended	
	31 December 2016	**31 December 2015**
Cash flows from operating activities		
Profit (loss) of the period	**110 398**	**84 405**
Adjustments by:	**80 224**	**(6 241)**
(Profit)/loss of non-controlling shareholders	13	(32)
Depreciation	22 699	19 688
Foreign exchange (gains)/losses	6 842	1 091
Net interest and dividends	2 782	693
(Profit)/loss on investment activities	157	(92)
Change in the valuation of derivative financial instruments	3 267	(151)
Change in receivables	2 879	(43 294)
Change in inventories	(4 724)	9 991
Change in liabilities, excluding loans and borrowings	19 321	12 994
Change in accruals and deferrals	23 206	7 049
Change in provisions	(4 364)	(5 408)
Income tax paid	(23 684)	(29 122)
Current tax recognised in the profit and loss account	30 266	19 956
Foreign exchange differences	86	105
Provision for retirement benefits	533	307
Valuation of the Incentive Scheme	1 064	-
Other adjustments	(99)	(16)
Net cash flows from operating activities	**190 622**	**78 164**
Cash flows from investment activities		
Sale of tangible fixed assets and intangible assets	465	1 296
Purchase of tangible fixed assets and intangible assets	(241 102)	(68 475)
Real property investments	(536)	(97)
Sale of financial assets	-	-
Purchase of financial assets	(157 517)	(5)
Dividends received	260	363
Interest received	-	-
Repayment of borrowings granted	-	-
Borrowings granted	(1 075)	(52)
Other investment inflows	13	-
Other investment outflows	-	-
Net cash flows from investing activities	**(399 492)**	**(66 970)**
Cash flows from financing activities		
Inflows from loans and borrowings taken out	338 417	53 409
Repayment of loans and borrowings	(62 209)	(16 639)
Repayment of leasing liabilities	(312)	(1 718)
Dividends paid to shareholders of the Parent Company	(23 901)	(47 502)
Dividends paid to non-controlling shareholders	-	-
Interest paid	(2 875)	(1 163)
Other financial inflows	1	1 718
Other financial outflows	(9)	-
Net cash flows from financial activities	**249 112**	**(11 895)**
Net increase (decrease) in cash and cash (equivalents)	**40 242**	**(701)**
Net foreign exchange differences (from the opening balance translation)	604	10
Opening balance of cash	**55 032**	**55 743**
Closing balance of cash, including:	**95 878**	**55 032**
of limited disposability	3 803	-

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

	Attributable to the shareholders of the Parent Company										
	Equity primary	Surplus of share sale above their nominal value	Foreign exchange differences with calculation of foreign entity.	Reserve capital from valuation update	Incentive scheme	Retained profits/ (losses) uncovered	Reserve capital from valuation update of hedge instruments	Other reserve capital	Total	Capital of non-controlling shareholders	Total own capital
As at 01 January 2015	**23 901**	**113 214**	**711**	**17 654**	**1 290**	**118 387**	**4 595**	**195 044**	**474 796**	**3 662**	**478 458**
Changes in Accounting Principles (Policy)	-	-	-	-	-	-	-	-	-	-	-
Error adjustments	-	-	-	-	-	-	-	-	-	-	-
As at 01 January 2016 after adjustments	**23 901**	**113 214**	**711**	**17 654**	**1 290**	**118 387**	**4 595**	**195 044**	**474 796**	**3 662**	**478 458**
Increase of capital due to realization of Incentive Scheme	-	-	-	-	-	-	-	-	-	-	**-**
Payment of dividend for 2015	-	-	-	-	-	(23 901)	-	-	(23 901)	-	**(23 901)**
Reclassification to reserve capital	-	-	-	-	-	(54 035)	-	54 035	-	-	**-**
Revaluation of property	-	-	-	-	-	-	-	-	-	-	**-**
Inclusion of an entity to consolidation	-	-	-	-	-	-	-	-	-	-	**-**
Increase of capital in subsidiary via transaction with non-controlling shareholders	-	-	-	-	-	443	-	-	443	(443)	**-**
Incentive Scheme	-	-	-	-	1 064	-	-	-	1 064	-	**1 064**
Provisions for employee benefits					-	227	-	-	227	-	**227**
Current result	**-**	**-**	**-**	**-**	**-**	110 398	-	-	110 398	(13)	**110 385**
Hedge accounting	**-**	**-**	**-**	**-**	**-**	**-**	(13 923)	-	(13 923)	-	**(13 923)**
Foreign exchange differences	-	-	86	-	-	-	-	-	86	-	**86**
Comprehensive income for the	-	-	**86**	**-**	**1 064**	**110 625**	**(13 923)**	**-**	**97 852**	**(13)**	**97 839**

period											
As at 31 December 2016	**23 901**	**113 214**	**797**	**17 654**	**2 354**	**151 519**	**(9 328)**	**249 079**	**549 190**	**3 206**	**552 396**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015

	Attributable to the shareholders of the Parent Company										
	Equity Primary	Surplus of share sale above their nominal value	Foreign exchange differences with calculation of foreign entity.	RESERVE capital from valuation update	Incentive scheme	Retained profits/ (losses) uncovered	Reserve capital from valuation update of hedge instruments	Other reserve capital	Total	Capital of non-controlling shareholders	Total own equity
As at 1 January 2015	**23 751**	**111 646**	**640**	**-**	**1 290**	**108 526**	**3 925**	**167 812**	**417 590**	**3 694**	**421 284**
Changes in Accounting Principles (Policy)	-	-	-	-	-	-	-	-	-	-	-
Error adjustments	-	-	-	-	-	-	-	-	-	-	-
As at 1 January 2015 after adjustments	**23 751**	**111 646**	**640**	**-**	**1 290**	**108 526**	**3 925**	**167 812**	**417 590**	**3 694**	**421 284**
Increase of capital due to realization of Incentive Scheme	150	1 568	-	-	-	-	-	-	1 718	-	**1 718**
Payment of dividend for 2014	-	-	-	-	-	(47 502)	-	-	(47 502)	-	**(47 502)**
Reclassification to reserve capital	-	-	-	-	-	(27 232)	-	27 232	-	-	**-**
Inclusion of an entity to consolidation	-	-	-	17 654	-	-	-	-	17 654	-	**17 654**
Payment of dividend for 2014	-	-	-	-	-	(2)	-	-	(2)	-	**(2)**
Provisions for employee benefits	-	-	-	-	-	192	-	-	192	-	**192**
Current result	-	-	-	-		84 405	-	-	84 405	(32)	**84 373**
Hedge accounting	-	-	-	-	-	-	670	-	670	-	**670**
Foreign exchange differences	-	-	71	-	-		-	-	71	-	**71**
Comprehensive income for the period	-	-	**71**	**-**	**-**	**84 597**	**670**	**-**	**85 338**	**(32)**	**85 306**
As per 31 December 2015	**23 901**	**113 214**	**711**	**17 654**	**1 290**	**118 387**	**4 595**	**195 044**	**474 796**	**3 662**	**478 458**

ACCOUNTING PRINCIPLES (POLICY) AND ADDITIONAL EXPLANATORY NOTES

1 General information

The Fabryki Mebli FORTE Capital Group (the "Group") consists of Fabryki Mebli FORTE S.A. and its subsidiaries (see Note 2). The consolidated financial statements of the Group cover 12 months ended 31 December 2016 and contain comparative data for the year ended 31 December 2015.

Fabryki Mebli "FORTE" S.A. ("Parent Company", "Company") was established by a Notarial Deed of 25 November 1993. The Parent Company's seat is located 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, under KRS number 21840.

The Parent Company was assigned Statistical ID (REGON) number: (550398784)

The Parent Company and its subsidiaries comprising the Capital Group have been incorporated for an indefinite term.

Main activities of the Parent Company include:

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

2 Composition of the Group

The Fabryki Mebli FORTE Group includes the following consolidated subsidiaries:

Subsidiaries (full consolidation method):	Registered office	Scope of activities	Percentage share of the Group in capital	
			31/12/2016	31/12/2015
MV Forte GmbH	Erkelenz (Niemcy)	Dealership	100%	100%
Forte Möbel AG	Baar (Szwajcaria)	Dealership	99%	99%
Kwadrat Sp. z o.o.	Bydgoszcz	Real estate service and lease	81%	77,01%
**Galeria Kwadrat Sp. z o.o.*	*Bydgoszcz*	*Management of real property*	*81%*	*77,01%*
TM Handel Sp. z o.o. SKA	Ostrów Mazowiecka	Purchase, sale and the management of real property, advisory services regarding the conduct of business activity and the management	100%	100%
***Fort Investment Sp. z o. o.*	*Ostrów Mazowiecka*	*Purchase, sale and the management of real property, advisory services regarding the conduct of business activity and the management*	*100%*	*100%*
TANNE Sp. z o.o.	Warszawa	Production activity	100%	100%
DYSTRI-FORTE Sp. z o. o.	Warszawa	Storing and storaging of goods	100%	100%
ANTWERP Sp. z o.o. spółka jawna****	Wrocław	Lease of intellectual property, property management	-	100%
*TERCEIRA Sp. z o.o.****	*Warszawa*	*Activity of central companies and holdings, rental and management of properties*	*100%*	*100%*

* indirectly related company - 100% subsidiary of Kwadrat Sp. z o.o.
** indirectly related company - 100% subsidiary of TM Handel Sp. z o.o.
*** indirectly related company - 100% subsidiary of ANTWERP Sp. z o.o.
**** spółka z dniem 29.07.2016 roku została zlikwidowana wykreślona z rejestru przedsiębiorców.

The Group includes subsidiaries, specified in note 22, excluded from consolidation on the basis of an insignificant impact of their financial data on the consolidated statements.

As at 31 June 2016 and as at 31 December 2015, the percentage of voting rights held by the Parent Company in the subsidiaries corresponded to the percentage held in the share capital of those entities.

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

On 19 January 2016, a resolution of the Extraordinary General Shareholders Meeting concerning the transformation of Antwerp Spółka z ograniczoną odpowiedzialnością Spółka Komandytowo- Akcyjna" into "Spółka z ograniczoną odpowiedzialnością Spółka jawna" was adopted. On 1 March 2016, a change in the Company's legal form was registered. On 31 May 2016, the Meeting of Shareholders of "Antwerp Spółka z ograniczoną odpowiedzialnością Spółka jawna" adopted a decision on dissolution of the Company without going into liquidation and without dividing the Company's assets among the shareholders. Therefore, on 31 May 2016, FABRYKI MEBLI "FORTE" S.A. entered into a contract with Antwerp on transfer of all 1100 shares in its capital to FORTE under the name of "Terceira Spółka z ograniczoną odpowiedzialnością" with its registered office in Warsaw, with a nominal value of PLN 50 each unit and with a total nominal value of PLN 50,000, representing 100 % of the share capital of "Terceira Sp. z o.o.". As at 31 May 2016, the value of the shares was PLN 207,605. On 26 July 2016, "Antwerp Spółka z ograniczoną odpowiedzialnością Spółka Komandytowo- Akcyjna" was deleted from the entrepreneurs' register.

On 22 January 2016, a resolution of the Extraordinary General Shareholders Meeting concerning increasing the share capital of "Kwadrat Sp. z o.o." from PLN 4,763 to PLN 5,763 through the creation of 1,000 new shares of PLN 1,000 nominal value each in return for a financial contribution in the amount of PLN 1,000 was adopted. 100 % of newly established shares were taken over by FABRYKI MEBLI "FORTE" S.A. The increase of the share capital was registered on 17 March 2016. After the change, the percentage share of the Company in the share capital of "Kwadrat Sp. z o.o." grew from 77.01 % to 81 %.

On 5 February 2016, the Management Board received information about the completion as of 5 February 2016 of the insolvency proceedings of the subsidiary "FORTE MOBILA S.R.L." with its registered office in Bacau (Romania).

On 5 February 2016, a resolution of the Extraordinary General Shareholders Meeting concerning increasing the share capital of "DYSTRI-FORTE Sp. z o.o." from PLN 5,000 to PLN 55,000 through the creation of 100 new shares of PLN 500 nominal value each in return for a financial contribution in the amount of PLN 3,995 was adopted. The excess of the financial contribution over the nominal value of shares was transferred to the extra capital of the Company. 100 % shares in the increased share capital of "DYSTRI-FORTE Sp. z o.o." were taken over by FABRYKI MEBLI "FORTE" S.A. The increase of share capital was registered on 29 February 2016.

On 5 February 2016, a resolution of the Extraordinary General Shareholders Meeting concerning increasing the share capital of "TANNE Sp. z o.o." from PLN 5,000 to PLN 55,000 through the creation of 100 new shares of PLN 500 nominal value each in return for a financial contribution in the amount of PLN 3,495 was adopted. The excess of the financial contribution over the nominal value of shares was transferred to the extra capital of the Company. 100 % shares in the increased share capital of "TANNE Sp. z o.o." were taken over by FABRYKI MEBLI "FORTE" S.A.

On 15 February 2016, the District Court for the Capital City of Warsaw, XIII Commercial Division of the National Court Register, registered the increase of the share capital of "TERCEIRA Sp. z o.o." from PLN 5,000 to PLN 55,000. 100 % shares in the increased share capital of "TERCEIRA Sp. z o.o." were taken over by "ANTWERP Sp. z o.o." -XXXIV-S.K.A in return for a financial contribution in the amount of PLN 207,600. The excess of the financial contribution over the nominal value of shares was transferred to the extra capital of the Company.

On 15 May 2016, FABRYKI MEBLI "FORTE" S.A. together with "AM&HP Sp. z o.o." established the subsidiary "FORESTIVO Sp. z o.o." with its registered office in Suwałki, whose main activity is to provide the raw material for the production of particle board. The share capital of the Company is PLN 200,000 and it is divided into 1,000 shares of PLN 200 nominal value each. FABRYKI MEBLI "FORTE" S.A. holds a participating interest of 50 % in a newly-created company. On 15 June 2016, the Company was registered in KRS (National Court Register).

On 5 May 2016, a resolution of the Extraordinary General Shareholders Meeting concerning increasing the share capital of "TANNE Sp. z o.o." from PLN 55,000 to PLN 60,000 through the creation of 10 new shares of PLN 500 nominal value each in return for a financial contribution in the amount of PLN 12,000 was adopted. The excess of the financial contribution over the nominal value of shares was transferred to the extra capital of the Company. 100 % shares in the increased share capital of "TANNE Sp. z o.o." were taken over by FABRYKI MEBLI "FORTE" S.A.

On 10 May 2016, a resolution of the Extraordinary General Shareholders Meeting concerning increasing the share capital of "Galeria Kwadrat Sp. z o.o." from PLN 17,305 to PLN 17,310 through the creation of 100 new shares of PLN 50 nominal value each in return for a financial contribution in the amount of PLN 1,000 was adopted. 100 % of newly established shares were taken over by "Kwadrat Sp. z o.o.". The increase of the share capital was registered on 22 July 2016.

On 13 June 2016, a resolution of the Extraordinary General Shareholders Meeting concerning increasing the share capital of "TANNE Sp. z o.o." (Ltd.) from PLN 60,000 to PLN 100,000 through the creation of 80 new shares of PLN 500 nominal value each in return for a financial contribution in the amount of PLN 54,505 was adopted. The excess of the financial contribution over the nominal value of shares was transferred to the extra capital of the Company. 100 % shares in the increased share capital of "TANNE Sp. z o.o." were taken over by FABRYKI MEBLI "FORTE" S.A.

On 8 September 2016, a resolution of the Extraordinary General Shareholders Meeting concerning increasing the share capital of "TANNE Sp. z o.o." from PLN 100,000 to PLN 120,000 through the creation of 40 new shares of PLN 500 nominal value each in return for a financial contribution in the amount of PLN 20,000 was adopted. The excess of the financial contribution over the nominal value of shares was transferred to the extra capital of the Company. 100 % shares in the increased share capital of "TANNE Sp. z o.o." were taken over by FABRYKI MEBLI "FORTE" S.A.. The increase of the share capital was registered on 10 November 2016.

On 21 October 2016, a resolution of the Extraordinary General Shareholders Meeting concerning increasing the share capital of "Forte Iberia S.l.u. Hiszpania" from EUR 15,000 to EUR 65,000 through the creation of 50,000 new shares of EUR 1 nominal value each in return for a financial contribution in the amount of EUR 50,000 was adopted. The increase of the share capital was registered on 3 November 2016.

Composition of the Management Board of the Parent Company

As at 31 December 2015, the Management Board of the Parent Company is composed of:

- 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 of the Company

In the reporting period no changes in composition of the Management Board of Parent Company occurred.

3. Approval of the financial statements

These consolidated financial statements were authorised for issue by the Management Board on 20 March 2017.

4. Istotne wartości oparte na profesjonalnym osądzie i szacunkach

4.1..Judgments

In the process of applying the accounting policies to the issues discussed below, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

4.2.. Classification of lease agreements

The Group classifies lease agreements as either operating or financial, 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.

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 discussed below.

4.5..Impairment of assets

The Group carried out the analysis of the impairment of inventories. These results of the analysis of impairment of inventories have been presented in note 23 to the consolidated financial statements.

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 financial instruments are presented in note 36.2.

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 assets

The Group recognises a deferred tax asset on the basis of the assumption that taxable profit shall be achieved in future against which it can be utilised. The decrease in the tax results in the future could 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 properties, which have been measured at fair value.

These consolidated financial statements are presented in Polish zloty ("PLN") and all values are rounded to the nearest thousand (PLN '000) except when otherwise indicated.

These consolidated financial statements were drawn up with the assumption of the Group continuing as a going concern in the foreseeable future. As at the date of approval of these consolidated financial statements, the Company's Management Board is not aware of any facts or circumstances that would indicate a threat to the continuing activity of the Group for at least 12 months following the balance sheet date as a result of any intended or compulsory withdrawal or significant limitation in the activities of the Group.

This report will be available on the website of Parent Company under the address www.forte.com.pl at the time compliant with current report concerning disclosure dates of annual and consolidated annual report for the year 2016.

5.1 Declaration of compliance

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

At the date of approval of these financial statements for issue, in light of the current process of IFRS endorsement in the EU and the nature of the Group's activities, there is no difference between the currently enacted IFRSs applied by the Group and the IFRSs endorsed by the European Union.

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

5.2. Functional currency and presentation 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 currency of foreign subsidiaries are the following currencies:

- Möbelvertrieb Forte GmbH – EUR
- Forte Möbel AG – CHF

6. Changes in accounting principles and error corrections.

Principles (policy) of accounting applied within the hereby financial statement for 2016 are compliant with those applied while elaborating the annual financial statements for 2015, with the exception of the following changes:

The following new or changed standards and interpretations issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee are effective from 1 January 2016:

- Amendments to IFRS 11 Disclosure of purchase of shares in joint activities
- Amendments to IAS 16 and IAS 38 Explanations in the scope of accepted methods of disclosure of depreciation and amortisation
- Amendments to IAS 16 and MSR 41 Agriculture: Production plants
- Amendments to IAS 27: Method of ownership rights in separate financial statements
- Amendments to different standards stemming from annual review of International Standards of Accounting (*Annual Improvements* 2012-2014)
- Amendments to IAS 1: Initiative regarding disclosures

Their application had no impact on the results of operations or financial situation of the Group and resulted mainly in changes to applied accounting principles or, potentially, in expanding the scope of necessary disclosures or a change to the used terminology.

Key consequences of applying new regulations:

- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations

Amendments to IFRS 11 were published on 6 May 2014 and apply to annual periods beginning on 1 January 2016 or later. The purpose of the amendments is to present detailed guidelines explaining the way of reporting transactions of purchase of shares in joint operations, which constitute an undertaking. Amendments require application of principles identical to those applied in the case of business combinations.

Application of the amended standard will have no significant effect on the Company's financial statement.

- Amendments to IAS 16 and IAS 38 Explanations with regard to acceptable methods of reporting depreciation and amortisation

Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets were published on 12 May 2014 and apply to annual periods beginning on 1 January 2016 or later. The amendments constitute additional explanations concerning the permitted depreciation methods. The purpose of the amendments is to indicate that the method of calculating depreciation of tangible fixed assets and intangible assets based on revenues is not proper, however, in the case of intangible assets this method may be applied under certain circumstances.

Application of the amended standard will have no significant effect on the Company's financial statement.

- Amendments to IAS 16 and MSR 41 Agriculture: Production plants

Changes in IFRS 16 and 41 were published on 30 June 2014 and are applicable for annual periods commencing from 1 January 2016 or later. This change indicates that production plants ought to be recognized jst as tangible fixed assets in the scope of IAS 16. Due to the above, production plants ought to be considered through the prism of IAS 16, instead of IAS 41. Agricultural products produced by production plants continue to fall under the scope of IAS 41.

Application of changed standard does not have an impact on financial reports of the Company.

- Amendments to IAS 27: Equity Method in Separate Financial Statements

Amendments to IAS 27 were published on 12 August 2014 and apply to annual periods beginning on 1 January 2016 or later. The amendments restore in IFRS the option of reporting in separate financial statements investments in subsidiaries, joint venture and affiliates using the method of ownership rights. When choosing this method, it should be used for each investment within a given category.

Application of the amended standard will have no significant effect on the Company's financial statement.

- Amendments to various standards, resulting from the annual review of the International Financial Reporting Standards (Annual Improvements 2012-2014).

On 25 September 2014, as a result the performed IFRS review, small amendments were introduced to the following 4 standards:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, in the scope of requalification of assets or groups from "held for sale" to "held for distribution" or vice versa,

- IFRS 7 Financial instruments: Disclosures, for instance, in terms of applicability of the amendments to IFRS 7, concerning compensation principles for assets and financial liabilities, to condensed interim financial statements,

- IAS 19 Employee Benefits, in the scope of the currency of the "high quality corporate bonds" used in estimating the discount rate,

- IAS 34 Interim Financial Reporting, particularising how to specify that the disclosure required by paragraph 16A IAS 34 were provided elsewhere in the interim report.

They usually apply to annual periods beginning on 1 January 2016 or later. The Company assesses that application of the amended standards will have no significant effect on the Company's financial statement, except for amendments to IAS 34, which may result in additional disclosures of information in the condensed interim financial statements of the Company.

- Amendments to IAS 1: Disclosure Initiative

On 18 December 2014, amendments to IAS 1 were published, under the broad Initiative aiming at improving the presentations and disclosures in the financial reports. These amendments are meant to further encourage entities to apply professional judgment in determining information that should be disclosed in their financial statements. For instance, the amendments particularize that materiality considerations apply to all parts of the financial statements and that including insignificant information can reduce usability of the strictly financial disclosures. Furthermore, the amendments particularize that the entities should exercise professional judgment when determining the place and ordering of the presented information when disclosing financial information. Public changes were also accompanied by changes in IAS 7 Statement of Cash Flows, which increases the disclosure requirements, concerning cash flows from financial activities, as well as cash and its equivalents in the entity (details below).

The company estimates that application of the amended standard does not have a significant influence on the financial statements.

In the financial statement, important judgments made by the Management Board with regard to accounting principles applied by the Company and the main sources of evaluation of uncertainty were the same as these applied in the financial statements for 2015.

The Company did not adjust the presentation of the comparative data.

7. Amendments to the existing standards and new regulations not binding for the periods beginning from 1 January 2016

In this financial statement, the Company decided not to apply the published standards or interpretations prior to their effective date.
The following standards and interpretations were issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee, and have not yet come 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 1 January 2018 or later. The purpose of the standard is to adjust the financial assets classification and introduce uniform principles of approach to impairment assessment concerning all financial instruments. The standard also introduces a new model of hedge accounting, in order to standardise the principles of reporting risk management information in the financial statements.

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

As at the day of preparation of the financial statement, is not possible to make a credible estimation of the impact of application of the new standard. The Company commenced analysis of the effects of implementation of the new standard.

- IFRS 14 *Regulatory Deferral Accounts*

The new standard was published on 30 January 2014 and applies to annual periods beginning on 1 January 2016 or later. 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 Company 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 temporary nature of the standard, the European Commission decided not to initiate the formal approval procedure of the standard and to wait for the target standard.

Application of the amended standard will not have effect on the Company's financial statement.

- IFRS 15 *Revenue from Contracts with Customers*

The new unified standard was published on 28 May 2014 and applies to annual periods beginning on 1 January 2018 (originally - 2017) or later, and its earlier application is permitted. The standard establishes a uniform framework of reporting revenue and contains the principles that will replace most detailed guidelines for presenting revenue, currently existing in IFRS, in particular, in IAS 18 Revenues, IAS 11 Construction Contracts, and the related interpretations. On 11 September 2015, the International Accounting Standards Board published a project of amendments to the adopted standard, postponing the effective date of this standard by one year.

As at the day of preparation of the present financial statement, is not possible to make a credible estimation of the impact of application of the new standard. The Company commenced analysis of the effects of implementation of the new standard.

- IFRS 16 *Leasing*

The new standard was published on 13 January 2016 and applies to annual periods beginning on 1 January 2019 or later, and its earlier application is permitted (but under condition of simultaneous application of IFRS 15).
The standard replaces the previous regulations on leasing (among others, IAS 17) and completely changes the approach to leasing contracts of various nature, ordering the lessee to report in the balance sheets assets and liabilities on account of concluded lease contracts, regardless of their type.
As at the day of preparation of the present financial statement, is not possible to make a credible estimation of the impact of application of the new standard.

The Company commenced analysis of the effects of implementation of the new standard.

- Amendments to IFRS 10 and IAS 28:

Amendments to IFRS 10 and IAS 28 were published on 11 September 2014 and apply to annual periods beginning on 1 January 2016 or later (effective date is currently postponed without indicating the initial date). The amendments particularise reporting of transactions, in which the parent company loses control over the subsidiary, which does not constitute a "business", as defined by IFRS 3 "Business Combinations", by means of sale of all or a part of shares held in this subsidiary to an affiliate or joint venture, recognised using the method of ownership rights.

The Company will apply the new standard 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 of the standard.

As at the day of preparation of the present financial statement, is not possible to make a credible estimation of the impact of application of the new standard.

- 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 1 January 2017 or later.
Their objective is to particularise requirements regarding recognition of deferred tax assets concerning financial debt instruments measured at fair value.
The Company assesses that application of the amended standards will have no effect on the Company's financial statement.

- The amendments to IAS 7: "Disclosure Initiative"

The amendments to IAS 7 were published on 29 January 2016 and apply to annual periods starting on 1 January 2017 or thereafter. The amendments aimed at increasing the scope of the information provided to the recipients of the financial statements on financing activities of the entity through additional disclosure of changes in the carrying amount of liabilities concerning the financing of the activity of the entity. The Company estimates that application of the amended standard will not have a significant influence on the financial statements, apart from changes in the scope of disclosures presented in the financial statements.

- Clarifications to IFRS 15: "Revenue from contracts with customers"

Clarifications to IFRS 15 were published on 12 April 2016 and apply to annual periods starting on 1 January 2018 or thereafter (in accordance with the date of application of the standard). The amendments to the standard were aimed at clarification of doubts that occur during pre-implementation analyses as regards: the identification of performance obligation, the guidelines on the application of the standard for identification of the principal/agent and revenues for licenses of intellectual property, or finally the transitional period for the initial adoption of the new standard. The Company estimates that application of the amended standard will not have a significant influence on the financial statements.

- The amendments to IFRS 2: "Classification and measurement of share-based payment transactions"

The amendments to IFRS 2 were published on 20 June 2016 and apply to annual periods starting on 1 January 2018 or thereafter. The amendments to the standard were aimed at clarification on the accounting treatment of share-based transactions. The Company estimates that application of the amended standard will not have a significant influence on the financial statements.

- The amendments to IFRS 4: Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" published on 12 September 2016.

The amendments apply to annual periods starting on 1 January 2018 or thereafter. The Company estimates that application of the amended standard will not have an influence on the Company's financial statements.

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

On 8 December 2016, minor amendments to the following three standards were made resulting from the review of IFRS:

- IFRS 1 "Interim Financial Reporting", relating to the removal of some exemptions provided for in this standard which no longer apply,

- IFRS 12 "Disclosure of interests in other entities", relating to specifying the disclosure requirements for interests, regardless of whether or not they are classified as held for sale, or transferred in the form of dividends and discontinued operations.

- IAS 28 "Investments in associates and joint ventures", relating to the moment in which investment entities (for instance, venture capital) may choose the method of valuation of shares in associates or joint ventures in the fair value rather than using the equity method.

The standards apply predominantly to annual periods starting on 1 January 2018 (some of them apply to annual periods starting on 1 January 2017) or thereafter. The Company estimates that application of the amended standards will not have a significant influence on the Company's financial statements.

- IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

The new interpretation was published on 8 December 2016 and applies to annual periods starting on 1 January 2018 or thereafter. The interpretation aims at providing an indication of how the trade date should be specified for the purpose of determining the appropriate exchange rate (for the purpose of conversion) for the transaction in a foreign currency in a situation when the entity pays or receives an advance in a foreign currency.

The Company will apply the new interpretation as of 1 January 2018. At the date of preparation of these financial statements it is not possible to assess the impact of that new interpretation in a reliable way. The Company launched an analysis of the effects of implementing the new interpretation.

- The amendment to IAS 40: "Transfers of investment property"

The amendment to IAS 40 was published on 8 December 2016 and applies to annual periods starting on 1 January 2018 or thereafter. The amendment aims at clarification that transfer of real estate from or to investment real estates may only take place if a change in use of property has occurred.

The Company will apply the amended standard as of 1 January 2018.

The Company estimates that application of the amended standard will not have a significant influence on the Company's financial statements.

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

- IFRS 14 Regulatory Deferral Accounts, published on 30 January 2014,
- IAS 16 Leasing, published on 13 January 2016,
- Amendments to IFRS 10 and IAS 28: Sale and contribution of assets between investor and its affiliated entity or joint venture published on 11 September 2014.
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses, published on 19 January 2016.
- Amendments to IAS 7: *Disclosure Initiative* published on 29 January 2016,
- Clarification of IFRS 15 records: *Revenue from Contracts with Customers* published on 12 April 2016,
- Amendments to IFRS 2: *Classification and Measurement of Share-based Payment Transactions* published on 20 June 2016,
- Amendments to IFRS 4: *Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'* published on 12 September 2016,
- Amendments to various standards due to annual revision of the International Financial Reporting Standards (*Annual Improvements 2014-2016*) published on 8 December 2016,
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration* published on 8 December 2016,
- Amendments to IAS 40 *Transfers of Investment Property* published on 8 December 2016.

8. Summary of significant accounting policies

8.1. Consolidation principles

These consolidated financial statements comprise the financial statements of Fabryki Mebli FORTE S.A. and the consolidated financial statements of its subsidiaries for the year ended 31 December 2016. The financial statements of the subsidiaries have been adjusted to be IFRS compliant and prepared for the same reporting period as the financial statements of the Parent Company, using consistent accounting policies and based on unified accounting policies concerning transactions and economic events of a similar nature. To eliminate any discrepancies in accounting policies used, relevant adjustments are made.

All significant balances and transactions between the Group companies, including unrealised gains on intra-group transactions, were fully eliminated. Unrealised losses are eliminated, unless they represent indicator of impairment.

Subsidiaries are consolidated from the date on which control is transferred to the Group and they are de-consolidated from the date that control ceases. The Parent Company exercises control when it holds, directly or indirectly, through its subsidiaries, more than a half of votes in a particular company, unless it can be proven that such ownership does not determine the exercise of control. Control is also exercised if the company has the power to govern the financial or operating policy of an enterprise so as to obtain benefits from its activities.

8.2 Revenues

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues are 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

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 (operational leasing)

Rental income arising on investment properties is accounted for on a straight-line basis over the lease term on ongoing leases.

Government subsidies

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

Financial 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, according to the lower of the following two values: fair value of leased fixed assets, or 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 two periods: the lease term or 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 the lessor, the Group enters into rental agreements for premises in investment real properties. Income under such agreements is recognised on a current 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 and 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 the 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 determined by the National Bank of Poland as at the balance sheet date;

- Möbelvertrieb Forte GmbH – EUR – 4,4240
- Forte Möbel AG – CHF – 4,1173

- 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

Różnice kursowe powstałe z przeliczenia na walutę prezentacji ujmowane są bezpośrednio w kapitale własnym jako odrębny składnik. W momencie zbycia podmiotu zagranicznego, zakumulowane odroczone różnice kursowe ujęte w kapitale własnym, dotyczące danego podmiotu zagranicznego, są ujmowane w rachunku zysków i strat.

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 finance costs are recognised as an expense in the period.

8.7. Retirement benefits

In accordance with the applicable remuneration systems, employees of the Group companies are entitled to retirement severance pays. 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 obligations 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:

- the current service cost (provision change resulting from the accumulation of liabilities over the period of the extensional traineeships 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 adopted in the calculation of parameters and assumptions

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 directors 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 no transactions 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 taxation 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 payables, which are stated with the amount of value added tax included.

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

8.10. Tangible fixed assets

Tangible fixed assets are measured according to costs less accumulated depreciation and revaluation impairment write-downs. 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 2016	Year 2015
Buildings and structures	25 – 50 years	25 – 50 years
Plant and machinery	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 the possible impairment write-downs. Assets under construction are not depreciated until completed and brought into use.

8.11. Investment properties

Investment properties are 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 properties are 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 inventories, 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 depreciation and any revaluation impairment write-downs. 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 depreciation period and depreciation 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 depreciation period or method, as appropriate, and treated as changes in accounting estimates. Depreciation write-downs 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 the 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.

Costs of research and development

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 expenditures on development, historical cost model is applied, requiring assets to be carried at purchase/manufacturing costs, less accumulated depreciation and accumulated impairment write-downs. All expenditure carried forward is amortised over the expected period of obtaining revenue from the sale of the project.

Costs of development works 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 years	5 years
Depreciation 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
Verification 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 derecognition 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 on 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 cash-generating unit is equal to the higher of the asset's or cash-generating unit's fair value less costs to sell or its value in use regardless of 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 impairment write-downs on continuing operations are recognised in other operational costs.

The Group performs an assessment at each reporting date as to whether there is any indication that previously recognised revaluation impairment write-downs may no longer exist or may have been reduced. If such indication exists, the Group makes an estimate of the recoverable amount. Previously recognised revaluation impairment write-downs are reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last revaluation write-down 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 revaluation impairment write-downs been recognised for the asset in the previous years. Such a reversal of revaluation impairment write-down is immediately recognised as income in the profit and loss account. After a reversal of revaluation impairment write-down is recognised, the depreciation write-down referring to a given asset is adjusted in the future periods so as to allocate the asset's 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 intended 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 intended 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 intended for sale are posted at the lower of the following values: balance sheet value or fair value less selling expenses.

In the statement of financial situation, assets intended 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

Inventories are 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 Group 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 liabilities or recognising gains or losses on them on a different basis; (ii) or 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.

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. These are classified as current assets, provided their maturity does not exceed 12 months after the balance sheet date. Loans granted and receivables with maturities exceeding 12 months from the balance sheet date are classified under non-current assets. Loans granted and receivables with maturities exceeding 12 months from the balance . sheet date are classified under non-current asset They 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 write-downs. 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 on loans granted and receivables carried at amortised cost, the amount of revaluation impairment write-down 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 revaluation impairment write-downs 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 write-down decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment write-down is reversed. Any subsequent reversal of impairment revaluation write-downs 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 the impairment write-down 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 with the. application of effective interest rate method – the depreciation) and the current fair value (less any impairment write-down 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 write-downs 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 write-down was recognised in the profit and loss account, the impairment write-down 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 at the balance sheet date are measured at fair value. 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.

Derivatives 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's Parent Company applies the cash flow hedge accounting method, whose aim is to secure the planned sales revenues, which involve currency risk affecting the profit and loss account, and whose probability of occurrence is highly unlikely.

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 currency transactions, the Group's Parent Company uses:

a/ forward contracts,

b/ symmetrical option strategies.

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 fair value of hedging instruments are included in the Group's equity under the heading revaluation of hedging instruments. At the time of implementing the hedged sales revenue, changes in fair value of hedging instruments are recognised in the profit and loss account in the current sales revenue – for effective part and profit (losses) on derivative financial instruments – for the ineffective part.

At the inception of the hedge, the Parent Company 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 fair value of the hedging instrument to the cumulative change in the value of future cash flows.

At the end of each month, measurement is performed of the effectiveness of hedging – retrospective efficiency – 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 of 80% to 125%.

The Parent Company discontinues to apply hedge accounting if the hedging instrument expires or is sold, terminated, completed, or if does not meet the criteria for hedge accounting and if the entity 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.

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 write-downs on any doubtful receivables Write-downs on receivables are estimated when the collection of full amount is no longer probable. Bad debts are written off when identified.

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

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

8.22. Cash and cash equivalents

Cash and their 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 consolidated cash flow statement, cash and cash equivalents balance consists of cash and cash equivalents as defined above.

8.23. Interest-bearing loans and borrowings

All loans and borrowings 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 and borrowings 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 with the effective interest rate method.

8.24. Trade and other receivables

Short-term trade payables 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 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.

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 i s 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 Group 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 finance cost.

9. Information on operating segments

As of 1 January 2009, new IFRS 9 "Operating segments" shall apply. 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 Group's Parent Company 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 a duty of 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:

	Revenues from sales of products, materials, goods and services	Sales revenue – % of share
Q1 2016	300 145	27,53%
Q2 2016	240 338	22,04%
Q3 2016	244 991	22,47%
Q4 2016	304 820	27,96%
total 2016	**1 090 294**	
Q1 2015	255 770	26,80%

Q2 2015	190 922	20,01%
Q3 2015	224 158	23,49%
Q4 2015	283 425	29,70%
total 2015	**954 275**	

11. Revenue and costs

11.1. Sales revenue and geographic structure

Sales revenue	For the reporting period ended 31.12.2016	31.12.2015
Revenue from sales of products, goods and materials	**1 083 421**	**947 694**
- products	1 062 838	930 313
- goods	9 023	9 858
- materials	11 560	7 523
Revenue from sales of services	**6 873**	**6 581**
Net sales revenue, in total	**1 090 294**	**954 275**
Geographic structure:		
- domestic	167 296	158 970
- export	922 998	795 305
Net sales revenue, in total	**1 090 294**	**954 275**
- including from related entities	4 163	4 424

Information on key customers

The biggest customers for the products of the Forte Group is Steinhoff Group International (France) with registered seat in France and Roller GmbH with its seat in Germany.. Share in turnover z Steinhoff Group and with Roller GmbH exceeded 10% in revenue from sale of the Issuer. There are no formal ties between the customer and the Issuer.

11.2. Other operating revenue

Other operating revenue	For the reporting period ended on 31.12.2016	31.12.2015
Reversal of revaluation write-downs	79	255
Profit on sale of tangible fixed assets	145	-
Revaluation of investment real properties	-	1 422
Subsidies	28	117
Donations and compensations	2 647	4 274
Other	660	437
Total other operating revenue	**3 559**	**6 505**

11.3. Other operating costs

	For the reporting period ended	

	31.12.2016	31.12.2015
Other operating costs	2 586	113
Creation of revaluation write-downs	133	190
Liquidation and impairment write-downs on tangible fixed assets	4 092	5 944
Scrapping of inventory	740	321
Donations	298	4 352
Penalties and compensations	-	2 231
Costs of damage removal	200	1 141
Loss from the disposal of fixed assets	533	307
Costs of employee benefits	235	2 233
Scrapping of inventory	282	393
Other	**9 099**	**17 225**

In the reporting period ended on 31 December 2016, the Company reported a write-down on liabilities in the amount of PLN 1 053 thousand as well as a write-down on the value of spare parts in the amount of 1 533 thousand PLN. The decision to create allowances is motivated by a permanent replacement of the machinery park for new equipment in all of the Company's plants, which results in the possibility of certain spare parts losing their suitability.

11.4Financial revenue

	For the reporting period ended	
Financial revenue	**31.12.2016**	**31.12.2015**
Dividend from related entities not covered by consolidation	260	363
Interest	546	947
Other	-	7
Total financial revenue	**806**	**1 317**

11.5 Financial costs

	For the reporting period ended	
Financial costs	**31.12.2016**	**31.12.2015**
Interest on loans and leasing	1 755	1 116
Commission on loans	1 126	72
Exchange gains with respect to financial assets and liabilities	3 157	1 673
Other	29	28
Total financial costs	**6 067**	**2889**

11.6 Costs by type

	For the reporting period ended	
Costs by type	**31.12.2016**	**31.12.2015**
Depreciation	22 699	19 688
Consumption of materials and energy	497 815	459 201
External services	200 099	177 264
Taxes and fees	9 380	8 206
Payroll	148 797	130 050
Social insurance and other benefits	36 226	29 724
Other costs by type	9 194	9 090
	924 210	**833 223**
Change in product inventory and accruals	2 738	3 761
Manufacturing cost of products for internal purposes	(3 417)	(4 671)
Costs of sales	(225 684)	(200 267)
General administrative costs	(51 262)	(36 864)
Manufacturing cost of sold products and services	**646 585**	**595 182**
Value of goods and materials sold	**16 853**	**13 083**
Cost of sales	**663 8**	**608 5**

11.7. Depreciation costs recognised in the profit and loss account

Depreciation costs in the profit and loss account	For the reporting period ended 31.12.2016	31.12.2015
Depreciation costs recognised in the:		
Own cost of sales	16 333	15 197
Costs of sale	4 525	2 405
General administrative costs	1 841	2 086
Total depreciation costs	**22 699**	**19 688**

11.8. Costs of employee benefits

Costs of employee benefits	For the reporting period ended 31.12.2016	31.12.2015
Costs of employee benefits recognised in the:		
Own cost of sales	112 598	96 951
Costs of sale	39 810	33 258
General administrative costs	32 615	29 565
Total costs of employee benefits	**185 3**	**159 4**

12. Income tax

12.1. Tax expense

The main items of tax charge for the year ended 31 December 2016 and 31 December 2015 are as follows:

Podatek dochodowy	Za okres sprawozdawczy zakończony 31.12.2016	31.12.2015
Current income tax		
Current charge due to income tax	30 578	19 962
Adjustments related to current income tax from previous years	(312)	(6)
Deferred income tax		
Relating to the origination and reversal of temporary differences	(1 429)	(5 487)
Tax burden indicated in consolidated profit and loss account	**28 837**	**14 469**

12.2. Reconciliation of the 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 2016 and 31 December 2015:

Effective tax rate	For the reporting period ended 31.12.2016	31.12.2015
Profit/(loss) before tax	**139 222**	**98 842**
Tax at the statutory rate applicable in Poland i.e. 19% (2015: 19%)	26 452	18 780
Corrections of current income tax from previous years	(312)	(6)
Transition differences from previous years	-	(5 599)
Costs not constituting tax base	852	524
Effect of differences in tax rates of subsidiaries operating in other tax systems	(382)	(360)
Unrecognized tax loss	1 262	981
Other	447	65
Costs not constituting tax base	518	84
Tax at the effective rate being 20,71% (2015: 14,64%)	28 837	14 469
Income tax (charge) recognised in the consolidated profit and loss account	28 837	14 469

Income tax attributable to discontinued operations	-	-
	28 837	**14 469**

Effective tax rates of subsidiaries operating in other tax systems are as follows: MV Forte GmbH (Germany) – 30 5%. Forte Möbel AG – 5,67%

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 item	**Balance item**	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
Deferred tax provision					
Tangible fixed assets	Revaluation of fixed assets	19 349	14 123	5 243	(3 936)
Tangible fixed assets	Investment relief	84	135	(51)	(47)
Tangible fixed assets	Revaluation write-down on fixed assets	-	(1)	1	-
Receivables/Liabilities arising from supplies and services as well as other	Foreign exchange differences	(1 281)	(730)	(551)	(536)

Deferred revenues and accruals	Deferred revenues and accruals	(5 236)	(3 012)	(2 224)	(103)
Financial assets	Share revaluation write-down	(76)	(81)	5	(3)
Trade and other receivables	Revaluation of receivables	(291)	(430)	139	93
Trade and other receivables; Financial assets	Interest accrued	-	248	(248)	248
Inventory	Revaluation of inventory value	49	5	44	1
Inventory receivables under supplies	Revenue on conditions of Incoterms DDP and DAP	(1 663)	(519)	(1 081)	57
Deferred revenues and accruals	Provisions for transport costs	(1 061)	(837)	(305)	23
Provision for benefits after the employment period	Provisions for retirement benefits	196	129	67	4
Provisions, deferred revenues and accruals	Provision for bonuses	(282)	(180)	(102)	(58)
Trade and other receivables	Salaries and overheads for salaries	(5 228)	(2 828)	(2 400)	(1 138)
Receivables from to derivative instruments of financial instruments	Short-term investments	(802)	(765)	(37)	(101)
Trade and other receivables	Overdue liabilities past due period of more than 30 days	-	-	-	-
		-	(65)	65	(1)
	Losses possible for write off	(448)	-	(448)	
	Others	2 043	1 267	454	10
Deferred tax provision		(2 188)	1 078	**-**	**-**
Deferred tax provision covered in the statement of comprehensive income		(422)	(475)	-	-
Total deferred tax provision		**2 743**	**7 062**	**(1 429)**	**(5 487)**

Deferred tax in the amount of PLN 422 thousand concerning employee benefits and PLN 2 188 thousand concerning hedge accounting is recognised directly in capitals.

13. Social assets and liabilities

The Act on Social Fund of 4 March 1994 with subsequent amendments requires the companies, whose employees' number exceeds 20, to establish and run a Social Fund. The Group operates such a Fund and creates periodical write-downs based on the minimum required amount. The Fund's purpose is to subsidize the Group's social activity, loans to employees and other social expenditure.

The Group has netted the assets of the Fund with the liability to the Fund, as these are not separate assets of the Group. Therefore, the net receivables as at 31 December 2016 are PLN 384 thousand (as at 31 December 2015 – net receivables amounted to PLN 134 thousand).

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

	As at:	
	31.12.2016	**31.12.2015**
Assets contributed to the Fund, in total		-
Loans granted to employees	1 661	1 729
Cash	1 659	1 525
Liabilities due to the Fund	(2 936)	(3 220)
Balance after offsetting	**384**	**34**

Write-downs on the Fund during the financial period	**4 084**	**2 294**

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 of the Company 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).

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

	For the reporting period ended	
	31.12.2016	**31.12.2015**
Net profit (loss) from continued operations	110 385	84 373
Loss from discontinued operations	-	-
Net profit (loss)	110 385	84 373
Net profit (loss) attributed to normal shareholders applied to calculate diluted earnings per share	110 385	84 373

	As at:	
	31.12.2016	**31.12.2015**
Weighted average number of issued ordinary shares applied to calculate basic earnings per share	23 901 084	23 781 084
Impact of dilution:		
Bonds convertible into shares	-	-
Adjusted weighted average number of ordinary shares used for calculating diluted earnings per share	23 901 084	23 781 084

Profit (loss) per share attributable to Shareholders of the : Parent Company in the period (in PLN)	**31.12.2016**	**31.12.2015**
- basic	4,62	3,55
- diluted	4,62	3,55

In the period between the balance sheet date and the date of compiling 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 this report the Management Board of Parent Company did not present any details concerning the position of the Board with regards to potential payment of dividend for 2016.

By virtue of a resolution of the Annual General Meeting of the Parent Company 17 May 2016, the decision was made to distribute the Parent Company net profit for the financial year 2015 in the amount of PLN 77 936 thousand, allocating PLN 23 901 thousand to the payment of dividend and PLN 54 035 thousand to reserve capital. The amount of dividend per share amounted to PLN 1. The dividend record date was set for 25 May 2016. Dividend was paid on 13 June 2016.

16. Leases

16.1. Financial lease and hire purchase commitments

The Group as a lessee as at 31 December 2016 has financial leasing agreements on machinery, equipment and means of transport with the option to buy. The leased assets are secured by blank promissory notes.

The periods for which the lease agreements have been concluded are: 60 months for machinery and equipment, and 25 months for the means of transport and servers.

Residual value has been determined in the range from 0.05% to 0.17% of the initial value of leased machinery and equipment, approx. 14% for buildings and 1% for transport and servers.

As at 31 December 2016 and 31 December 2014, future minimum rentals payable under financial leases are as follows:

	Minimum payments	
	31.12.2016	**31.12.2015**
Within 1 year	1 135	1 071
In the period from 1 to 2 years	632	1 265
In the period from 2 to 5 years	236	9
Over 5 years	-	-
Minimum lease payments, in total	**2 003**	**2 345**
Minus financial costs	(85)	(115)
Present value of minimum lease payments	**1 918**	**2 230**
Short-term	1 076	999
Long-term	842	1 231

16.2. Operating lease liabilities – the Group as a lessee

The Group concluded within the reporting period ended on 31 December 2016 operational leasing agreement for agreements for lease of transportation vehicles. Validity term of agreements is either 24 or 36 months, residual value was calculated at 30-35% of initial value of leased items.

As per 31 December 2016 future minimum fees on account of operational leasing agreements are presented as follows:

	31.12.2016	**31.12.2015**
Within 1 year	218	326
In the period from 1 to 5 years	94	200
Over 5 years	-	-
Future minimum lease payments, in total	**312**	**526**

16.3. Operating lease receivables – the Group as a lessor

In the reporting year ended 31 December 2016, the Group concluded operating lease agreements for the rental of commercial premises in the building in Wroclaw located at ul. Brucknera 25-43 and in Bydgoszcz at ul. Poznańska.

Most of the agreements have been concluded for an indefinite period with a 3 month notice period. The longest agreement for fixed term has been concluded for the period 01.01 2027

As at 31 December 2016, the future minimum lease payments under non-cancellable operating leases are as follows:

	As at:	
	31.12.2016	**31.12.2015**
Within 1 year	3 506	1 517
In the period from 1 to 5 years	2 712	2 031
Over 5 years	1 478	-
Future minimum lease payments, in total	**7 696**	**2 548**

17. Employee benefits

17.1. Employee share incentive programmes

A detailed description of the Incentive Scheme is contained in note 38.5.

17.2. Pensions and other post-employment benefits

The Group's Entities pays to retiring employees retirement benefits in the amount set out in the Labour Code. As a result – based on a valuation carried out by a professional actuarial company – the Group recognised a provision for the current value of this retirement benefit liability. The following table sets forth the amount of the provision and movements in the benefit liability over the period.

The principal assumptions used by the actuary in determining retirement and other benefit obligations as at the balance sheet date are shown below:

	As at:	
	31.12.2016	**31.12.2015**
Discount rate (%)	3,5%	2,9%
Expected inflation rate (%)	2,5%	2,5%
Employee turnover ratio (%)	11,2-14,2%	11,9-14,8%
Discount rate (%)	3,5%	3,5%

	As at:	
Provision for pensions and disablement benefits	**2016**	**2015**
As at 1 January	**3 562**	**3 491**
Foreign exchange differences	4	1
Interest costs	100	78
Costs of current employment	389	361
Costs of past employment and limitations of benefit programme	137	-
Benefits paid	(96)	(132)
Actuarial profit/(loss) from changes in demographic assumptions	-	(7)
Actuarial profit/(loss) from changes in economic assumptions	(177)	(211)
Actuarial profit/(loss) from differences between the assumptions and the implementation	(102)	(19)
Profit/loss on benefit programme settlements	-	-
As at 31 December	**3 817**	**3 562**
Of which:		
long-term	3 395	3 440
short-term	422	122

Short-term provision for pensions and disablement benefits was recognised as short-term liabilities/provisions and accruals or deferrals.

Amounts recognised in the comprehensive income:

	2016	**2015**
Costs of benefits:		
Costs of current employment	(389)	(361)
Interest costs	(100)	(78)
Costs of future employment	(137)	-
Components of the programme costs recognised in the financial result:	**(626)**	**(439)**
Actuarial profit/(loss) from changes in demographic assumptions	-	7
Actuarial profit/(loss) from changes in economic assumptions	177	211
Actuarial profit/(loss) from differences between the assumptions and the implementation	103	19
Current components of the programme costs recognised in equity	**280**	**237**
Deferred tax on benefits	(53)	(45)
Total amount of the programme costs recognised in capital	(92)	(372)
Total annual costs:	**(346)**	**(202)**

Below we have presented – in accordance with IAS 19 – the sensitivity of liabilities to changes in the discount rate and the rate growth of remuneration. Increase and decrease of interest rates by 0.5% has been adopted:

Assumptions	% change	Impact on the provision for pensions and disablement benefits
Discount rate (%)	0,5%	(137)
	(0,5%)	146
Predicted growth rate of remuneration (in %)	0,5%	147
	(0,5%)	(138)

18. Tangible fixed assets

	As at: 31.12.2016	31.12.2015
Land	21 510	14 986
Buildings and structures	111 742	84 204
Technical equipment and machines	125 904	112 631
Means of transport	7 851	7 573
Other tangible fixed assets	7 954	4 845
Fixed assets under construction	87 008	35 164
Total tangible fixed assets	**361 969**	**259 403**

	Land	Buildings and structures	Machinery and equipment	Means of transport	Other	Fixed assets under construction	Total
Net value as at 01 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
Including financial lease	-	-	-	*843*	-	-	*843*
Reclassified from intangible assets to fixed assets	-	-	-	-	-	-	-
Other decreases including:	(923)	(108)	(556)	(925)	(102)	(64 297)	(66 911)
sale	*(752)*		*(161)*	*(706)*	*(4)*	*(211)*	*(1 894)*
liquidation	*(171)*	*(108)*	*(395)*	*(219)*	*(98)*	*(60)*	*(1 051)*
kind	-	-	-	-	-	-	-
Elimination of redemption as a result of the sale of assets	3	45	475	646	98	-	1 267
Revaluation impairment write-down:	-	-	-	-	-	(60)	(60)
Reversal of revaluation impairment write-down recognised in the profit and loss account	-	-	3	-	-	60	63
Depreciation write-down for the period	-	(3 595)	(15 239)	(1 813)	(1 254)	-	(21 901)
Foreign exchange differences adjustment	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 01 January 2016							
Gross amount	14 986	107 793	228 201	17 450	8 014	35 164	411 608
Accumulated depreciation and revaluation impairment write-down	-	(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 amount	21 507	138 881	256 235	18 895	12 279	87 008	534 805
Accumulated depreciation and revaluation impairment write-down	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**

	Land	Buildings and structures	Machinery and equipment	Means of transport	Other	Fixed assets under construction	Total
Net value as at 01 January 2015	**12 772**	**79 213**	**96 362**	**7 185**	**3 851**	**17 626**	**217 009**
Increase	3 499	11 193	32 621	2 078	1 503	62 609	113 503
Including financial lease	-	-	-	*134*	-	-	*134*
Reclassified from intangible assets to fixed assets Other decreases including:	-	-	-	-	-	-	-
	(1 285)	(7 606)	(5 705)	(628)	(74)	(45 071)	(60 369)
sale	-	-	*(3 918)*	*(17)*	-	-	*(3 935)*
liquidation	-	*(357)*	*(1 787)*	*(611)*	*(74)*	-	*(2 829)*
kind	*(1 285)*	*(7 249)*	-	-	-	-	*(8 534)*
Elimination of redemption as a result of the sale of assets	-	4 284	3 354	596	18	-	8 252
Revaluation impairment write-down:	-	-	(1 100)	-	-	-	(1 100)
Reversal of revaluation impairment write-down recognised in the profit and loss account	-	-	1 100	-	-	-	1 100
Depreciation write-down for the period	-	(2 880)	(14 001)	(1 652)	(453)	-	(18 986)
Foreign exchange differences adjustment	-	-	-	(6)	-	-	(6)
Net value as at 31 December 2015	**14 986**	**84 204**	**112 631**	**7 573**	**4 845**	**35 164**	**259 403**
As at 01 January 2015							
Gross amount	12 772	104 206	201 285	15 995	6 580	17 626	358 464
Accumulated depreciation and revaluation impairment write-down	-	(24 993)	(104 923)	(8 810)	(2 729)	-	(141 455)
Net value	**12 772**	**79 213**	**96 362**	**7 185**	**3 851**	**17 626**	**217 009**
As at 31 December 2015							
Gross amount	14 986	107 793	228 201	17 450	8 014	35 164	411 608
Accumulated depreciation and revaluation impairment write-down	-	(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, total fixed assets at the Group's disposal amounted to PLN 361 969 thousand As at 31 December 2015, PLN 259 403 thousand). They consisted of the amounts shown above.

Assets pledged as security

The balance sheet value of tangible fixed assets used as at 31 December 2016 by the Group on the basis of financial lease agreements and lease agreements with the option of repurchase is PLN 3 145 thousand, of which PLN 553 thousand relates to the lease of machinery and equipment, PLN 2 543 thousand relates to the lease of means of transport, and PLN 49 thousand relates to the lease of other tangible fixed assets (as at 31 December 2015: PLN 3 194 thousand).

Land and buildings with the balance sheet value of PLN 102 743 thousand (As at 31 December 2015: PLN 79 215 thousand) are covered by mortgages established to secure bank loans of the Group (note 30 –interest-bearing loans and borrowings)

Additionally, machinery and equipment with the balance sheet value of PLN 168 278 thousand are subject to registered pledge (as at 31 December 2015: PLN 46 749 thousand).

The capitalised external financing costs in the reporting period ended 31 December 2016 amounted PLN 2 740 thousand (As at 31 December 2015 did not occur).

Purchase and sale

In the 12-month period ended 31 December 2016, the Group purchased tangible fixed assets with a value of PLN 125 837 thousand (in the comparative period ended 31 December 2015: PLN 68 300 thousand) and sold tangible fixed assets with net value of: PLN 464 thousand (in the comparative period ended 31 December 2015: PLN 2 287 thousand.)

The most significant investments of the Group within 2016 were: expenditure incurred by TANNE Sp. z o.o. for investment related to construction of board plant in Suwałki in the amount of PLN 74 285 thousand, purchase by Parent Company of Schelling saw with unloading station, IMA production lines with loading, lines for packaging Ligmatech, BST drillers and expenditure for modernization of furniture store in Ostrów Mazowiecka.

The Group made, on account of construction of board plant of TANNE Sp. z o.o. pre-payments of fixed assets in the amount of PLN 136,129 thousand, indicated in the balance under item " Liabilities on account of supply and services and other liabilities".

Capital commitments

As per 31 December 2016 investment commitments of the Group amount to PLN 23,148 thousand. This amount concerns mainly expenditure for fixed assets in construction and purchase of devices and machinery. Part of investment commitments in the amount of PLN 989 thousand the Group has presented in the balance sheet in the item "Other long-term commitments". These are deposits, constituting security of proper completion of works related to construction of the board plant. As of 31 December 2015 investment commitments amounted to PLN 1 584 thousand.

Impairment write-downs

Revaluation write-downs on fixed assets	**2016**
Revaluation write-down as at 1 January	3
Creation	60
Release	(63)
Revaluation write-down as at 31 December	**-**

19. Investment properties

The Group considers as investment properties those properties which it uses for its own needs for the conduct of production activity and they are treated by the Group as a source of income from long-term rental.

As per the balance day investment properties of the Group include: shopping centres in Wrocław and Bydgoszcz, complex of storehouses in Wrocław, property in Przemyśl and premises in Kraków and land located in Suwałki at ul. Północna.

	Fair value change	
	2016	**2015**
Opening balance as at the beginning of the reporting period	71 660	48 068
Increase (later expenses)	1 286	23 592
- land purchase	301	97
- reclassification from fixed tangible assets	-	4 420
- purchase of investment lands	985	-
- revaluation to the fair value	-	19 075
Closing balance as at the end of the reporting period	**72 946**	**71 660**

	For the reporting period ended	
	31.12.2016	**31.12.2015**
Interest income from the rent of investment real property	3 920	2 399
Costs resulting from repair and maintenance, including:	240	116
costs that brought rental income during the period	*144*	*113*
costs that did not bring rental income during the period	*96*	*3*

The Group has no contractual commitments for the purchase, construction or development of investment real estate, as well as repairs, maintenance and improvements.

The Group plans in the short term further modernization of properties in Bydgoszcz and commencement of modernization of property in Wrocław. There is a mortgage set on properties of the value of PLN 54 337 thousand as security of investment loan obtained by the Group.

Fair value hierarchy

Fair value of investment properties as of 31 December 2016 was confirmed by independent expert thorugh issuance of adequate declarations. The issued declarations confirm that the value established in valuations elaborated on 29 June 2015 is valid also on 31 December 2016.

As at 31 December 2016, the hierarchy of fair value was as follows:

	Level 1	Level 2	Level 3	**Fair value as at 31/12/2016**
Property in Wrocław	-	-	31 279	**31 279**
Property in Bydgoszcz	-	-	18 609	**18 609**
Property in Przemyśl	-	-	15 730	**15 730**
Property in Krakow	-	-	6 343	**6 343**
Land in Suwałki	-	-	985	**985**
				72 946

20. Intangible assets

	Status as at 31.12.2016	**31.12.2015**
Patents and licenses	306	464
Other intangible assets	15 299	15 285
Completed development works	662	660
Investments in progress	-	-
Total equity	**16 267**	**16 409**

	Patents and licenses	Other	Completed development works	Investments in progress
Net value as at 1 January 2016	**464**	**15 285**	**660**	**16 409**
Increase	-	21	680	701
Decrease	-	-	(989)	(989)
Depreciation write-down for the period	(158)	(7)	(633)	(798)
Reclassification of intangible assets	-	-	-	-
Elimination of redemption as a result of the sale/ liquidation	-	-	944	944
Elimination of redemption as a result of the reclassification				
Net value as at 31 December 2016	**306**	**15 299**	**662**	**16 267**
As at 01 January 2016				
Gross amount	5 722	16 113	1 987	23 872
Accumulated depreciation and revaluation impairment write-down	(5 308)	(828)	(1 327)	(7 463)
Net value	**464**	**15 285**	**660**	**16 409**
As at 31 December 2016				
Gross amount	5 772	16 134	1 678	23 584
Accumulated depreciation and revaluation impairment write-down	(5 466)	(835)	(1 016)	(7 317)
Net value	**306**	**15 299**	**662**	**16 267**

	Patents and licenses	Other	Completed development works	Investments in progress

Net value as at 1 January 2015	**447**	**15 279**	**840**	**16 566**
Increase	203	-	330	533
Decrease	-	(457)	-	(457)
Depreciation write-down for the period	(186)	(6)	(510)	(702)
Reclassification of intangible assets	-	-	-	-
Elimination of redemption as a result of the sale	-	469	-	469
Elimination of redemption as a result of the reclassification	-	-	-	-
Net value as at 31 December 2015	**464**	**15 285**	**660**	**16 409**
As at 01 January 2014 2015				
Gross amount	5 569	16 570	1 657	23 796
Accumulated depreciation and revaluation impairment write-down	(5 122)	(1 291)	(817)	(7 230)
Net value	**447**	**15 279**	**840**	**16 566**
As at 31 December 2015				
Gross amount	5 722	16 113	1 987	23 872
Accumulated depreciation and revaluation impairment write-down	(5 308)	(828)	(1 327)	(7 463)
Net value	**464**	**15 285**	**660**	**16 409**

As at 31 December 2016, intangible assets at the Group's disposal amount to PLN 16 267 thousand (As at 31 December 2015: PLN 16 409 thousand). They consisted of the amounts shown above. As at 31 December 2016 (as at 31 December 2015, no intangible assets classified as intended for sale occurred.)

Expenditure on research and development

In the reporting period ended 31 December 2016, the Group made expenditure on research and development recognised in the profit and loss account in the amount of PLN 1 461 thousand (in 2015: PLN 1 418 thousand).

Description of securities established on intangible assets:

On 16 December 2016 TERCEIRA Sp. z o.o. took a loan at ING Bank Śląski S.A. for obtaining investment certificates SEZAM XX Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych in the amount of PLN 145 500 thousand. Pursuant to the taken loan on the protection right to word-graphic sign "FORTE" a registered pledge was established up to the maximum sum of security of PLN 174 600 thousand.

Intangible assets with indefinite useful life

The only intangible asset with indefinite useful life is a trademark.
The Company was unable to determine the period of use of the trademark, because there is no foreseeable limit of the period during which it expects to reap economic benefits from the sale under the FORTE trademark.

Loss of value

On account of unspecified period of use of the sign, the Group conducted a test on loss of its value.

Method of valuation

The value in use of the mark was appraised by the relief from royalty method. The method determines the value on the basis of discounted future royalty flows taking into account license agreements concluded on market terms for comparative brands.

Assumptions for valuation

Royalty rate – 2%
Cost of equity – 9,13%
The discount rate – 11,44% - 11,87% w okresie projekcji
The rate of income tax – 19%

Period of financial projections - from 1 January 2017 to 31 December 2021 plus estimation of residual value

For the forecast of Forte brand sales revenues for 2017, i.e. the period covered with the most up-to-date budget, 12 % growth of revenues is assumed
The outcome of estimation of value of the sign, in line with the assumed predictions, did not indicate loss of its value, considering sensitivity to three key entry assumptions: rate of license fee, discount rate and increase rate after 31 December 2021.

21. Non-current assets held for sale

As at 31 December 2016, the Group did not have non-current assets classified as held for sale.

22. Long-term financial assets

	Status as at	
	31.12.2016	31.12.2015
Long-term financial assets		
Shares and interest in subsidiaries non-listed and not covered by consolidation	651	334
Investment Certificates	157 200	-
Other shares and interest	3	3
Other	-	-
Other long-term financial assets		
Long-term receivables	58	65
Borrowings to related entities	88	42
Other	61	61
	158 061	**505**

Shares and interest in subsidiaries excluded from consolidation are valuated at historical cost less the possible impairment write-downs Financial data obtained from subsidiaries whose shares were not covered by revaluation write-downs do not indicate the impairment of share value, and therefore tests for the impairment of shares in subsidiaries were not conducted.

Shares and interest in subsidiaries not covered by consolidation as at 31 December 2016:

Company name	Type of relationship	Takeover date/significant influence	Value of shares at acquisition price	Revaluation adjustments	Carrying amount of 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.	Subsidiary	15.03.2016	101	-	101
total			**1 050**	**(399)**	**651**

Shares and interest in subsidiaries not covered by consolidation as at 31 December 2014:

Company name	Type of relationship	Takeover date/significant influence	Value of shares at acquisition price	Revaluation adjustments	Carrying amount of shares
Forte Baldai UAB	Spółka zależna	16.04.1999	164	-	164
Forte SK S.r.o.	Spółka zależna	13.12.2002	96	-	96
Forte Furniture Ltd.	Spółka zależna	10.08.2005	6	-	6
Forte Iberia S.l.u.	Spółka zależna	15.09.2005	63	-	63
Forte Mobilier Sarl	Spółka zależna	17.11.2005	399	399	-
Forte Mobila S.r.l.	Spółka zależna	12.09.2008	12	12	-
TM Handel Sp. z o.o.	Spółka zależna	12.05.2008	-	-	-

ANTWERP Sp. z o.o.	Spółka zależna	03.09.2015	5	-	5
total			**745**	**411**	**334**

The Group's shares in other entities are as follows:

for the year ended 31 December 2016 and 31 December 2015

Company name	Registered office	Scope of activity	Carrying value of shares
Meblopol Sp. z o.o.	Poznań	Handel	3
total			**3**

The percentage share of assets, revenue and results of subsidiaries excluded from consolidation as at 31 December 2016 was as follows:

Company name	Type of relationship	In 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.	Subsidiary	0,01%	0,00%	0,01%

The percentage share of assets, revenue and results of subsidiaries excluded from consolidation as at 31 December 2016 was as follows:

Company name	Type of relationship	In total assets	In revenue	In current result
Forte Baldai UAB	Subsidiary	0,05%	0,04%	0,08%
Forte SK S.r.o.	Subsidiary	0,07%	0,24%	0,47%
Forte Furniture Ltd.	Subsidiary	0,06%	0,13%	-0,05%
Forte Iberia S.l.u.	Subsidiary	0,02%	0,21%	-0,05%
Forte Mobilier Sarl	Subsidiary	0,01%	0,00%	-0,06%
Forte Mobila S.r.l.	Subsidiary	0,00%	0,00%	-0,10%
TM Handel Sp. z o.o.	Subsidiary	0,32%	1,45%	0,29%
ANTWERP Sp. z o.o.	Subsidiary	0,00%	0,00%	-0,01%

The percentage share means a share of assets, revenue and results of subsidiaries excluded from consolidation in respective items of the consolidated financial statements prior to exclusions

Description of securities set up on long-term financial assets:

Investment certificates obtained by the Group of balance value of PLN 157 200 thousand were covered by financial pledge for ING Bank Śląski S.A. up to the maximum amount of PLN 174 600 thousand and constitute a security of repayment of loan taken up by the Group for the purchase of these certificates.

23. Inventory

	Status as at	
	31.12.2016	31.12.2015
Materials (at acquisition price)	56 314	47 164
Production in progress (at manufacturing price) Finished products:	22 101	24 433
End products:		
According to acquisition price/manufacturing price	66 832	65 091
According to net realisable value	63 672	64 467
Goods	1 659	2 958
Total inventories at the lower of the two: acquisition price (cost of construction) and realisable value.	**143 746**	**139 022**

Securities of loans of the value of PLN 35 847 thousand (in 2015: PLN 31 139 thousand) were set up on reserves of end products, production in progress and materials.

Changes in inventory revaluation write-down were as follows:

	Changes	
	2016	2015
Revaluation write-down as at 1 January	2 733	3 034
Increase	6 021	-
Decrease	-	(301)
Revaluation write-down as at 31 December	**8 754**	**2 733**

Calculation of inventory revaluation write-downs recognised in the books of the Group was performed 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 remaining in the Group's warehouse have been subjected to a comprehensive analysis. Replacements have been selected, design works have been carried towards technological changes, and attempts have been made to complete furniture from the existing semi-finished products. In the case of indices, for which obtaining the full value may be questionable in the opinion of the Group, the percentage of value was determined that could be recoverable.

Management Board of the Parent Company decided to cover inventory of goods, end products and half-products stored in storehouses above a year with 100% write-off on account of loss of their value.

In this way it was estimated that at the balance moment the value of impairment write-off for value of inventory ought to amount to PLN 8 754 thousand (in 2015: PLN 2 733 thousand).

Impairment write-off for the value of inventory was included in the profit and loss account in the item for own cost of sale (amount of PLN 4 484 thousand) and remaining operational costs (amount PLN 1 537 thousand).

24. Trade and other receivables

	State as at	
	31.12.2016	31.12.2015
Trade receivables from related parties	267	367
Receivables under supplies and services from other entities	154 096	146 408
Other receivables from related parties	-	-
Other budget receivables	26 454	37 528
Other receivables from third parties	139 818	3 030
Total (net) receivables	**320 635**	**187 333**
Revaluation write-down on receivables	1 960	2 694
Gross receivables	**322 595**	**190 027**
Income tax receivables	**91**	**274**

The Group, due to construction of board plant by TANNE Sp. z o.o. conducted in the reporting period prepayments for the purchase of fixed assets in the amount of PLN 136 129 thousand of items indicated in " Other receivables from third parties".

Receivables under supplies and services with repayment period outstanding after balance sheet day (gross):

	Status as at	
	31.12.2016	**31.12.2015**
a) up to 1 month	98 703	91 138
b) over 1 month and up to 3 months	29 922	24 831
c) over 3 months and up to 6 months	60	97
d) over 6 months and up to 1 year	293	176
e) over 1 year	-	57
f) overdue receivables	27 345	33 170
Total trade receivables (gross)	**156 323**	**149 469**
Revaluation write-down on receivables	(1 960)	(2 694)
Total trade receivables (net)	**154 363**	**146 775**

Total overdue trade receivables (gross) divided into receivables overdue by:

	Status as at	
	31.12.2016	**31.12.2015**
a) up to 1 month	21 044	24 099
b) over 1 month and up to 3 months	3 094	4 806
c) over 3 months and up to 6 months	1 309	859
d) over 6 months and up to 1 year	403	756
e) over 1 year	1 495	2 650
Total overdue trade receivables (gross)	**27 345**	**33 170**
Revaluation write-down on receivables	(1 704)	(2 694)
Total overdue trade receivables (net)	**25 641**	**30 480**

For terms and conditions of related party transactions refer to note 38. of additional notes and explanations.

Trade receivables are non-interest bearing and are payable on 1 to 3-month terms.

The Group has a policy to sell only to verified customers. Owing to that as the management believes there is no additional credit risk that would not be covered by the doubtful debt revaluation write-down related to trade receivables of the Group.

As at 31 December 2016 the Company's trade receivables in the amount of PLN 1 960 thousand (As at 31 December 2015: PLN 2 694 thousand) were considered as difficult to collect and therefore subject to impairment write-down.

Revaluation write-down on receivables was recognized in the profit and loss account under the item of other operating costs.

Changes in revaluation write-downs on receivables were as follows:

	Change	
Revaluation write-downs on receivables	**2016**	**2015**
Revaluation write-down as at 1 January	2 694	3 196
Foreign exchange differences	21	19
Creation	1 053	155
Used	(1 772)	(449)
Release	(36)	(227)
Revaluation write-down as at 31 December	**1 960**	**2 694**

The table below lists trade receivables which were overdue as at 31 December 2016 and 31 December 2015:

	Total equity	Not overdue	Overdue, but recoverable				
			< 30 dni	30 – 90 dni	90 – 180 dni	180-365 dni	>365 dni
31 dec 2016	154 363	128 722	21 044	3 094	1 309	194	-
31 dec 2015	146 775	116 240	24 073	4 739	775	756	192

25. Receivables from to derivative instruments of financial instruments

	Status as at 31.12.2016	31.12.2015
Fair value of derivative instruments (zero-cost option strategies)	-	5 673
	-	**5 673**

26. Deferrals

Deferrals	Status as at 31.12.2016	31.12.2015
Property and motor insurance	1 571	837
Fairs	108	576
Research and development	910	1 217
Business trips	222	-
Other	420	316
Total deferrals	**3 231**	**3 946**

27. Other short-term financial assets

Other short-term financial assets	Status as at 31.12.2016	31.12.2015
Granted loans	1 030	10
Interest on granted loans	8	-
Other financial assets	124	83
Total other short-term financial assets	**1 162**	**93**

Details concerning loans granted to related entities are presented in point 38 of additional explanatory notes.
On 23 June 2016 Parent Company granted a loan to company Furnirex Sp. z o.o. for the amount of PLN 1 000 thousand. In line with the loan agreement filan drawing may occur until 31 March 2017. The repayment date of the loan was set at 31 December 2017.

28. Cash and cash equivalents

Cash and cash equivalents	Status as at 31.12.2016	31.12.2015
Cash at bank and in hand	58 260	19 268
Other cash (overnight deposits and deposits under three months)	37 618	35 764
Total cash and cash equivalents	**95 878**	**55 032**

Cash and cash equivalents at bank earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents as at 31 December 2016 is PLN 95 878 thousand 31 December 2015 PLN 55 032 thousand).

As per 31 December 2016 the Group had funds in a limited capacity of disposing in the amount of PLN 3 803 thousand (31 December 2015: did not occur). The funds were gathered on a separate bank account and pursuant to the loan agreement blocked until repayment of investment commitment of subsidiary TANNE Sp. z o.o. Final repayment term falls in March 22018.

29. Share capital and supplementary/reserve capital

29.1 Share capital

Share capital (shares in units)	Status as at 31.12.2016	31.12.2015
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
	23 901 084	**23 901 084**

Nominal value of shares

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

Shareholders' rights

Shares of all series are equal with respect to the distribution of votes, dividends or repayment of capital.

Major Shareholders

Shareholders with at least 5% of the total number of shares of the Company as at 20 March 2017:

Item	Shareholder	Number of held shares and votes	% stake in share capital	% share in the overall number of votes
1.	MaForm SARL	7 763 889	32,48%	32,48%
2.	Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	2 300 000	9,62%	9,62%
3.	SKARBIEC Towarzystwo Funduszy Inwestycyjnych S.A. *	2 149 448	8,99%	8,99%
4.	ING Otwarty Fundusz Emerytalny	1 200 000	5,02%	5,02%

* including Bentham Sp. z o. o. 2.050.000 of shares, 8,58% of shares in company capital and general number of votes

29.2 Share premium

In the period covered by the report no change in the level of capital occurred.

29.3. Other capital

Revaluation reserve from financial instruments

	Status as at 31.12.2016	31.12.2015
Opening balance of accumulated result on financial instruments hedging cash flows	4 595	3 925
Amount recognised in equity in the reporting period due to hedging transactions	(17 059)	5 088
Amount recognised in profit and loss account due to:		
- ineffectiveness of the transactions concluded	(113)	(2 255)
- conclusion of transactions subject to hedging	(17)	(2 012)
- discontinuance of hedge accounting	-	
Deferred income tax	3 266	(151)
Closing balance of accumulated result on financial instruments	**(9 328)**	**4 595**

hedging cash flows

Other reserve and supplementary capital

	Statutory supplementary capital	Other reserve capital	Total
As at 01 January 2016	1 250	193 794	195 044
Write-down on gains for investments and the financing of the current activities of the Group	-	54 035	54 035
As at 31 December 2016	**1 250**	**247 829**	**249 079**

	Statutory supplementary capital	Other reserve capital	Total
As at 01 January 2015	1 250	166 562	167 812
Write-down on gains for investments and the financing of the current activities of the Group	-	27 232	27 232
As at 31 December 2015	**1 250**	**193 794**	**195 044**

According to the requirements of the Code of Commercial Companies, the Parent Company is obliged to establish supplementary capital in order to cover losses. At least 8% of profit for the fiscal year reported in the Parent Company's individual financial statements is allocated to the supplementary capital until the capital reaches at least one third of the Parent Company's share capital. The General Meeting of Stockholders takes decisions about the use of the supplementary capital; however a part of the reserve capital in the amount of one third of the initial capital may be only used to cover the loss reported in the individual financial statements of the Parent Company, and it is not subject to distribution to other purposes.

On the basis of the resolutions of the Parent Company's General Meeting reserve capital can be used in particular to increase the share capital or for the payment of dividends to shareholders.

29.4. Retained earnings

	Status as at	
	31.12.2016	**31.12.2015**
Net profit	110 398	84 405
Undistributed profit	41 121	33 982
	151 519	**118 387**

Undistributed profit comes from the valuation of fixed assets at fair value determined at the transition to IFRSs less deferred tax.

There were no restrictions regarding the payment of dividends as at 31 December 2016 (31 December 2015: did not occur).

29.5. Minority share

	Status as at	
	2016	**2015**
At 1 January	3 662	3 694
Dividend pay out to non-controlling shareholders	-	-
Profit share of the subsidiaries	(13)	(32)
Increase of capital in subsidiary transaction with non-controlling shareholders	(443)	-
As of 31 December	**3 206**	**4 662**

29.6Financial 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 should restate equity items (except for retained profit 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 view of the Management Board recognising the above-mentioned adjustment as uncovered losses from previous years is doubtful when it is not clear what the effects of the adjustment are on the basis of the CCC. Therefore, according to the Management Board, recognition of the hyperinflation adjustment directly in the Group's equity shown in the balance sheet could be misleading for the readers of the report, hence, taking into account the provisions of IAS 1. 17 appropriate amounts and method of conversion are included only in the following table (in '000 PLN). Given the information outlined below financial statements present fairly the financial position and cash flows of the Group, and is in compliance with IFRS.

Share capital in the books at the end of 1996	17 308
Share capital after hyperinflation indices	25 758
Result of hyperinflation adjustment on share capital	**(8 450)**
Reserve capital in the books at the end of 1996	50 273
Reserve capital after hyperinflation indices	60 277
Result of hyperinflation adjustment on reserve capital	**(10 004)**
Total result of hyperinflation adjustment on retained profit	**(18 454)**

30. Interest-bearing loans and borrowings

Short-term	Nominal interest rate %	Loan currency	31/12/2016	31/12/2015
mBank S.A. – investment loan in the amount of 2 400 thousand EUR-short-term portion	1M EURIBOR	do 31.12.2018	2 654	2 557
mBank S.A. – capital loan in the amount of EUR 5 000 thous. -short-term portion	depending on the currency used O/N WIBOR or O/N EURIBOR or O/N LIBOR	do 12.12.2019	-	5 065
PKO BP S.A. – investment loan in the amount of EUR 3 500 thousand -short-term portion	1M EURIBOR	do 22.12.2018	4 075	3 140
PKO BP S.A.– capital loan in the amount of PLN 100 000 thousand -short-term portion	depending on the currency used 1M WIBOR or 1M EURIBOR	do 09.06.2019	-	51 138

ING Bank Śląski S.A. – capital loan in the amount of PLN 100 000 thousand- short-term portion	depending on the currency used 1M WIBOR or 1M EURIBOR or 1M LIBOR	do 30.06.2019	-	41 635
ING Bank Śląski S.A. – investment loan cz.A in the amount of EUR 985 thousand- short-term portion	3M EURIBOR	do 29.09.2017	2 615	1 574
ING Bank Śląski S.A. – investment loan cz.A1 in the amount of EUR 1265 thousand- short-term portion	3M EURIBOR	do 31.03.2020	133	-
ING Bank Śląski S.A. – investment loan cz.B in the amount of EUR 4 250 thousand- short-term portion	3M EURIBOR	do 31.12.2021	2 089	-
ING Bank Śląski S.A. – investment loan B in the amount of EUR 15 500 thousand- short-term portion	1M WIBOR	do 15.09.2017	15 500	-
Total short-term			**27 066**	**105 109**

Long-term	Nominal interest rate %	Loan currency	31/12/2016	31/12/2015
PKO BP S.A.– capital loan in the amount of PLN 100 000 thousand – long term portion	depending on the currency used 1M WIBOR or 1M EURIBOR	to 09.06.2019	61 936	-
ING Bank Śląski S.A. – capital loan in the amount of PLN 100 000 thousand- long term portion	depending on the currency used 1M WIBOR or 1M EURIBOR or 1M LIBOR	to 30.06.2019	79 736	-

mBank S.A. – capital loan in the amount of PLN 5 000 thousand – long term portion	depending on the currency used O/N WIBOR or O/N EURIBOR or O/N LIBOR	to 12.12.2019	5 533	-
PKO BP S.A. – investment loan in the amount of EUR 3 500 thousand – long term portion	1M EURIBOR	to 22.12.2018	2 447	6 180
mBank S.A. – investment loan in the amount of EUR 2 400 thousand- long term portion	1M EURIBOR	to 31.12.2018	3 156	4 914
ING Bank Śląski S.A. – investment loan in the amount of EUR 1 265 thousand- short term portion	3M EURIBOR	do 31.03.2020	399	-
ING Bank Śląski S.A. – investment loan in the amount of EUR 4 250 thousand- long term portion	3M EURIBOR	do 31.12.2021	16 715	2 623
ING Bank Śląski S.A. – investment loan A in the amount of PLN 130 000 thousand	1M WIBOR	do 16.12.2019	125 643	-
PKO BP S.A. i BGK – investment loan EUR 140 000 thousand	3 M EURIBOR	do 17.10.2024	95 698	-
Total long-term			**391 263**	**29 325**

Bank loan securities	**As at 31 December 2016**
PKO BP S.A. – investment loan in the amount of 3 500 thousand EUR	1. registered pledge on purchased machines and devices of value no lower than EUR 5 130 thousand 2. assignment of rights from the insurance policy 3. Weksel in blanco bill with promissory note

mBank S.A. – investment loan in the amount of 2 400 thousand EUR	1. Registered pledge on purchased machines and devices up to the maximum amount of surety of EUR 3 600 thousand 2. assignment of rights from the insurance policy
PKO BP S.A. – working capital loan in the amount of PLN 100 000 thousand	1. The aggregate capped contractual mortgage to the amount 120 000 thousand PLN on the right of perpetual usufruct of the developed property of the Issuer and buildings located within this property that constitute objects of property separated from land, located in Hajnówka at ul. 3 Maja and Ostrów Mazowiecka at ul Biała. 2. In blanco promissory note with blank promissory note 3. Assignment of insurance policy rights 4. Registered pledge established on inventory items marked as to the kind, located in the branch in Hajnówka with value of PLN 32 456 thousand.
ING Bank Śląski S.A. – working capital loan in the amount of PLN 100 000 thousand	1. Registered pledge on movable assets in the factory in Suwałki up to a maximum amount of PLN 54 000 thousand 2. Joint capped mortgage up to a maximum amount of PLN 54 000 thousand on the right of perpetual usufruct of land and ownership right of buildings in the factory in Suwałki, together with the assignment of rights under the insurance contract. 3. Registered pledge on factory inventory in Suwałki and Ostów Mazowiecka of minimum value of PLN 65 000 thousand, up to the maximum sum of PLN 120 000 thousand. 4. Cession of rights from insurance policy
mBank S.A. – working capital loan in the amount of EUR 5 000 thousand.	1. In blanco promissory note with blank promissory note 2. Registered pledge on fixed assets up to the maximum amount of security of EUR 6 000 thousand
ING Bank Śląski S.A. – investment loan in the amount of EUR 7 250 thousand	1. Joint capped mortgage up to a maximum amount of EUR 6 000 EUR on ownership right to land and buildings and premises at ul. Gen. W. Andersa in Białystok 2. Registered pledge on storage inventory of high storing in Ostrów Mazowiecka. 3. Cession of rights from insurance policy 4. Surety granted by Parent Company
ING Bank Śląski S.A. – investment loan A and B in the amount of PLN 145 500 thousand	1. Joint capped mortgage up to a maximum amount of PLN 174.600 thousand on the right of perpetual usufruct of land and ownership right of buildings on the right of perpetual usufruct of land and ownership right of buildings and devlices constituting properties located: in Wrocław at ul. Brücknera, ul. Robotnicza; in Przemyśl at ul. Bakończyckiej on proprietary ownersip right to premises located in Kraków at ul. Aleksandry. 2. Registered pledge on protection right to trademarks, word-graphic marks containing the marking „FORTE" up to the highest sum of security PLN 174 600 thousand. 3. Financial pledge on investment cecrtificates up to the highest sum of security of PLN 174 600 thousand 4. Financial and registrered pledge on shares of company purchased by company or companies which are the assets of Fund, up to the highest sum of security PLN 174 600 thousand. 5. Cession of rights from receivables from license agreement for word-graphic trademarks containing the marking "FORTE", included between TERCEIRA a FABRYKAMI MEBLI „FORTE" S.A 6. Cession of rights from insurance policy covering real estate on which mortgages were set; 7. In blanco promissory note with blank promissory note
PKO BP S.A. i BGK – investment loan in the amount of EUR 140 000 thousand	1. Surety granted by Parent Company up to the amount of EUR 105 000 thousand for liabilities of TANNE Sp. z o.o. towards PKO BP S.A stemming from loan agreement, 2. Surety granted by Parent Company up to the amount of EUR 105 000 thousand for liabilities of TANNE Sp. z o.o. towards BGK stemming from loan agreement, 3. Surety granted by Parent Company up to the amount of EUR 18 564 thousand for liabilities of TANNE Sp. z o.o. towards PKO BP S.A stemming from hedging agreement,

4. Surety granted by Parent Company up to the amount of EUR 21 750 thousand for liabilities of TANNE Sp. z o.o. towards BGK stemming from hedging agreement,
5. Guarantee agreement signed by Parent Company
6. Subordination of claims agreement to which Parent Company is entitled towards TANNE Sp. z o.o. to the claims of PKO BP and BGK stemming from Loan and Hedging Agreements,
7. Establishing by Parent Company as claim security of Banks limited property rights in the form of financial and registered pledges on shares of TANNE Sp. z o.o. held by Parent Company,
8. Submission by Parent Company towards PKO BP a declaration on acceptance of enforcement from entire Company assets up to the amount of EUR 105 000 thousand related to provision of surety to Loan Agreement,
9. Submission by Parent Company towards BGK a declaration on acceptance of enforcement from entire Company assets up to the amount of EUR 105 000 thousand related to provision of surety to Loan Agreement,
10. Submission by Parent Company towards PKO BP a declaration on acceptance of enforcement from entire Company assets up to the amount of EUR 18 564 thousand related to provision of surety to Hedging Agreement,
11. Submission by Parent Company towards BGK a declaration on acceptance of enforcement from entire Company assets up to the amount of EUR 21 750 thousand related to provision of surety to Hedging Agreement,
12. Submission by Parent Company towards PKO BP a declaration on acceptance of enforcement from shares subjected to registered pledge set towards PKO BP as pledge administrator (to secure claims stemmig from Loan Agreement) up to the amount of EUR 210 000 thousand,
13. Submission by Parent Company towards PKO BP a declaration on acceptance of enforcement from shares subjected to registered pledge set towards PKO BP as pledge administrator (to secure claims stemming from Hedging Agreement) up to the amount of EUR 40 314 thousand,
14. Establishing towards PKO BP as pledge administrator, registered pledge on set of items and rights comprising TANNE Sp. z o.o. enterprise,
15. Conclusion of management agreement over the enterprise TANNE Sp. z o.o. or enterprise lease agreement in case of pursuit of claims by PKO BP as administrator of pledge, satisfying from subject of pledge, with items indicated by PKO BP in a way specified in the pledge agreement, as well as grating PoAs in line with pledge agreement,
16. Establishing limited property rights in the form of mortgages for ownership rights to which TANNE Sp. z o.o. is entitled to property located in Suwałki, consisting of plot of land with number 32812/6
17. Conclusion and conduct of cession agreement of rights to agreements, pursuant to which TANNE Sp. z o.o. will perform towards PKO BP, as assignee and agent on securities, a transfer of financial rights and financial claims on account of documents of which TANNE (at present or in the future) is party or beneficiary,
18. Establishing by TANNE Sp. z o.o. limited property rights in the form of financial and registered pledges on rights to open bank accounts and ones conducted for the Company, as well as granting PoAs for management and conduct of regulations with regards to open and conducted accounts for the Company,
19. Conclusion and execution by TANNE Sp. z o.o claim subordination agreement for claims to which Company creditors are entitled, to Bank creditors, stemming from Loan Agreements and Hedging Agreements,
20. Conclusion and execution by TANNE Sp. z o.o direct agreements with PKO BP (acting for the Banks as agent on securities) and Company clients,
21. Submission by TANNE Sp. z o.o towards PKO BP and BGK a declaration on acceptance of enforcement as to fianncial liability of the Company towards PKO BP stemming from Loan Agreement and repayment of any claims to PKO BP related to the loan, up to the amount of EUR 105 000 thousand,
22. Submission by TANNE Sp. z o.o towards PKO BP and BGK a declaration on acceptance of enforcement as to financial liability of the Company towards PKO BP stemming from Hedging Agreement and repayment of any claims to PKO BP related to the loan, up to the amount of EUR 18 564 thousand,
23. Submission by TANNE Sp. z o.o towards BGK a declaration on acceptance of enforcement as to financial liability of the Company towards BGK stemming from Hedging Agreement and repayment of any claims to PKO BP related to the loan, up to the amount of EUR 21 750 thousand,

At the normal percentage rate one must consider in addition the negotiated bank margins which reflect the risk related to Group financing.

Breakdown of loans due to currency type (translated into PLN, in PLN `000)

Currency	Status as at	
	31.12.2016	**31.12.2015**
PLN	141 143	-

EUR	253 853	117 667
USD	23 333	16 767
	418 329	**134 434**

On 10.06.2016, the Board of Directors of the Parent Company signed with Powszechna Kasa Oszczędności Bank Polski S.A. an annex to the loan agreement on current account from 14 February 2000. Under and in terms of this annex, the maximum loan amount was increased in 55 000 thousand PLN, i.e. to 100 000 thousand PLN and the maturity date was extended to 09 June 2019.

On 28 June 2016 DYSTRI-FORTE Sp. z o.o. concluded with ING Bank Śląski SA annex to the investment loan agreement for total amount of EUR 7 250 thousand. The description of conditions and securities of the taken loan have been presented in table above. The annex changed the definition of end date of loan and period of its availability.

On 12.08.2016 the Board of Directors of the Parent Company signed with ING Bank Śląski S.A. another complementary agreement to the credit agreement of 24 June 2003. The subject matter of the complementary agreement was increase in the amount of credit up to the amount from PLN 45 000 000 up to 100 000 thousand PLN and extension of availability period for the loan up to 30 June 2019.

On 15 December 2016 the Corporate Management concluded an annex with mBank S.A. to overdraft agreement dated 20 December 2013. Under and in terms of this annex, the maximum loan amount was increased up to the amount of 5 000 thousand EUR and the maturity date was extended to 12 December 2019.

On 17 October 2016 TANNE Sp. z o.o. concluded with Powszechna Kasa Oszczędności Bank Polski S.A. and Bank Gospodarstwa Krajowego a loan agreement for the maximum amount of EUR 140 000 thousand designated to cover parts of costs of construction of chip board plant. Final repayment term for the loan was set in October 2024. Description of securities of loan have been presented in the above note.

On 16 December 2016 TERCEIRA Sp. z o. o. concluded with ING Bank Śląski S. A. an agreement pursuant to which ING made available to the Company credit line of maximum volume of PLN 145 500 thousand with designation for purchase of non-public investment certificates issued in series by SEZAM XX Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych managed by SKARBIEC Towarzystwo Funduszy Inwestycyjnych S.A. with its seat in Warsaw. Final repayment date for the loan was set in December 2019. Description of loan securities has been presented in the note above.

31. Provisions and accruals

31.1 Change in provisions

Provision for employee benefits after the employment period has been described in note 17.2.

31.2 Deferred revenues and accruals

	Status as at	
Long-term accruals	**31.12.2016**	**31.12.2015**
Long-term accrued/deferred income due to:		
Subsidy to purchased tangible fixed assets	13	37

Short-term accruals	**31.12.2016**	**31.12.2015**
Accrued/deferred expenses due to:		
Commissions	3 331	2 380
Bonuses for customers	30 041	18 552
Bonuses	7 670	5 102
Leaves	2 577	2 051
Balance sheet audit costs	46	158
External services	11 253	4 369

Other costs	883	251
Short-term provisions:		
Short-term provision for benefits after the employment period	422	122
Guarantee repairs	2 133	1 850
Other Provisions		-
Accrued/deferred income due to::		
Subsidy to purchased tangible fixed assets	24	24
	58 380	**34 859**

The Group creates a provision for the costs of expected 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.

As at the balance sheet date ended 31 June 2016, the Group created a provision for the bonus for the Management Board in the amount of PLN 7 670 thousand.

The amount of PLN 30 041 thousand is a provision created by the Group for future bonuses payable due to sales realised in 2016, payment of which will be realized through their deduction from payments which shall occur post the balancing date.

The amount of PLN 11 253 is a reserve created by the Group for costs of external services, in particular: marketing, transport, insurance on claims and utilization.

32. Trade and other liabilities (short-term)

	Status as at	
	31.12.2016	**31.12.2015**
Liabilities arising from supplies and services	**70 166**	**53 720**
Towards related entities	411	339
To other entities	69 168	53 063
Advances for deliveries	587	318
	6 558	**5 556**
Liabilities from tax, customs, social insurance and other benefits	606	427
VAT	1 284	1 075
Personal income tax	4 041	3 676
Social insurance	627	378
Other		
	37 406	**14 777**
	13 200	11 951
Other liabilities	22 159	1 584
Payroll liabilities to employees	2 047	1 242
Capital commitments	**114 130**	**74 053**
Other liabilities		
	10 176	**3 777**
Liabilities relating to corporate income tax	**124 306**	**77 830**

Terms and conditions of the above financial liabilities

For terms and conditions of related party transactions, refer to point 38 of additional notes and explanations. 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 the liabilities and receivables from taxes on goods and services is paid to the relevant tax authorities on a monthly basis. Interest payable is normally settled at maturity periods throughout the financial year.

33. Contingent liabilities

•On 27 March 2013, the Company issued four guarantees for loans taken out by FURNIREX Sp. z o.o. with its registered seat in Hajnówka to finance a technological investment to a total amount of PLN 18 299 thousand. FURNIREX Sp. z o.o. made an offer to the Company, according to which it invested the funds received under the technological loans in modern investments located in a production area in Hajnówka leased from Forte. FURNIREX Sp. z o.o. uses modern technologies to provide services of processing entrusted material for FORTE and other furniture manufacturers. Guarantees were granted for BRE Bank S.A. (currently mBank S.A.) for the period to 30.06.2018. Balance of loans as at 31.12.2016 amounts to PLN 1 464 thousand.

•On 28.06.2016, the Company provided a guarantee and committed to pay all cash liabilities of the subsidiary DYSTRI-FORTE Sp. z o.o., having its registered office in Warsaw at Nowogrodzka 50 flat 515 , resulting from the credit agreement of 14 December 2015 concluded between DYSTRI-FORTE Sp. z o.o. and ING Bank Śląski SA. The Company undertook to satisfy any liabilities of the Borrower, covering, in particular, full repayment of the principal amount of the credit, interests, commission, fees and other costs, up to the amount of EUR 8 700 000, until 29 October 2024. As at 31.12.2016, the credit balance amounts to PLN 21 951 000.

- In the reporting period ended on 31 December 2016 the Company granted the following collateral security on investment liabilities of the subsidiary company 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 produce strand boards. The total net value of the agreement amounts to 23 650 thousand EUR. Investment project completion is planned for July 2018. The balance of outstanding liabilities for the end of the reporting period is 11 636 thousand EUR.
  - to Büttner Energie - und Trocknungstechnik GmbH arising from the agreement for design, delivery, installation and launching part of the production line to produce strand boards. The total net value of the agreement amounts to 15 000 thousand EUR. Investment project completion is planned for March 2018. The balance of outstanding liabilities for the end of the reporting period is 7 380 thousand EUR.
  - to PAL SRL arising from the agreement for design, delivery, installation and launching part of the production line to produce strand boards. The total net value of the investment amounts to 22 947 thousand EUR. Investment project completion is planned for May 2018. The balance of outstanding liabilities for the end of the reporting period is 13 768 thousand EUR.
  - to BUDIMEX S.A. arising from the agreement to perform investment task according to the general contracting system in the form of designing and building the production and warehouse facility, whose area is around 33 600 m2 in a fully finished condition. The total net value of the investment amounts to 28 550 thousand EUR. Investment project completion is planned for February 2017. Liability expiry is set for 28 February 2017. The balance of outstanding liabilities for the end of the reporting period is 7 657 thousand PLN.
  - to EWK Umwelttechnik GmbH arising from the agreement to perform investment task in the form of designing and installing the air purification system. The total net value of the agreement amounts to 4 700 thousand EUR. Liability expiry is set for 31 December 2019. The balance of outstanding liabilities for the end of the reporting period is 4 230 thousand EUR.
  - to Robert Burkle GmbH arising from the agreement to perform investment task in the form of designing and installing the pasting line. The total net value of the agreement amounts to 3 125 thousand EUR. Liability expiry is set for 31 December 2017. The balance of outstanding liabilities for the end of the reporting period is 2 187 thousand EUR.
- In the reporting period ended on 31 December 2016 the Company granted the following collateral security on credit facilities of the subsidiary company TANNE Sp. z o. o.:
  - guarantee up to the amount of 105 000 thousand EUR for TANNE Sp. z o.o liabilities to PKO BP S.A. arising from the Loan Agreement
  - guarantee up to the amount of 105 000 thousand EUR for TANNE Sp. z o.o liabilities to BGK arising from the Loan Agreement
  - guarantee up to the amount of 18 564 thousand EUR for TANNE Sp. z o.o liabilities to PKO BP S.A. arising from the Loan Agreement
  - guarantee up to the amount of 21 750 thousand EUR for TANNE Sp. z o.o liabilities to BGK arising from the Hedge Contract
  - Guarantee agreement concluded by Parent Company
  - subordination agreement appertaining to the Company against TANNE Sp. z o.o receivables of PKO BP S.A. and BGK arising from the Loan Agreement and Hedge Contracts
  - establishment as Bank claims collateral of limited property rights in the form of pledge over financial instruments and registered pledge on the shares of TANNE Sp. z o.o owned by the Company,

- declaration in favour of PKO BP S.A. on submission to enforcement on the basis of Art. 777 § 1, point 5) of the Code of Civil Procedure, of all of the Company's assets up to the amount of 105 000 thousand EUR relevant to the surety of the Loan Agreement,
- declaration in favour of BGK on submission to enforcement on the basis of Art. 777 § 1, point 5) of the Code of Civil Procedure, of all of the Company's assets up to the amount of 105 000 thousand EUR relevant to the surety of the Loan Agreement,
- declaration in favour of PKO BP S.A. on submission to enforcement on the basis of Art. 777 § 1, point 5) of the Code of Civil Procedure, of all of the Company's assets up to the amount of 18 564 thousand EUR relevant to the surety of the Hedge Contract,
- declaration in favour of BGK on submission to enforcement on the basis of Art. 777 § 1, point 5) of the Code of Civil Procedure, of all of the Company's assets up to the amount of 21 750 thousand EUR relevant to the surety of the Hedge Contract
- declaration in favour of PKO BP S.A. on submission to enforcement on the basis of Art. 777 § 1, point 6) of the Code of Civil Procedure, of the shares covered by the registered pledge up to the amount of 210 000 thousand EUR relevant to the surety of the Loan Agreement
- declaration in favour of PKO BP S.A. on submission to enforcement on the basis of Art. 777 § 1, point 6) of the Code of Civil Procedure, of the shares covered by the registered pledge up to the amount of 40 314 thousand EUR relevant to the surety of the Hedge Contract
- Establishing towards PKO BP as pledge administrator, registered pledge on set of items and rights comprising TANNE Sp. z o.o. enterprise,
- Conclusion of management agreement over the enterprise TANNE Sp. z o.o. or enterprise lease agreement in case of pursuit of claims by PKO BP as administrator of pledge, satisfying from subject of pledge, with items indicated by PKO BP in a way specified in the pledge agreement, as well as grating PoAs in line with pledge agreement,
- Establishing limited property rights in the form of mortgages for ownership rights to which TANNE Sp. z o.o. is entitled to property located in Suwałki, consisting of plot of land with number 32812/6
- Conclusion and conduct of cession agreement of rights to agreements, pursuant to which TANNE Sp. z o.o. will perform towards PKO BP, as assignee and agent on securities, a transfer of financial rights and financial claims on account of documents of which TANNE (at present or in the future) is party or beneficiary,
- Establishing by TANNE Sp. z o.o. limited property rights in the form of financial and registered pledges on rights to open bank accounts and ones conducted for the Company, as well as granting PoAs for management and conduct of regulations with regards to open and conducted accounts for the Company,
- Conclusion and execution by TANNE Sp. z o.o claim subordination agreement for claims to which Company creditors are entitled, to Bank creditors, stemming from Loan Agreements and Hedging Agreements,
- Conclusion and execution by TANNE Sp. z o.o direct agreements with PKO BP (acting for the Banks as agent on securities) and Company clients,
- Submission by TANNE Sp. z o.o towards PKO BP and BGK a declaration on acceptance of enforcement as to fianncial liability of the Company towards PKO BP stemming from Loan Agreement and repayment of any claims to PKO BP related to the loan, up to the amount of EUR 105 000 thousand,
- Submission by TANNE Sp. z o.o towards PKO BP and BGK a declaration on acceptance of enforcement as to financial liability of the Company towards PKO BP stemming from Hedging Agreement and repayment of any claims to PKO BP related to the loan, up to the amount of EUR 18 564 thousand,
- Submission by TANNE Sp. z o.o towards BGK a declaration on acceptance of enforcement as to financial liability of the Company towards BGK stemming from Hedging Agreement and repayment of any claims to PKO BP related to the loan, up to the amount of EUR 21 750 thousand,

34. Court cases

There are no court proceedings whose total value constitutes at least 10% of the Group's own funds.

35. Financial instruments

35.1 Carrying value

Classification of financial instruments according to IAS 39 as at 31 December 2016									
	Financial assets held to maturity	Financial assets at fair value through profit or loss,	financial assets available for sale.	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities valued at amortised cost	Hedging instruments	Financial liabilities excluded from IAS 39	**Total**
Financial fixed assets:	**-**	**-**	**157 203**	**88**	**-**	**-**	**-**	**-**	**157 291**
Financial assets	-	-	157 203	88	-	-	-	-	157 291
Financial current assets:	-	**-**	**124**	**391 097**	**-**	**-**	**-**	**-**	**391 221**
Receivables from supplies and services as well as other receivables	-	-	-	294 181	-	-	-	-	294 181
Receivables from derivative instruments	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	95 878	-	-	-	-	95 878
Other financial assets	-	-	124	1 038	-	-	-	-	1 162
Long-term financial liabilities:	-	-	-	-	-	**(391 263)**	-	**(842)**	**(392 105)**
Interest-bearing loans and borrowings	-	-	-	-	-	(391 263)	-	-	(391 263)
Financial liabilities due to lease -	-	-	-	-	-	-	-	(842)	(842)
Other financial liabilities	-	-	-	-	-	-	-	-	-
Short-term liabilities	**-**	**-**	**-**	**-**	**-**	**(121 438)**	**(11 517)**	**(1 076)**	**(134 031)**
Liabilities arising from supplies and services as well as other liabilities	-	-	-	-	-	(94 372)	-	-	(94 372)
Liabilities related to derivative instruments	-	-	-	-	-	-	(11 517)	-	(11 517)
Current portion of loans and borrowings	-	-	-	-	-	(27 066)	-	-	(27 066)
Financial liabilities due to lease	-	-	-	-	-	-	-	(1 076)	(1 076)
	-	**-**	**157 327**	**391 185**	**-**	**(512 701)**	**(11 517)**	**(1 918)**	**22 376**

Classification of financial instruments according to IAS 39 as at 31 December 2015									
	Financial assets held to maturity	Financial assets at fair value through profit or loss,	financial assets available for sale.	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities valued at amortised cost	Hedging instruments	Financial liabilities excluded from IAS 39	**Total**
Financial fixed assets:	**-**	**-**	**3**	**43**	**-**	**-**	**-**	**-**	**46**
Financial assets	-	-	3	43	-	-	-	-	46
Financial current assets:	-	**-**	**83**	**204 847**	**-**	**-**	**5 673**	**-**	**210 603**
Receivables from supplies and services as well as other receivables	-	-	-	149 805	-	-	-	-	149 805
Receivables from derivative instruments	-	-	-	-	-	-	5 673	-	5 673
Cash and cash equivalents	-	-	-	55 032	-	-	-	-	55 032
Other financial assets	-	-	83	10	-	-	-	-	93
Long-term financial liabilities:	-	-	-	-	-	**(29 325)**	**-**	**(1 231)**	**(30 556)**
Interest-bearing loans and borrowings	-	-	-	-	-	(29 325)	-	-	(29 325)
Financial liabilities due to lease -	-	-	-	-	-	-	-	(1 231)	(1 231)
Other financial liabilities	-	-	-	-	-	-	-	-	-
Short-term liabilities	**-**	**-**	**-**	**-**	**-**	**(161 655)**	**-**	**(999)**	**(162 654)**
Liabilities arising from supplies and services as well as other liabilities	-	-	-	-	-	(56 546)	-	-	(56 546)
Liabilities related to derivative instruments	-	-	-	-	-	-	-	-	-
Current portion of loans and borrowings	-	-	-	-	-	(105 109)	-	-	(105 109)
Financial liabilities due to lease	-	-	-	-	-	-	-	(999)	(999)
	-	**-**	**86**	**204 890**	**-**	**(190 980)**	**5 673**	**(2 230)**	**17 439**

35.2Fair value

	As at 31 December 2016		As at 31 December 2015	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial fixed assets	157 203	157 203	3	3
Receivables from derivative instruments	-	-	5 673	5 673
Cash and cash equivalents	95 878	95 878	55 032	55 032
Other current financial assets 731	1 162	1 162	93	93
Interest-bearing loans and borrowings	(391 263)	(391 263)	(29 325)	(29 325)
Financial liabilities due to lease	(842)	(842)	(1 231)	(1 231)
Other long-term financial liabilities	-	-	-	-
Liabilities related to derivative instruments	(11 517)	(11 517)	-	-
Current portion of loans and borrowings	(27 066)	(27 066)	(105 109)	(105 109)
Financial liabilities due to lease	(1 076)	(1 076)	(999)	(999)

The Group does not compare the carrying amounts and fair values of the classes of financial instruments that are of short-term receivable or liability nature.

Shares and interest included in the available-for-sale financial assets relate to non-quoted entities with regard to which there is no possibility of determining their actual fair value using alternative methods are valuated at the purchase price adjusted by any impairment write-downs.

35.3Fair value hierarchy

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

	As at 31 December 2016		As at 31 December 2015	
	Level 2	**Level 3**	**Level 2**	**Level 3**
Financial fixed assets	-	3	-	3
Receivables from derivative instruments	-	-	5 673	-
Liabilities related to derivative instruments	(11 517)	-	-	-
	(11 517)	**3**	**5 673**	**3**

Methods of determining fair value of financial instruments

Level I

In the reporting period ended 31 December 2016 the Group had no financial instruments measured at fair value classified to level I (as at 31 December 2015: none).

Level II

For level II the Group classifies receivables or liabilities from derivative instruments. Changes in fair value of derivatives that meet hedge accounting criteria include, in part, effective for the Group's equity and the ineffective portion in the profit and loss account. At the time of implementation of the hedged sales revenue, changes in fair value of hedging instruments are recognised in the profit and loss account. Changes in the fair value of derivative instruments which do not meet the criteria for applying hedge accounting policies are recognized in the profit and loss account for the current period.

Fair value of derivatives is determined using valuation models for financial instruments and publicly available exchange rates (exchange rate for EUR – 4.4240) and interest rates (IM -12 M WIBID, 1M-12M EURIBOR). Indicators of exchange rates volatility are sourced from Reuters or Bloomberg.

The Company uses Garman-Kohlhagen model for the valuation of European options.

Exchange rates at which currency options are executes are presented in note 36.2 Hedge accounting.

Level III

Level III covers shares in non-listed companies, for which it is not possible to reliably determine their fair value. For these companies, there are no active markets and no comparable transactions with the use of the same instruments. In the statement of financial situation, these shares are valued at the purchase price net of impairment write-downs.

	As at:	
	31.12.2016	**31.12.2015**
As of the beginning of the period	3	3
Revaluation write-downs	-	-
Sale	-	-
As of the end of the period	**3**	**3**

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

35.4Income, costs, profit and loss positions related to financial instruments recognised in the profit and loss account

Income, costs, profit and loss positions (including interest-related income and costs) as at 31 December 2016

	Financial assets held to maturity	Assets/financial liabilities at fair value through profit or loss	financial assets available for sale.	Loans and receivables	Financial liabilities valued at amortised cost	Hedging instruments	Financial liabilities excluded from IAS 39	**Total**
Income/(expense) due to interest	-	-	-	546	(1 683)	-	(69)	(1 206)
Foreign exchange profits/(losses)	-	-	-	6 934	(10 059)	-	(32)	(3 157)
(Establishment)/reversal of revaluation write-downs	-	-	-	(576)	-	-	-	(576)
Dividends	-	-	11	-	-	-	-	11
Profits/(losses) on sale/execution of financial instruments	-	-	-	-	-	-	-	-
Adjustment of sales due to hedging transactions	-	-	-	-	-	18	-	18
Profits/(losses) due to the valuation and execution of derivatives in the period	-	-	-	-	-	113	-	113
Net profit(loss) total	**-**	**-**	**11**	**6 904**	**(11 742)**	**131**	**(101)**	**(4 797)**

Income, costs, profit and loss positions (including interest-related income and costs) as at 31 December 2015								
	Financial assets held to maturity	Assets/financial liabilities at fair value through profit or loss	financial assets available for sale.	Loans and receivables	Financial liabilities valued at amortised cost	Hedging instruments	Financial liabilities excluded from IAS 39	**Total**
Income/(expense) due to interest	-	-	-	947	(1 056)	-	(132)	**(241)**
Foreign exchange profits/(losses)	-	-	-	(649)	(1 024)	-	-	**(1 673)**
(Establishment)/reversal of revaluation write-downs	-	-	-	142	-	-	-	**142**
Dividends	-	-	26	-	-	-	-	**26**
Profits/(losses) on sale/execution of financial instruments	-	-	-	-	-	-	-	**-**
Adjustment of sales due to hedging transactions	-	-	-	-	-	2 011	-	**2 012**
Profits/(losses) due to the valuation and execution of derivatives in the period	-	-	-	-	-	2 255	-	**2 255**
Net profit(loss) total	**-**	**-**	**26**	**440**	**(2 080)**	**4 266**	**(132)**	**3 521**

36. Financial risk management objectives and policies

Apart from derivatives, the Group's principal financial instruments comprise bank loans, bonds, cash, treasury bills and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors and contract liabilities, which arise directly from its operations. The Group also performs transactions involving derivatives, primarily zero-cost option strategies. The purpose of these transactions is to manage interest rate risk and currency risk arising in the course of business activity of the Group.
It is – and has been throughout the audited period – the Group's policy that no trading in financial instruments shall be undertaken.
The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Management Board verifies and agrees policies for managing each of these risks and they are summarised below. The Group also monitors the market price risk arising from all financial instruments. The accounting policies of the Group relating to derivatives are set out in note 8.19 and 8.20.

36.1Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations. that bear interest at floating interest rates (WIBOR, EURIBOR, LIBOR) increased by a margin. In order to analyse the sensitivity to changes in the interest rate of long-term financial liabilities of the Group, i.e. loans and obligations under financial lease, their interest rate has been assumed to decline per annum for EURIBOR by 0.01 percentage point and increase per annum for WIBOR by 0.10 percentage point, as well as increase for LIBOR – by 0.55 percentage point. (2015: WIBOR- an decrease by 0.20 percentage points; EURIBOR decrease by 0.05 percentage point, LIBOR – increase by 0.30 percentage point)

The Group does not have any hedging instruments against interest rate risk.

Interest rate risk – sensitivity analysis

The following table shows the sensitivity of gross financial result to reasonably possible changes in interest rates assuming that other factors do not change, in relation to liabilities bearing floating interest rate. No impact has been shown on the Group's equity.

	Increase in percentage points	Impact on gross financial result
Year ended 31.12.2016		
PLN	-0,10%	(1)
EUR	-0,01%	(24)
USD	0,55%	128
Year ended 31.12.2015		
PLN	-0,20%	(1)
EUR	-0,05%	(15)
USD	0,30%	-

The carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk.

31 December 2016 – 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
Financial lease	1 076	842	-	-	1 918

31 December 2016 – variable interest rate

	<1 year	1–2 years	2-5 years	> 5 years	Total
Bank loans	105 109	8 714	16 939	3 672	134 434
Financial lease	999	1 231	-	-	2 230

The effective interest rate for loans taken by the Group as at 31 December 2016 was 0.1,5494 % (in 2015: 0.8513 %).
Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

36.2 Currency risk

The Group has sales transactions currency exposures. Such an exposure arises from sales and purchases made by an operating unit in currencies other than its functional currency. Approximately 83% of the Group's sales transactions are denominated in currencies other than the functional currency of the operating unit performing the sales.

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

The following table shows the sensitivity of gross profit due to changes in the fair value of monetary assets and liabilities to reasonably
possible fluctuations in the EUR, GBP and USD (in total) assuming that other factor do not change.

For the needs of the analysis assumptions were made regarding changes in currency exchange rates based on published market forecasts: for data on 31 December 2016 an increase was assumed of all the mentioned exchange rates by. 1% for EURO and 5% for USD (2015: increase of EUR by 3% and USD by 10%) and a decrease of EURO by 5% over the year (2015: decrease by 3%)

	Percentage changes in rates	Impact on gross financial result	Impact on equity
31 December 2016			
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)	-
Financial lease	+1%	(24)	-
Total influence of increase of the exchange rate		**(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	-
Financial lease	-5 %	(365)	-
Total impact of exchange drop		**6 410**	**43 710**

	Percentage changes in rates	Impact on gross financial result	Impact on equity
31 December 2015			
Trade receivables	+3%/ +10%	3 820	-
Loans granted	+3%/ +10%	1	-
Cash	+3%/ +10%	264	-
Hedging instruments	+3%/ +10%	-	(2 333)
Trade liabilities	+3%/ +10%	(857)	-
Bank loans	+3%/ +10%	(4 872)	-
Financial lease	+3%/ +10%	(30)	-
Total influence of increase of the exchange rate		**(1 674)**	**(2 333)**
Trade receivables	- 3 %	(3 742)	-
Loans granted	- 3 %	(1)	-

Cash	- 3 %	(262)	-
Hedging instruments	- 3 %	-	25 124
Trade liabilities	- 3 %	857	-
Bank loans	- 3 %	3 699	-
Financial lease	- 3 %	(1 703)	-
Total impact of exchange drop		**(1 152)**	**25 124**

Currency risk hedging

The basic method of managing the currency risk hedging strategies use derivative instrument.
To hedge future foreign currency transactions, the Company uses symmetrical option strategies.

The impact of derivatives on the statement of financial position.

As per 31 December 2015 the fair value of open items within derivative instruments amounted to PLN 11 517 thousand and it was entirely covered as liability on account of derivative financial instrumetns.

The impact of derivatives on financial result and other comprehensive income

In the reporting period ended 31 December 2016, the result on derivatives amounted to PLN 131 thousand and concerned realization of expiring option strategies covered by hedge accounting (status as at 31 December 2015 PLN 4266thousand).

The impact of derivatives on the result of the period

	01.01.-31.12.2016	**01.01.-31.12.2015**
Influence on sales revenue	18	2 011
Impact on other operating revenue/costs, of which:	113	2 255
- due to the execution of derivatives in the period	*113*	*2 255*
- due to the valuation of derivatives in the period	-	-
Proceeds from derivatives on the result of the period, in total:	**131**	**4 266**

Hedge accounting

Summary of the more important hedge accounting policies has been presented in note 8.20. According to them, changes in fair value of hedging instruments include, in part, the effective equity of the Parent Company and the ineffective portion in the profit and loss account. At the time of implementation of the hedged sales revenue, changes in fair value of hedging instruments are recognised in the profit and loss account.

Not less frequently than at hedge inception and on the last day of each month, assessment of the prospective effectiveness is made by comparing the cumulative change in fair value of the hedging instrument to the cumulative change in the value of future cash flows.
At the end of each month, measurement is performed of the effectiveness of hedging – retrospective efficiency – 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.

Revaluation reserve from hedging instruments

Revaluation reserve from financial instruments is presented in item 29.3 of additional explanatory notes.

Fair value foreign exchange contracts

As at 31 December 2016, the fair value of foreign exchange contracts that meet the criteria for hedge accounting amounted to PLN 11 517 thousand and as the effective value it was recognised in total in reserves from revaluation and in liabilities on account of derivative instruments

The following table contains data on the fair values and the related settlement terms, as well as summary information on the amount (volume) that constitutes the basis of future payments and the price of execution of effective forward contracts. Settlement terms are consistent with the terms in which the amount charged to the revaluation reserve in respect of the transaction will be charged to the profit and loss account.

Currency	Amount in currency	Type of transaction	Date of conclusion	Date of performance	Exchange rate	Name of the Bank	Fair value
EUR	9 000	Option Put	06.2015	07-09.2017	4,2260	PKO BP S.A.	185
EUR	9 000	Option Call	06.2015	07-09.2017	4,5000	PKO BP S.A.	(957)
EUR	21 000	Option Put	07.2015	07-12.2017	4,2700	PKO BP S.A.	742
EUR	21 000	Option Call	07.2015	07-12.2017	4,5166	PKO BP S.A.	(2 476)
EUR	15 500	Option Put	08.2015	09.2017-06.2018	4,2800	PKO BP S.A.	774
EUR	15 500	Option Call	08.2015	09.2017-06.2018	4,6670	PKO BP S.A.	(1 561)
EUR	42 000	Option Put	10.2015	01.2017-09.2018	4,3000	PKO BP S.A.	2 232
EUR	42 000	Option Call	10.2015	01.2018-09.2018	4,6300	PKO BP S.A.	(4 890)
EUR	12 000	Option Put	11.2015	10.2018-11.2018	4,3000	PKO BP S.A.	880
EUR	12 000	Option Call	11.2015	10.2018-11.2018	4,7070	PKO BP S.A.	(1 857)
EUR	24 000	Option Put	04.2016	01-03.2019	4,3500-4,4000	PKO BP S.A.	2 407
EUR	24 000	Option Call	04.2016	01-03.2019	4,8500-4,9250	PKO BP S.A.	(2 960)
EUR	18 000	Option Put	08.2016	07-08.2019	4,3500-4,4000	PKO BP S.A.	2 708
EUR	18 000	Option Call	08.2016	07-08.2019	4,8500-4,9250	PKO BP S.A.	(3 656)
EUR	8 000	Option Put	10.2016	10.2019	4,4500	PKO BP S.A.	2 214
EUR	8 000	Option Call	10.2016	10.2019	4,8850	PKO BP S.A.	(2 658)
EUR	8 000	Option Put	11.2016	11.2019	4,5000	PKO BP S.A.	2 542
EUR	8 000	Option Call	11.2016	11.2019	5,1400	PKO BP S.A.	(1 662)
total						**PKO BP S.A.**	**(7 993)**
EUR	10 500	Option Put	12.2014	01-03.2017	4,3000	mBank S.A.	39
EUR	10 500	Option Call	12.2014	01-03.2017	4,6030-4,6770	mBank S.A.	(19)
EUR	18 500	Option Put	08.2015	09.2017-06.2018	4,2800	mBank S.A.	886
EUR	18 500	Option Call	08.2015	09.2017-06.2018	4,6400	mBank S.A.	(1 912)
EUR	25 500	Option Put	12.2015	08-11.2018	4,3500	mBank S.A.	1 989
EUR	25 500	Option Call	12.2015	08-11.2018	4,6700	mBank S.A.	(3 230)
EUR	5 000	Option Put	05.2016	01-04.2019	4,4500	mBank S.A.	654
EUR	5 000	Option Call	05.2016	01-04.2019	4,9250	mBank S.A.	(577)
EUR	7 000	Option Put	10.2016	09.2019	4,4000	mBank S.A.	1 672
EUR	7 000	Option Call	10.2016	09.2019	4,9080	mBank S.A.	(2 158)
total						**mBank S.A.**	**(2 656)**
EUR	32 000	Option Put	06.2015	01-06.2017	4,2000	ING Bank Śląski S.A.	135
EUR	32 000	Option Call	06.2015	01-06.2017	4,4818	ING Bank Śląski S.A.	(1 799)

EUR	37 000	Option Put	01.2016	10.2017-12.2018	4,4500	ING Bank Śląski S.A.	4 338
EUR	37 000	Option Call	01.2016	10.2017-12.2018	4,7800	ING Bank Śląski S.A.	(3 763)
EUR	15 000	Option Put	04.2016	01-03.2019	4,4000	ING Bank Śląski S.A.	1 663
EUR	15 000	Option Call	04.2016	01-03.2019	4,8950	ING Bank Śląski S.A.	(1 774)
EUR	10 000	Option Put	05.2016	04.2019	4,4500	ING Bank Śląski S.A.	1 322
EUR	10 000	Option Call	05.2016	04.2019	4,9600	ING Bank Śląski S.A.	(1 120)
EUR	22 000	Option Put	06.2016	05-06.2019	4,4500	ING Bank Śląski S.A.	2 943
EUR	22 000	Option Call	06.2016	05-06.2019	4,9300	ING Bank Śląski S.A.	(2 813)
total						**ING Bank Śląski S.A.**	**(868)**

Risks related to forward foreign exchange contracts are the risks of interest rate, exchange rate and the insolvency of a given counterparty. Credit risk is limited, however, because the counterparty to the transaction are banks with high financial standing.

36.3 Credit risk

The Group operates a procedure for granting the counterparty trade credit limit and describing its form of security. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.
A greater part of the trade receivables is insured, or secured by bank guarantees due to the central settlement. In addition, receivables from counterparties are regularly monitored by the trade and financial regulatory bodies. In the event of overdue receivables, in accordance with the applicable procedures sales are halted and debt collection begins.
With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments with positive fair value, the Group's exposure to credit risk arises from default of the counter party.

There are no significant concentrations of credit risk within the Group.

36.4 Liquidity risk

The lack of funds risk is monitored by the Group with the use of the periodical liquidity planning tool. This tool takes into account the maturity dates of investments and financial assets (e.g. receivable accounts, other financial assets) as well as projected cash flows from operating activity.
The Group's objective is to maintain balance between the continuity and flexibility of funding through the use of various sources such as bank overdrafts, bank loans, and financial leases.

The table below provides an analysis of the Group's financial liabilities as at 31 December 2015 and as at 31 December 2014 by maturity based on contractual non-discount payment terms.

31 December 2016	**<1 year**	**1–2 years**	**2-5 years**	**> 5 years**	**Total**
Bank loans	27 066	42 959	247 790	100 514	418 329
Financial lease	1 076	842	-	-	1 918
Trade and other receivables	114 130	-	-	-	114 130
	142 272	**43 801**	**247 790**	**100 514**	**534 377**

31 December 2015	**<1 year**	**1–2 years**	**2-5 years**	**> 5 years**	**Total**
Bank loans	105 109	8 714	16 939	3 672	134 434
Financial lease	999	1 231	-	-	2 230

Trade and other receivables	74 053	-	-	-	74 053
	180 161	**9 945**	**16 939**	**3 672**	**210 717**

37. Capital management

The Group's main objective when managing the capital is to maintain good credit rating and safe capital ratios that can support the Group's operating activities and increase its value to the shareholders.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, or issue new shares. In the reporting periods ended 31 December 2015 and 31 December 2014, there were no changes to the Company's objectives, policies and processes for managing capital.

The Group monitors capital using the leverage ratio calculated as the ratio of net debt to net debt plus total equity. The Group's policy is to keep the ratio between 20% and 40%.

	31.12.2016	**31.12.2015**
Interest-bearing credits and loans	418 329	134 434
Financial lease	1 918	2 230
Trade and other liabilities, provisions, accruals/deferrals	201 343	123 228
Cash and cash equivalents	(95 878)	(55 032)
Net debt	**525 712**	**204 860**
Convertible preference shares	-	-
Foreign exchange differences on translation of foreign operations	23 901	23 901
Surplus of share sale above their nominal value	113 214	113 214
Other reserve capital	249 079	195 044
Revaluation reserve	(9 328)	4 595
Other capital from revaluation	17 654	17 654
Incentive Scheme	2 354	1 290
Retained earnings	151 519	118 387
Exchange differences on translation of foreign operations	797	711
Equity of non-controlling shareholders	3 206	3 662
Total capital	**552 396**	**478 458**
Capital and net debt ratios	**1 078 108**	**683 318**
Gearing ratio	**48,76%**	**29,98%**

38. Related party disclosures

The following table presents total amounts of transactions concluded with related entities:

Transactions regard the sale of products, goods and services and the purchase of services.

Related entity		Sales to related undertakings	Purchases from related entities	Receivables from related entities	Liabilities to related entities
Forte Baldai UAB	31.12.2016	-	184	-	16
	31.12.2015	-	176	-	14
Forte SK S.r.o.	31.12.2016	9	1 154	-	97
	31.12.2015	-	1 105	-	93
Forte Furniture Ltd.	31.12.2016	-	731	-	-
	31.12.2015	-	623	-	-
Forte Iberia S.l.u	31.12.2016	9	1 314	-	111
	31.12.2015	5	1 004	24	-
Forte Mobilier S.a.r.l.	31.12.2016	-	-	-	-
	31.12.2015	-	-	-	-
Forte Mobila S.r.l.	31.12.2016	-	-	-	-
	31.12.2015	-	-	24	-
TM Handel Sp. z o.o.	31.12.2016	4 145	438	267	187
	31.12.2015	4 419	3 461	319	232
total	**31.12.2016**	**4 163**	**3 821**	**267**	**411**
	31.12.2015	**4 424**	**6 369**	**367**	**339**

All loans granted as per 31.12.2016 are presented in the below table:

Related entity	Loan amount	Loan currency	Payment term	Loan balance as at 31/12/2016	Interest amount as at 31/12/2016
Subsidiary:					
Fort Mobilier S.a.r.l.	10	EUR	Dec2019	88	-
Antwerp Sp. z o.o.	30	PLN	June2017	30	-
Total:				**118**	**-**
Including:					
Short-term portion:					
Antwerp Sp. z o.o.				30	-
Total:				**30**	**-**
Long-term portion:					
Fort Mobilier S.a.r.l.				88	**-**
Total:				**88**	**-**

The above loans were granted on market conditions (variable percentage rates based on WIBOR/ EURIBOR plus margin).
All loans granted as per 31.12.2015 are presented in the below table:

Related entity	Loan	Loan	Payment term	Loan balance as	Interest amount

	amount	currency		at 31/12/2015	as at 31 December 2015
Subsidiary:					
Fort Mobilier S.a.r.l.	10	EUR	Dec 2017	43	-
Antwerp Sp. z o.o.	10	PLN	July 2016	10	-
Total:				**53**	**-**
Including:					
Short-term portion:					
Antwerp Sp. z o.o.				10	-
Total:				**10**	**-**
Long-term portion:					
Fort Mobilier S.a.r.l.				43	- -
Total:				**43**	**-**

The above loans were granted on market conditions (variable percentage rates based on WIBOR/ EURIBOR plus margin).

In the reporting period ended 31 December 2016 Parent Company concluded the following loan agreements with subsidiaries:
- on 29 February 2016 the annex to the loan agreement with the affiliated company Antwerp Sp. z o.o., according to which the borrowing base was increased to 30 thousand PLN. On 30 December 2016 an annex to the loan agreement was signed, according to which the maturity was extended to 30 June 2017;

- on 05 December 2016 the annex to the loan agreement with the affiliated company Forte Mobilier SARL, according to which the borrowing base was increased to 30 thousand PLN, with the last drawdown up to 31 December 2017. Repayment will be made in 8 instalments, beginning from 31 March 2018;

38.1Parent Company of the Group

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

38.2 Entity with significant influence over the Group

Information about the entities holding more than 5% of the share capital of the Parent Company are presented in Note 29.

38.3 Joint venture in which the Parent Company is a venturer

The Group's Parent Company does not conduct joint ventures.

38.4 Terms and conditions of transactions with related parties

All transactions with related entities are conducted under terms used by the Group in relations with unrelated entities.

38.5 Transactions involving the Management Board, key managerial staff and members of their immediate families.

On 10 June 2014 the Ordinary Meeting of Shareholders of FABRYKI MEBLI „FORTE" S.A. approved an introduction of an incentive scheme for Members of the Management Board of the Company (" Incentive Scheme").
The purpose of the Incentive Scheme is to strive for further development of the Capital Group of the Company and its subsidiaries ("Capital Group") by creating motivational mechanisms for persons responsible for Company management, which would refer to the financial results of the Capital Group and an increase of share value.
The programme is of settlement program character via emission of capital instruments in exchange for services provided-total of 356 220 subscription warrants of the Company in 3 series with issue price equal to the arithmetic mean of rate of shares of the Company listed on WSE, calculated on the basis of ratings of these shares in the period from 28 April 2014 to 10 June 2014.
The issue price of Company share of H series was established via resolution of the Supervisory Board of 27 October 2014 for the amount 46.19. Each warrant authorizes to obtain one share of H series for the issue price.

The table below presents the scope of the adopted incentive scheme, in accordance with the agreed Rules of the Incentive Scheme.

	Series D	Series E	Series F
Number of subscription warrants	118 740	118 740	118 740
Vesting period	10.06.2014 – 31.12.2014	01.01.2015 – 31.12.2015	01.01.2016 – 31.12.2016
Conditions for entitlement to acquire warrants	1/ non-reporting by auditor any significant concerns to the consolidated annual financial statements of the Capital Group for the financial year 2014; 2) increase by at least 10% of net profit per Company's share as at 31 December 2014 compared to the result as at 31 December 2013 3) increase by at least 10% of the average price of the Company's shares on the Warsaw Stock Exchange in December 2014 compared to the average price of the Company's shares on the WSE in December 2013	1/ non-reporting by auditor any significant concerns to the consolidated annual financial statements of the Capital Group for the financial year 2015; 2) increase by at least 10% of net profit per Company's share as at 31 December 2015 compared to the result as at 31 December 2013 3) increase by at least 10% of the average price of the Company's shares on the Warsaw Stock Exchange in December 2015 compared to the average price of the Company's shares on the WSE in December 2014	1/ non-reporting by auditor any significant concerns to the consolidated annual financial statements of the Capital Group for the financial year 2016; 2) increase by at least 10% of net profit per Company's share as at 31 December 2016 compared to the result as at 31 December 2015 3) increase by at least 10% of the average price of the Company's shares on the Warsaw Stock Exchange in December 2016 compared to the average price of the Company's shares on the WSE in December 2015
	3/ serving as a Member of the Management Board for at least six months in a given period and remaining at the position at the end of the given period, as well as obtaining the acknowledgement of fulfilment of duties of a Member of the Management Board of the Company during the given period		

Increase of net profit per 1 Company share which constitutes a condition for offering Warrants for a given period is established on the basis of the consolidated annual financial statement of the Capital Group, reviewed by the auditor and approved by the resolution of the General Meeting of Shareholders of the Company.
Execution of rights from Warrants may occur no earlier than post one year from the formal decision of their obtaining and no later than by 30 November 2018.
Series of the incentive scheme ought to be treated as separate programmes in the understanding of IFRS 2.

Fair value of the Incentive Scheme

Fair value of the scheme for the F class was set as 1 064 thousand PLN and this amount was entered into the accounts in the increase in equity, in the incentive scheme item, and in the employee benefits.

Number and average mean of the price of execution of warrants are as follows:

	Series	Number of warrants	weighted average execution price
As at 01.01.2016 including:		**237 480**	
	D	118 740	46,19
	F	118 740	46,19
Change during reporting period, including:	-	-	-
Granted in 2016			
As at 01.01.2016 including:		**237 480**	
Possible for realizing as at 31.12.2016	D	118 740	46,19
	F	118 740	46,19

38.6Remuneration of the Group's senior management

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

Remuneration paid or payable to the members of the Management Board and Supervisory Board of the Group

	Period of 12 months ended	
	31.12.2016	**31.12.2015**
Remuneration for Management Board, including:	**13 748**	**11 800**
in the Issuer's enterprise	**12 960**	**11 017**
Maciej Formanowicz	5 416	4 348
Gert Coopmann	2 956	2 558
Klaus Dieter Dahlem	2 008	1 922
Maria Florczuk	1 152	729
Mariusz Gazda	1 428	1 022
Rafał Prendke	-	438
for performing functions in the Governing Bodies of the subsidiaries	**788**	**783**
Maciej Formanowicz	547	537
Gert Coopmann	241	246
Supervisory Board	**324**	**279**
Zbigniew Sebastian	84	69
Władysław Frasyniuk	-	17
Stanisław Krauz	60	52
Tomasz Domagalski	60	52
Stefan Golonka	60	52
Jerzy Smardzewski	60	37

Detailed changes in the composition of the Supervisory Board have been specified in point 10 of corporate governance.

Remuneration paid or payable to other members of key management personnel

	Year ended	
	31.12.2016	**31.12.2015**
Short-term employee benefits (salaries and overheads)	10 086	7 297
Jubilee awards	-	-
Benefits after the employment period	79	25
Revenues from dissolution of employment	-	-
Share-based employee benefits	-	-
Total remuneration paid to key management personnel (except for members of the Management Board and the Supervisory Board)	**10 165**	**6 322**

38.7 Participation of senior executives in the employee programmes and schemes

No employee share incentive programmes were in force in the reporting period.

39. Employment structure

Average employment in the Group in the period from January to December 2016 was as follows:

	2016	2015
Management Board of the Parent Company 4	5	5
Management Boards of related entities	11	6
Administration	224	203
Sales Department	489	592
Production Division	2 417	2 107
Other	164	136
Total	**3 310**	**4 049**

40. Events occurring after balance end of reporting period

On 02 January 2017 the Company received a notification from SKARBIEC Towarzystwo Funduszy Inwestycyjnych S.A., with its registered office in Warszawa, acting:

1) in its own name, as an entity managing portfolios composed of one or more financial instruments,

2) on behalf of the fund SEZAM XX Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, which is managed by the abovementioned,

3) on behalf of the fund SKARBIEC Fundusz Inwestycyjny Otwarty with separated sub-funds, which is managed by the abovementioned,

information that as a result of purchase of the shares of the company FABRYK MEBLI FORTE S.A., made on 28 December 2016 by BENTHAM Sp. z o.o. - portfolio company of the fund SEZAM XX FIZ Aktywów Niepublicznych, the contribution of Fundusze with the Portfolio Company exceeded 5 % of the total number of votes in the general meeting of shareholders of the Issuer. As of 27 December 2016 Fundusze was the owner of a total of 99 448 shares of the Company, which constitutes 0.42 % of the contribution in the share capital of the Company. The shares enabled performing 99 448 votes in the general meeting of shareholders of the Company, which amounts to 0.42 % of the contribution in the total number of votes in the Company. After purchasing the shares by the Portfolio Company, as of 28 December 2016, Fundusze with the Portfolio Company are the owners of a total of 2 149 448 shares of the Company, which constitutes 8.99 % of the contribution in the share capital of the Company. The shares enable performing 2 149 448 votes in the general meeting of shareholders of the Company, which amounts to 8.99 % of the contribution in the total number of votes in the Company.

On 18 January 2017 the Company concluded a joint venture agreement with Indian Furniture Products Limited, with its registered office in Chennai in India, entity owned by ADVENTZ Capital Group, regarding production and sale of furniture on the Indian market. The joint venture stipulates that the following entity will be created: FORTE FURNITURE PRODUCTS INDIA PVT. LTD, registered office in Chennai, India, in which each shareholder, i.e. FORTE and IFPL, is the owner of 50% of shares. The financial contribution to the initial capital of FFPI by each of the shareholders will be equivalent to approximately 2 mln EUR, and the key business activity of FFPI will be production and sale of furniture. FFPI activity will be based on the existing production plant and sales network in India, property of IFPL and delivered by the FORTE of know-how design, product development, and production technology. The expected time of launching operations is set for April 2017.

On 1 February 2017 Parent Company obtained an information from its subsidiary TANNE Sp. z o.o. regarding confirmation by Powszechna Kasa Oszczędności Bank Polski S.A. of conclusion of exchange transaction of variable percentage rate into a fixed one, constituting a security of percentage rate risk related to the loan agreement granted to TANNE on 17 October 2016. Basic conditions of IRS Transaction concluded between TANNE and PKO BP S.A.:

- nominal amount and currency of transaction– EUR 49 000 thousand (35% of nominal loan amount),
- reference rate: EURIBOR 3M,
- start of first interest period- 20.09.2018,
- first exchange of interest payments- 20.12.2018,
- date of end of IRS Transaction - 14.10.2024,
- amortisation and interest periods-in line with the agreed schedule,
- interest base for both swap legs (fixed and variable interest payments)-Act/360

Signature of the person entrusted with 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, 20 March 2017

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 31 december 2016

FABRYKI MEBLI „FORTE” S.A.
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Ostrów Mazowiecka, 20 March 2017

TABLE OF CONTENTS

I CURRENT FINANCIAL AND OPERATIONAL STANDING

1. Basic information on Capital Group Fabryki Mebli „FORTE" S.A. 4
   1.1. Information on Parent Company 4
   1.2. *Management of the Parent company* 5
   1.3. *Supervisory Board of the Parent Company* 5
   1.4. *Mission and policy of Fabryki Mebli FORTE* 6
   1.5. *Key events participated by the Parent Company in 2016* 6
   1.6. *Awards and honours* 7
2. Information concerning organisational or capital relations of the Issuer with other entities and defining its main investments in the country and abroad, including capital investments conducted outside of its group of affiliated entities and a description of methods of their financing 9
3. Information concerning basic products, goods and services 9
4. Information about markets, including the division into domestic and foreign markets. 9
5. Information regarding sources of supply in materials for production, goods and services 9
6. Information concerning contracts important for the activity. 10
7. Information about material transactions concluded with related entities on conditions other than arm's length conditions 10
8. Information regarding credits and loans. 10
9. Information on loans granted in the given financial year 15
10. Information concerning guarantees and sureties granted and received in the fiscal year. 15
11. Description of the use of securities issue proceeds by the Issuer. 16
12. Differences between the financial results indicated in the annual report and earlier forecasts for the given year. 16
5. Assessment and its justification, concerning the management of financial resources. 17
14. Assessment of ability to fulfil investment plans in comparison to the resources available 17
15. Information regarding financial instruments in respect of: risk: price change, credit risk, risk of significant disturbances to cash flows and risk of a loss of the financial liquidity. 17
   15.1. *Interest rate risk* 18
   15.2. *Currency risk* 18
   15.3. *Credit risk* 19
   15.4. *Liquidity risk* 19
16. Short description of the Group performance and basic economic and financial parameters: 19
17. Assessment of factor and special events which impacted the operational result for the financial year, including defining the level of impact of these factor or special events on the achieved result. 20
18. Description of external and internal factors important for the development and development prospects. 20
19. Changes in the methods of managing the Issuer's company and its capital group. 21
20. Any agreements concluded between the Issuer and the management staff providing that in case of the resignation or dismissal from the role without a significant cause or in case their dismissal or recall from the occupied position is due to merger of the ssuer by takeover. 21
21. The amount of remuneration, rewards and benefits, including those under the incentive or bonus schemes based on the Issuer's capital. 21
22. Specification of the total number and face value of the Issuer's shares held by members of the management and supervisory bodies. 23
23. Employment and personnel policy of the Group 23
   23.1. *Development and training* 24
   23.2. *Internship programmes and practices.* 24
24. Description of the Issuer's policy in terms of sponsorship and charitable activities 24
25. Key data on FORTE shares: 25
26. Information concerning agreements known to the Issuer which may change the proportion of shares held by the existing shareholders 26
27. Information concerning the control system of the employee share programmes. 26
28. Information on court proceedings whose total value constitutes at least 10% of the Issuer's own funds. 26

29. Information on the date of agreement conclusion by the Issuer with an entity authorised to audit financial statements regarding an audit or review of the financial statements and the period for which the agreement was concluded and the total amount of remuneration under the agreement. 26
30. The structure of assets and liabilities 27
31. Major events which influenced the activity and financial results of the Issuer in the financial year and after the end of the year, and those whose influence may be apparent in the forthcoming years 28
32. Description of the structure of major capital . investments made within the given financial year 28
33. Description of the organization of the Issuer's capital group, with the list of consolidated companies, and description of changes in the organization of the Issuer's Capital Group together with their reasons. 28
34. Characteristics of policy in the scope of directions of development of Issuer's Capital Group. Key directions of development of the Group 28
35. The goal of Forte Group is to diversify both the area of the offered product and distribution channels. 28
36. Selected financial data converted on the basis of the following exchange rates: 30
37. Statement of the Management Board concerning the entity authorised to audit financial statements of the Issuer. 30
The Management Board of Fabryki Mebli "FORTE" S.A. declares that the entity authorized to audit financial statements, carrying out annual research of issuer's financial statements was chosen according to the law and that this entity, together with statutory auditors conducting the audit complied with the conditions for provision of impartial and independent opinion about the assessed financial statement, according to valid law and in line with the professional standards. 30
38. Statement of the Management Board regarding the reliability of the financial statements of the Issuer. 30
39. Description of the basic characteristics of internal control and risk management systems applied by the Issuer with respect to the process of preparing financial statements and consolidated financial statements. 30
II CORPORATE GOVERNANCE 32
1. Set of corporate governance principles observed by the Issuer and the place where their content is available for the public 32
1. Description of the basic characteristics of internal control and risk management systems applied by the.Issuer with respect to the process of preparing financial statements and consolidated financial statements 33
2. Shareholders holding directly or indirectly significant stakes of shares. 34
3. Holders of any securities which provide special control rights with description of these entitlements 34
4. Restrictions on voting rights, such as restrictions on the execution of voting rights by a shareholder of a defined part or amount of votes, time-related restrictions on the execution of voting rights or subscriptions, in accordance with which, in cooperation with the Parent Company, equity rights related to securities are separate from the ownership of securities. 34
5. Limitations in transferring the ownership right to the Issuer's securities 35
6. Description of principles concerning the appointment and dismissal of managers and their entitlements in particular the right to decide on the issuance or redemption of shares 35
7. Principles of introducing amendments to the articles of association or memorandum of association of the Issuer's Parent Company. 35
8. The manner of functioning of the General Meeting and its principal powers and a description of the rights of shareholders and the manner of their execution, in particular the principles arising from regulations of the general meeting, if such regulations have been adopted and are not a direct result of the existing law 35
9. Composition of issuer's managing, supervising and administering bodies, changes they underwent during the last financial year and description of their activities emitenta and their committees 36

I. CURRENT FINANCIAL-OPERATIONAL SITUATION

This Report on the operations of the Capital Group of the Issuer – Fabryki Mebli "FORTE" in 2016 was prepared on the basis of § 92 of the Regulation of the Minister of Finance of 19 February 2009 concerning current and periodic information provided by securities issuers and conditions of recognising as equivalent information required under the regulations of a state not being a member state (Journal of Laws of 28 January 2014, item 133).

The Issuer does not elaorate unit report on company operations in the period covered by annual report-pursuant to § 83.7 of the hereby regulation.

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

1.1. Information on Parent Company

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. The company initially (from 17 June 1992) 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 Parent Company is entered into the Register of Businesses of the National Court Register maintained by the District Court for the city of Warsaw, 14th Commercial Division of the National Court Register (former XXI Commercial Division), under KRS number 21840.

The Parent Company was awarded the statistical number REGON: (550398784)

The duration of the Company is unlimited.

Main activities of the Company include:

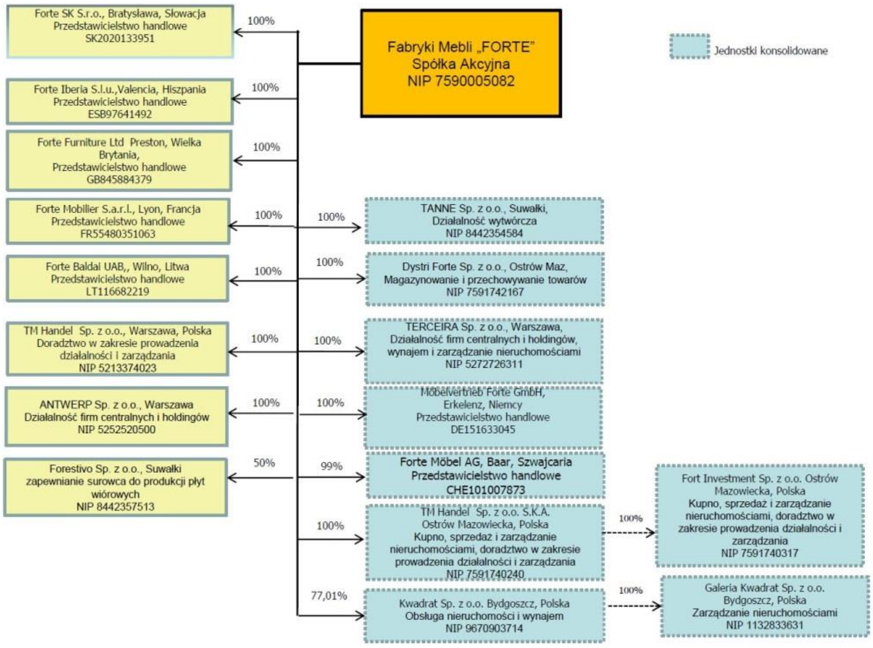
- production of furniture,
- provision of services in the scope of marketing, promotion, organisation, exhibitions, conferences,
- conducting trade activities domestically and abroad.

Fabryki Mebli "FORTE" S.A. it conducts its activities by means of four country branches:

- Ostrów Mazowiecka, ul. Biała 1 – HQ – the head office of the Company together with the Management Board and the manufacturing plant;
- Suwałki ul. Północna 30 – manufacturing plant;
- Hajnówka ul. 3-go Maja 51 – manufacturing plant;
- Białystok ul. Generała Andersa 11 – manufacturing plant;

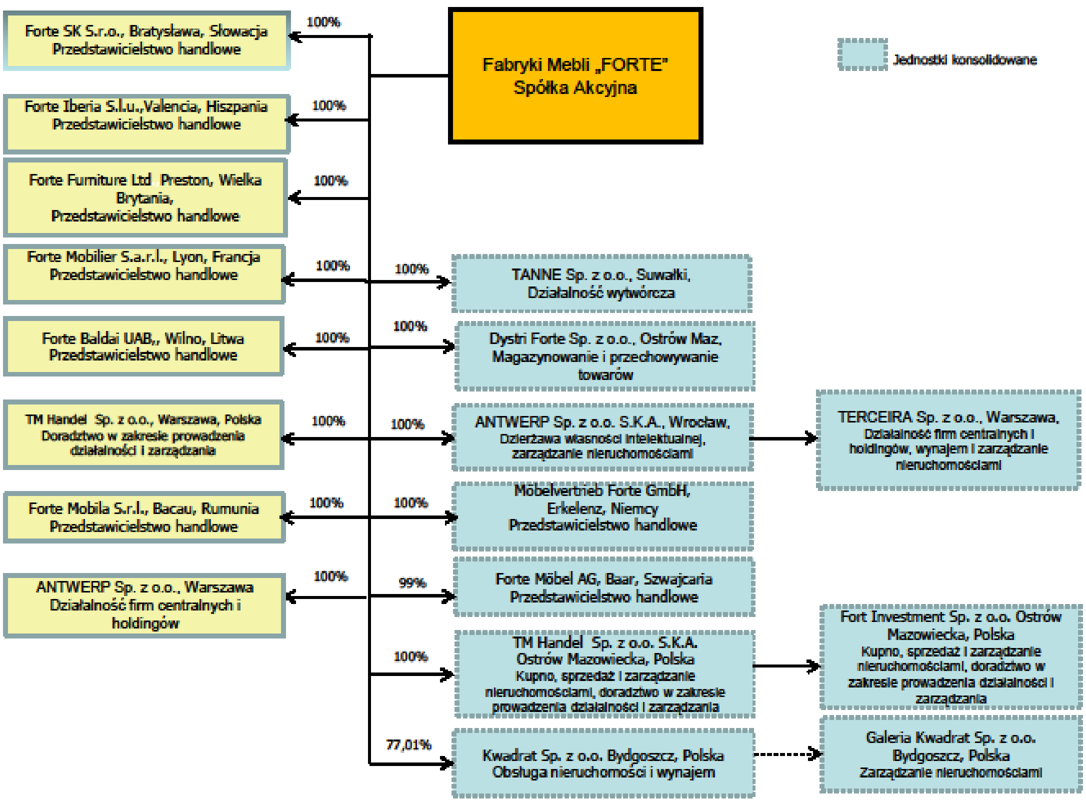
and furniture stores in Ostrów Mazowiecka, Suwałki, Białystok, Wrocław, Toruń and Przemyśl

The Fabryki Mebli FORTE Group includes the following consolidated subsidiaries:



On 29.02.2016 a change to the DYSTRI-FORTE Sp. z o.o. company seat was registered. New address of the company is Warsaw, ul. Nowogrodzka 50 lok 515.

As at 31 December 2015 the Capital Group was composed of:



1.2. Management of the Parent company

As per 31 December 2016 the Management Board consisted of:

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

Within the reporting period no changes occurred in the composition of the Management Board

1.3. Supervisory Board of the Parent Company

As per 31 December 2016 the Management Board consisted of:

Zbigniew Sebastian – Chairman,

Stefan Golonka – Vice-Chairman of the Supervisory Board

Stanisław Krauz – Member of the Supervisory Board

Tomasz Domagalski - Member of the Supervisory Board

Jerzy Smardzewski - Member of the Supervisory Board

1.4. Mission and policy of Fabryki Mebli FORTE

Mission: Production leader, reliable supplier of modern furniture systems, which meets customer needs.

The aim of the Fabryki Mebli FORTE Capital Group is to:

- Continually increase the value of the company, and thus ensure that the shareholders receive a higher-than-average return on invested capital,
- Ensure the supply of goods and services meeting the requirements of Customers in a wide range of their needs, taking into account specific market requirements,
- Achieve full satisfaction of our Customers,
- Strengthen the opinion of a credible and reliable partner,
- Build creative relationships in the work environment through shaping the awareness and personality of people,
- Provide conditions ensuring safety and health at work,
- Conduct activities in an environmentally acceptable way,
- Be committed to preserving the values of FSC.

The above mentioned policy is implemented by the Group through:

- Constant monitoring of activities and their effects in financial terms and of Customer satisfaction, continued improvement of the Organisation Management System with the use of PN-EN ISO 9001:2009 Quality Management Systems,
- Continuous improvement of processes and product design so that their production is safer and their operational parameters meet Customer expectations and needs,
- Forming the attitudes of safe handling through the identification of threats and creation of technical, economical and organisational conditions leading to a reduction of risks,
- Acting in accordance with legal requirements and other regulations regarding the activities of the Organisation, the product, health and safety at work and environmental protection.

The effectiveness and efficiency of the Integrated Quality Management System and FSC is subject to continued commitment and responsibility of the Management Board.

1.5. Key events participated by the Parent Company in 2016

2016	• **14 -17 January 2016** - Trade fairs BEGROS, Germany FORTE showed an offer on two stands with a total area of 424 sqm. From the group of self-assembly furniture - 8 programs, including two Terzio and Quatrix in all functions (living room, dining room, bedroom, hallway).These were the ones that were the most successful in this group. For a group of assembled furniture the Company has prepared 11 new collections, where 7 of them had been implemented into production, • **20 - 23 January, 2016** - Trade fairs SARAGOSSA FERIA DEL MUEBLE, Spain Held every two years trade fair Saragossa Feria del Mueble is an important event for the furniture industry in Spain. The most important manufacturers of furniture present their offer there, and the event attracts thousands of visitors. The development of sales in the Iberian Peninsula is one of the strategy elements for the coming years for FORTE, hence our presence there. Collections in "white gloss" attracted the biggest customer interest. • **24 - 27 January 2016** - Trade fairs BIRMINGHAM NEC, United Kingdom FORTE showed dozens of collections, including news and programs from the existing offer. Collections in dark and cool colors were liked the most (especially Amerigo and Bellvue). • **February 19, 2016** - FORTE signed a cooperation agreement with the city of Suwalki in order to develop vocational education in the wood industry, • **8-11 March 2016** - International Furniture Trade Fair, Poznan FORTE stand was awarded the Acanthus Aureus Medal. This is a prize for the best architectural and graphic solutions that are conducive to direct communication with the client and highlight the image of the company presenting the offer at the trade fair, • **14-17 March 2016** - Trade Partner, Paris France Trade fairs were organized by one of Forte partners specializing in the sale of furniture in France. Forte company presented there its debut stand,

- **8-10 and 11-13 May, 2016** - Trade Fairs in Messezentrum, Barntrup, Germany

Trade fairs Partnertage are organized for customers on the German market and trade fairs organized by the Group Steinhoff

- **June 7-9, 2016** - Partner Days 2016 FORTE

Several hundred partners from home and abroad visited the headquarters of Forte, where the new furniture collections were presented.

- **5-9 September 2016** - International Trade Fair in Ostróda

Experts' prize „Żagiel Rozwoju" was received by collection Lombardo. It is a set of modern furniture for the living and dining room, which combines 2 dark decors: Columbia Walnut and high black gloss. In Ostróda a number of innovations, including a youth room, bedroom and dining room, were presented which were received very positively by the visitors.

- **18-22 September 2016**- targi MOW fairs in Barntrupt

Exposition of FORTE during MOW fairs included 130 new arrangements. This is one of the most important events for FORTE, during which its offer is presented to clients from German-speaking countries. The visual motif of the fairs was the effect of of front wooden log made in technology of digital inprint.

1.6. Awards and honours

- Industry magazine "Meble Plus" in cooperation with over 100 furniture stores from different parts of Poland has chosen the best box furniture manufacturers. Voting was conducted through a questionnaire which rated partnerships and the turnover achieved in 2015. The Furniture Factory FORTE S.A. for several years consistently continued to hold the leading position in the ranking.

RANKING PRODUCENTÓW MEBLI SKRZYNIOWYCH

Lp.	Firma	Miasto	Województwo
1	**FABRYKI MEBLI „FORTE" S.A.**	**Ostrów Mazowiecka**	**mazowieckie**
2	Meble Wójcik	Elbląg	warmińsko-mazurskie
3	Black Red White	Biłgoraj	lubelskie
4	Mebin	Radomsko	łódzkie
5	Bydgoskie Meble	Bydgoszcz	kujawsko-pomorskie
6	Szynaka Meble	Lubawa	warmińsko-mazurskie
7	Paged-Meble	Jasienica	śląskie
8	Helvetia	Wieruszów	łódzkie
9	Fabryka Mebli Taranko	Morąg	warmińsko-mazurskie
10	Bog Fran	Raniżów	podkarpackie

- On May 23 at the headquarters of the Warsaw Stock Exchange the winners of three prestigious rankings organized by WPROST magazine received awards- for the largest, fastest growing and most successful Polish companies abroad. They included representatives of various industries, including furniture, IT and finance. FABRYKI MEBLI "FORTE" SA took second place in the category of "Polish Ambassadors." In this category the award granting was decided by the volume of export in the past two years. The jury took into account the dynamics of export and its share in the total sales of the company. In last year's competition the company took the third place. The promotion reflects the stronger position of FORTE on the market and confirms the continuous development of the company.

- In the 18th edition of the "500 List" compilation in which the editors of "Rzeczpospolita" collect the largest companies operating on the Polish market by setting them in the order according to their turnover, FABRYKI MEBLI "FORTE" S.A. were ranked on 285 place (in 2015 the company was on 338th place).

- 3rd place for the company preschool "Yellow Elephant". In the prestigious competition "Bryła Roku" for last year's most interesting architecturally building, in the category of Internauts' award FORTE preschool obtained the 3rd place.

- statuette of "Ambassador of Furniture", awarded on 15 September for the Board President Maciej Formanowicz during the National Furniture Congress "POLISH FURNITURE – COMPETITIVE POLAND", organized at the Trade Fair FURNICA / DREMA 2016 in Poznań. The distinction is awarded to persons who have made an outstanding contribution to the development of Polish furniture industry over the last 20 years.

- On 17 November the Chairman of Management Board of Fabryki Mebli „Forte" S.A. was the winner of one of the main awards of the final contest "Leaders of Tomorrow 2016", organized on the 20th anniversary of existence of ICAN Institute-publisher of prestigious magazine „Harvard Bussines Review Polska". Chairman Maciej Formanowicz obtained an awared in the category Foreign Expansion.

- November 30, "Rzeczpospolita" published an annual list of 2,000 Polish Entrepreneurs and Exporters, and singled out particularly effectively and dynamically developing companies. Fabryki Mebli "FORTE" S.A. once again repeated success by getting awards in all three categories: Good Company, Export Eagles and Export Brand. This result has only been achieved by two companies from the 2000 List.

- December 14 Fabryki Mebli "FORTE" S.A. joined the elite group of 25 companies on the Warsaw Stock Exchange listed in the Respect Index. The Respect Index Project aims to select companies that are managed in a responsible and balanced manner. The Index contains companies that have good liquidity, impeccably comply with the corporate governance rules and take care of relations with the environment and environmental protection.

2. Information concerning organisational or capital relations of the Issuer with other entities and defining its main investments in the country and abroad, including capital investments conducted outside of its group of affiliated entities and a description of methods of their financing

Information concerning organisational or capital relations have been included in point 1 of the hereby report.

3. Information concerning basic products, goods and services

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

Assortment	(2016)		(2015)		Change during the period
	Value	Share	Value	Share	%
Furniture	1 062 838	97,48%	930 313	97,5%	14,25%
Goods	9 023	0,83%	9 858	1,0%	(8,47%)
Materials	11 560	1,06%	7 523	0,8%	53,66%
Services	6 873	0,63%	6 581	0,7%	4,44%
Total	**1 090 294**		**954 275**	**100%**	

Due to the diversity of its assortment, the Issuer does not present the volume structure of sales as the value structure gives a complete picture of the sales structure and its changes.

According to the Issuer's strategy, it focuses its activities on the production of cabinet furniture for self-assembly. Complementarity and coherence of the offer additionally includes furniture mounted from higher price range, imported tables, chairs and decorative additions. The products offered by the Group have been recognisable in the market and are largely appreciated by the customers.

4. Information about markets, including the division into domestic and foreign markets.

In 2016, export sales amounted to PLN 922 998 thousand and constituted 84,7 % of the annual sales (in 2015 – PLN 795 305 thousand – 83,3 %). German-speaking markets (Germany, Austria, Switzerland) remain still the strategic export markets, with sales in 2016 accounting for approx. 55% of total export sales as well as France (11%), Spain, Portugal (5%), Czech Republic, Slovakia, Hungary (5%)

On the German market the Group concentrates its activities mainly on cooperation with the largest furniture chains gathered in furniture purchasing groups.

The sale on the second largest Polish market amounted to PLN 167 296 (15,34%) against PLN 158 970 thousand. (16,7 %) in 2015 and concentrated in two main channels of distribution: traditional furniture stores and retail chains.

The largest recipients of goods of Forte Group are: Roller GmbH with headquarters in Germany and Steinhoff Group International with headquarters in France. This share in turnover of Roller GmbH and Steinhoff Group exceeded 10% in the sales revenue of Forte Group. There are no formal ties between the customer and the Issuer.

5. Information regarding sources of supply in materials for production, goods and services

In 2016 the purchase of materials, goods and services from home suppliers comprised 76,1% of Group's total purchase.

The strategic supplier of raw materials for the Group is the PFLEIDERER Group. PFLEIDERER Group's share in turnover exceeded 10% in the sales revenue of the FORTE Group. There are no formal ties between the supplier and the Issuer

Purchases from import in 2016 equated to 23,9% of total purchase. The main direction of import for Forte Group in Germany-24,9% and Lithuania-12,8% of total value of import purchase.

6. Information concerning contracts important for the activity.

Insurance contracts entered into by FORTE Group in 2016:

- 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 25.09.2016-24 September 2017
  - property insurance from force majeoure– the sum insured PLN 560 586 thousand
  - insurance of assets of subsidiary Dystr-Forte Sp. z o.o from force majeure– insurance sum PLN 24 390 thousand
  - insurance of assets of subsidiary Terceira Sp. z o.o from force majeure– insurance sum PLN 31 774 thousand
  - loss of profit insurance of Parent Company– insurance sum PLN 246 129 thousand

  - with TUiR "WARTA" S.A.: insurance period 25.09.2015 -24 September 2016
  - electronic equipment insurance against all risks – the sum insured of PLN 4 612 thousand
  - business liability insurance – the sum insured PLN 30 000 thousand
  - insurance of cargo in transport – the sum insured PLN 674 000 thousand
  - electronic equipment insurance against all risks – the sum insured PLN 8 958 thousand
  - in TUiR "WARTA" S.A. :period of insurance 24 September 2016 – 23 September 2017
  - insurance of assets of subsidiary Galeria Kwadrat from force majeure– insurance sum PLN 9 124 thousand
  - liability insurance of subsidiary Galeria Kwadrat – the sum insured PLN 500 thousand

- in co-insurance of Genarali T.U. S.A, TUiR "WARTA" S.A., Gothaer Towarzystwo Ubezpieczeń S.A. and InterRisk Towarzystwo Ubezpieczeń S.A Vienna Insurance Group: period of insurance 16.05.2016-31.12.2020
  - insurance of construction and assembly of subsidiary Tanne Sp. z o.o. against all risks– the sum insured PLN 812 441 thousand
  - insurance against loss of future profits of subsidiary Tanne Sp. z o.o. against damages in construction works the insured sum PLN 290 000 thousand
- with AIG Europe Limited Sp. z o.o.: insurance period 01 April 2016 – 31 March 2017
  - liability insurance of the Members of the Issuer's Bodies – the sum insured EUR 20 000 thousand.
- with Powszechny Zakład Ubezpieczeń S.A.: insurance period 16.05.2016 – 31.12.2020
  - liability insurance of subsidiary Tanne Sp.z o.o. – the sum insured PLN 60 000 thousand
- with Insurance Company Euler Hermes S.A.: insurance period 01.06.2016 – 30.11.2017
- trade credit risk insurance with the option of Parent Company debt collection - the maximum amount of insurance: 70 - times of the paid premium for the insurance year, no less than 70 times the minimum contribution of 500 thousand zloty.

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

All transactions with related entities are conducted under market terms used by the Issuer in relations with unrelated entities.

Detailed information regarding transactions concluded with related entities are included in note 38 of the consolidated report.

8. Information regarding credits and loans.

On 10/06/2016, the Company Management Board signed with Powszechna Kasa Oszczędności Bank Polski S.A. an annex to the credit agreement in the current account from 14/02/2000. By virtue of this annex the maximum loan amount was increased by PLN 55 000 thousand, i.e. up to the amount of PLN 100 000 thousand and the loan term has been extended to June 9, 2019 year.

On 28 June 2016 DYSTRI-FORTE Sp. z o.o. concluded with ING Bank Śląski SA annex to the investment loan agreement for total amount of EUR 7 250 thousand. The description of conditions and securities of the taken loan have been presented in table above. The annex changed the definition of end date of loan and period of its availability.

On 12/08/2016, the Management Board made another agreement with ING Bank Slaski S.A., complementary to the loan agreement dated 24.06.2003. The subject of the supplementary agreement was to increase the loan amount from PLN 45 000 thousand to PLN 100 000 thousand. and the extension of the availability period of credit to the 30/06/2019.

On 17 October 2016 TANNE Sp. z o.o. concluded with Powszechna Kasa Oszczędności Bank Polski S.A. and Bank Gospodarstwa Krajowego a loan agreement for the maximum amount of EUR 140 000 thousand designated to cover parts of costs of construction of chip board plant. Final repayment term for the loan was set in October 2024.
On 15/12/2016, the Management Board of the Company signed an annex with mBank S.A. to the credit agreement in the current account of 20/12/2013. By virtue of this annex the loan amount has been increased to the maximum of 5 000 thousand EUR and the credit period was extended to 12.12.2019.

On 16 December 2016 TERCEIRA Sp. z o. o. concluded with ING Bank Śląski S. A. an agreement pursuant to which ING made available to the Company credit line of maximum volume of PLN 145 500 thousand with designation for purchase of non-public investment certificates issued in series by SEZAM XX Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych managed by SKARBIEC Towarzystwo Funduszy Inwestycyjnych S.A. with its seat in Warsaw. Final repayment date for the loan was set in December 2019.

As at 31 December 2016, the Company's debts due to short-term bank loans and borrowings amounted to PLN 27 066 thousand (on 31.12.2015 – PLN 105 109 thousand).

As at 31 December 2016, the Company's debts due to long-term bank loans and borrowings amounted to PLN 391 263 thousand (on 31.12.2015 – PLN 29325 thousand).

Additional information on loans have been included in the table below. All values have been presented in PLN '000

Short-term	Nominal interest rate %	Due date	31.12.2016	31.12.2015
mBank S.A. investment loan in the amount of EUR 2 400 thousand -short-term portion	1M EURIBOR	to 31.12.2018	2 654	2 557
mBank S.A. investment loan in the amount of EUR 5 000 thousand -short-term portion	depending on the currency used O/N WIBOR or O/N EURIBOR or O/N LIBOR	to 12.12.2019	-	5 065
PKO BP S.A. – investment loan in the amount of EUR 3 500 thousand -short-term portion	1M EURIBOR	to 22.12.2018	4 075	3 140
PKO BP S.A.– working capital loan in the amount of PLN 100 000 thousand - Short-term portion:	depending on the currency used IM WIBOR or IM EURIBOR	to 09.06.2019	-	51 138
ING Bank Śląski S.A. – working capital loan in the amount of EUR 100 000 thousand- short-term portion	depending on the currency used 1M WIBOR or 1M LIBOR or 1M EURIBOR	to 30.06.2019	-	41 635
ING Bank Śląski S.A. – investment loan cz. A in the amount of EUR 985 thousand. - short-term portion	3M EURIBOR	to 29.09.2017	2 615	1 574

ING Bank Śląski S.A. – investment loan cz. A1 in the amount of EUR 265 thousand - short-term portion	3M EURIBOR	to 31.03.2020	133	-
ING Bank Śląski S.A. – investment loan B in the amount of EUR 250 thousand- short-term portion	3M EURIBOR	to 31.12.2021	2 089	-
ING Bank Śląski S.A. – . investment loan B in the amount of PLN 15 500 thousand	1M WIBOR	to 15.09.2017	15 500	-
Short-term total			**27 066**	**105 109**

Long-term	**Nominal interest rate %**	**Due date**	**31.12.2016**	**31.12.2015**
PKO BP S.A.– working capital loan in the amount of PLN 100 000 thousand - long-term portion	depending on the currency used IM WIBOR or IM EURIBOR	to 09.06.2019	61 936	-
ING Bank Śląski S.A. investment loan in the amount of PLN 100 000 thousand - long-term portion	depending on the currency used 1M WIBOR or 1M LIBOR or 1M EURIBOR	to 30.06.2019	79 736	-
mBank S.A. – working capital loan in the amount of EUR 5 000 thousand - long-term portion	depending on the currency used O/N WIBOR lub O/N EURIBOR lub O/N LIBOR	to 12.12.2019	5 533	-
PKO BP S.A. – investment loan in the amount of EUR 3 500 thousand-long-term portion	1M EURIBOR	to 22.12.2018	2 447	6 180
mBank S.A. investment loan in the amount of EUR 2 400 thousand - long-term portion	1M EURIBOR	to 31.12.2018	3 156	4 914
ING Bank Śląski S.A. – investment loan cz. A1 in the amount of EUR 1 265 thousand- short-term portion	3M EURIBOR	to 31.03.2020	399	-

ING Bank Śląski S.A. – investment loan cz. B in the amount of EUR 4 250 thousand - long-term portion	3M EURIBOR	to 31.12.2021	16 715	2 623
ING Bank Śląski S.A. – investment loan A in the amount of PLN 130 000 thousand	1M WIBOR	to 16.12.2019	125 643	-
PKO BP S.A. i BGK – investment loan- EUR 140 000 thousand	3M EURIBOR	to 17.10.2024	95 698	-
Total long-term			**391 263**	**29 325**

Bank loan securities	**As at 31 December 2016 roku**
PKO BP S.A. - investment loan in the amount of EUR 3 500 thousand	1. Registered pledge on movable assets of a value no less than EUR 5 130 thousand 2. an assignment of rights from the insurance policy 3. Blank promissory note issued by the Borrower with the Borrower's promissory note declaration.
mBank S.A. - investment loan in the amount of EUR 2 400 thousand	1. Registered pledge on the purchased equipment and devices up to the maximum sum of security of EUR 3 600 thousand . 2. an assignment of rights from the insurance policy
PKO BP S.A. operating capital loan in the amount of PLN 100 000 thousand	1. The aggregate capped contractual mortgage to the amount 120 000 thousand PLN on the right of perpetual usufruct of the developed property of the Issuer and buildings located within this property that constitute objects of property separated from land, located in Hajnówka at ul. 3 Maja and Ostrów Mazowiecka at ul Biała. 2. In blanco promissory note with blank promissory note Assignment of insurance policy rights 3. Registered pledge established on inventory items marked as to the kind, located in the branch in Hajnówka with value of PLN 32 456 thousand.
ING Bank Śląski S.A. operating capital loan in the amount of PLN 100 000 thousand	1. Registered pledge on movable assets in the factory in Suwałki up to a maximum amount of PLN 120 000 thousand 2. Joint capped mortgage up to a maximum amount of PLN 54 000 thousand on the right of perpetual usufruct of land and ownership right of buildings in the factory in Suwałki, together with the assignment of rights under the insurance contract 3. Registered pledge on factory inventory in Suwałki and Ostów Mazowiecka of minimum value of PLN 65 000 thousand, up to the maximum sum of PLN 120 000 thousand. 4. Cession of rights from insurance policy
mBank S.A. investment loan in the amount of EUR 5 000 thousand	1. In blanco promissory note with blank promissory note 2. Registered pledge on fixed assets up to the maximum amount of security of EUR 6 000 thousand
ING Bank Śląski S.A. – . investment loan in the amount of EUR 7 250 thousand	1. Joint capped mortgage up to a maximum amount of EUR 6 000 EUR on ownership right to land and buildings and premises at ul. Gen. W. Andersa in Białystok 2. Registered pledge on storage inventory of high storing in Ostrów Mazowiecka. 3. Cession of rights from insurance policy 4. Surety granted by Parent Company

ING Bank Śląski S.A. – . investment loan A and B in the amount of EUR 145 500 thousand	1. Joint capped mortgage up to a maximum amount of PLN 174.600 thousand on the right of perpetual usufruct of land and ownership right of buildings on the right of perpetual usufruct of land and ownership right of buildings and devlices constituting properties located: in Wrocław at ul. Brücknera, ul. Robotnicza; in Przemyśl at ul. Bakończyckiej on proprietary ownersip right to premises located in Kraków at ul. Aleksandry. 2. Registered pledge on protection right to trademarks, word-graphic marks containing the marking „FORTE" up to the highest sum of security PLN 174 600 thousand. 3. Financial pledge on investment cecrtificates up to the highest sum of security of PLN 174 600 thousand 4. Financial and registrered pledge on shares of company purchased by company or companies which are the assets of Fund, up to the highest sum of security PLN 174 600 thousand. 5. Cession of rights from receivables from license agreement for word-graphic trademarks containing the marking "FORTE", included between TERCEIRA a FABRYKAMI MEBLI „FORTE" S.A 6. Cession of rights from insurance policy covering real estate on which mortgages were set; 7. In blanco promissory note with blank promissory note
PKO BP S.A. i BGK – investment loan 140 000 tys. EUR	1. Surety granted by Parent Company up to the amount of EUR 105 000 thousand for liabilities of TANNE Sp. z o.o. towards PKO BP S.A stemming from loan agreement, 2. Surety granted by Parent Company up to the amount of EUR 105 000 thousand for liabilities of TANNE Sp. z o.o. towards BGK stemming from loan agreement, 3. Surety granted by Parent Company up to the amount of EUR 18 564 thousand for liabilities of TANNE Sp. z o.o. towards PKO BP S.A stemming from hedging agreement, 4. Surety granted by Parent Company up to the amount of EUR 21 750 thousand for liabilities of TANNE Sp. z o.o. towards BGK stemming from hedging agreement, 5. Guarantee agreement signed by Parent Company 6. Subordination of claims agreement to which Parent Company is entitled towards TANNE Sp. z o.o. to the claims of PKO BP and BGK stemming from Loan and Hedging Agreements, 7. Establishing by Parent Company as claim security of Banks limited property rights in the form of financial and registered pledges on shares of TANNE Sp. z o.o. held by Parent Company, 8. Submission by Parent Company towards PKO BP a declaration on acceptance of enforcement from entire Company assets up to the amount of EUR 105 000 thousand related to provision of surety to Loan Agreement, 9. Submission by Parent Company towards BGK a declaration on acceptance of enforcement from entire Company assets up to the amount of EUR 105 000 thousand related to provision of surety to Loan Agreement, 10. Submission by Parent Company towards PKO BP a declaration on acceptance of enforcement from entire Company assets up to the amount of EUR 18 564 thousand related to provision of surety to Hedging Agreement, 11. Submission by Parent Company towards BGK a declaration on acceptance of enforcement from entire Company assets up to the amount of EUR 21 750 thousand related to provision of surety to Hedging Agreement, 12. Submission by Parent Company towards PKO BP a declaration on acceptance of enforcement from shares subjected to registered pledge set towards PKO BP as pledge administrator (to secure claims stemmig from Loan Agreement) up to the amount of EUR 210 000 thousand, 13. Submission by Parent Company towards PKO BP a declaration on acceptance of enforcement from shares subjected to registered pledge set towards PKO BP as pledge administrator (to secure claims stemming from Hedging Agreement) up to the amount of EUR 40 314 thousand, 14. Establishing towards PKO BP as pledge administrator, registered pledge on set of items and rights comprising TANNE Sp. z o.o. enterprise, 15. Conclusion of management agreement over the enterprise TANNE Sp. z o.o. or enterprise lease agreement in case of pursuit of claims by PKO BP as administrator of pledge, satisfying from subject of pledge, with items indicated by PKO BP in a way specified in the pledge agreement, as well as grating PoAs in line with pledge agreement, 16. Establishing limited property rights in the form of mortgages for ownership rights to which TANNE Sp. z o.o. is entitled to property located in Suwałki, consisting of plot of land with number 32812/6 17. Conclusion and conduct of cession agreement of rights to agreements, pursuant to which TANNE Sp. z o.o. will perform towards PKO BP, as assignee and agent on securities, a transfer of financial rights and financial claims on account of documents of which TANNE (at present or in the future) is party or beneficiary, 18. Establishing by TANNE Sp. z o.o. limited property rights in the form of financial and registered pledges on rights to open bank accounts and ones conducted for the Company, as well as granting PoAs for management and conduct of regulations with regards to open and conducted accounts for the Company, 19. Conclusion and execution by TANNE Sp. z o.o claim subordination agreement for claims to which Company creditors are entitled, to Bank creditors, stemming from Loan Agreements and Hedging Agreements, 20. Conclusion and execution by TANNE Sp. z o.o direct agreements with PKO BP (acting for the Banks as agent on securities) and Company clients,

21. Submission by TANNE Sp. z o.o towards PKO BP and BGK a declaration on acceptance of enforcement as to fianncial liability of the Company towards PKO BP stemming from Loan Agreement and repayment of any claims to PKO BP related to the loan, up to the amount of EUR 105 000 thousand,
22. Submission by TANNE Sp. z o.o towards PKO BP and BGK a declaration on acceptance of enforcement as to financial liability of the Company towards PKO BP stemming from Hedging Agreement and repayment of any claims to PKO BP related to the loan, up to the amount of EUR 18 564 thousand,
23. Submission by TANNE Sp. z o.o towards BGK a declaration on acceptance of enforcement as to financial liability of the Company towards BGK stemming from Hedging Agreement and repayment of any claims to PKO BP related to the loan, up to the amount of EUR 21 750 thousand,

At the normal percentage rate one must consider in addition the negotiated bank margins which reflect the risk related to Group financing.

9. Information on loans granted in the given financial year

In the reporting period ended 31 December 2016, the Company entered into loan agreements with the following associated companies:

- on 29.02.2016, the annex to the loan agreement with a subsidiary Antwerp Sp. z o.o., in accordance with which the loan amount was increased to PLN 30 000 was signed.On 30/12/2016 an annex to the loan agreement was signed, according to which the maturity date was extended to 30/06/2017;
- on 05.12.2016, the annex to the loan agreement with a subsidiary of Forte Mobilier SARL was signed, according to which the loan amount was increased to 30000 EUR from the date of the last year drawing to 31.12.2017. The repayment will be effected in 8 installments starting from 31.03.2018;

The balances of loans granted to related entities for 31 December 2016 have been shown in the table below:

Related entity	Height of loan	Loan currency	Due date	Loan balance as at 31.12.2016 in PLN thousand.	Loan balance as at 31.12.2016
Forte Mobilier S.a.r.l.	30	EUR	December 2019	88	-
Antwerp Sp. z o.o.	30	PLN	June 2017	30	-
Total:				**118**	

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

10. Information concerning guarantees and sureties granted and received in the fiscal year.

- On 28 June 2016 the Company provided surety and obliged itself to execute all financial obligations of its subsidiary DYSTRI-FORTE Sp. z o.o. with its seat in Warsaw at ul. Nowogrodzka 50 premises 515 resulting from the loan agreement of 14.12.2015 concluded between DYSTRI-FORTE Sp. z o.o. and ING Bank Śląski S.A.. FORTE company obliged itself to fulfil all the obligations of the Borrower, covering in particular the total repayment of the main loan amount, interest, commissions, fees and other costs up to the amount of EUR 8 700 thousand. until 29 October 2024. Loan balance as per 31.12.2016 amounts to PLN 21 951 thousand.

  - In the reporting period ended 31 December 2016, the Company granted the following securities on <u>investment liabilities</u> of the subsidiary TANNE Sp. z o.o.:

    - for SIEMPELKAMP Maschinen und Anlagenbau GmbH from a contract for the design, supply, installation and commissioning parts of the production line for the manufacture of chipboard. The total net value of the agreement amounts to 23 650 thousand EUR. Deadline for completion of the investment is planned for July 2018. The balance of liabilities at the end of the reporting period is 11 636 thousand EUR.
    - for Büttner Energie - und Trocknungstechnik GmbH from a contract for the design, supply, installation and commissioning parts of the production line for the manufacture of chipboard. The total net value of the agreement amounts to 15 000 thousand EUR. Deadline for completion of the investment is planned for March 2018. The balance of liabilities at the end of the reporting period is 7 380 thousand EUR

- for PAL SRL from the contract to design, supply, installation and commissioning parts of the production line for the manufacture of chipboard. The total net value of the investment amounts to 22 947 thousand EUR. Deadline for completion of investment is planned for May 2018. The balance of liabilities at the end of the reporting period is 13 768 thousand EUR

- for BUDIMEX S.A. the contract for the comprehensive implementation of the investment project as a general contractor in the form of building design and construction of production and storage area of approx. 33 600 m2 in a completely finished state. The total net value of the agreement amounts to PLN 28 550 thousand The completion date is scheduled for February 2017. Expiry date falls on 28.02.2017. The balance of liabilities at the end of the reporting period is PLN 7 657 thousand .

- for EWK Umwelttechnik GmbH from the contract for the comprehensive implementation of an investment in the form of design and installation of air purification system. The total net value of the agreement amounts to 4 700 thousand EUR. Expiry date falls on 31.12.2019. The balance of liabilities at the end of the reporting period is 4 230 thousand EUR.

- for Robert Burkle GmbH the contract for the comprehensive implementation of an investment in the form of design and installation of the lamination. The total net value of the agreement amounts to 3 125 thousand EUR. Expiry date falls on 31.12.2017. The balance of liabilities at the end of the reporting period is 2 187 thousand EUR.

• In the reporting period ended 31 December 2016, the Company granted the following securities of loan obligations of the subsidiary TANNE Sp. z o.o.:

- guarantees to the amount of 105 000 thousand EUR for TANNE Sp. z o.o. commitments with PKO BP S.A. under the Loan Agreement dated 17.10.2016,
- guarantees to the amount of 105 000 thousand EUR for TANNE Sp. z o.o. commitments to BGK under the Loan Agreement dated 17.10.2016,
- guarantees to the amount of 18 564 thousand EUR for TANNE Sp. z o.o. commitments with PKO BP S.A. under the Hedging Agreement dated 17.10.2016,
- guarantees to the amount of 21 750 thousand EUR for TANNE Sp. z o.o. commitments to BGK under the Hedging Agreement dated 17.10.2016 r.,
- subordination agreements due to the Company TANNE Sp. z o.o. with a liability of PKO BP S.A. and BGK resulting from the Loan Agreement dated 17.10.2016 and Hedging Agreement dated 17.10.2016
- pledges of financial and registered pledges on shares TANNE Sp. z o.o.. held by the Company,
- statements on behalf of PKO BP S.A. declaration of submission to enforcement in art. 777 § 1 point 5) of the Code of Civil Procedure, of all the assets of the Company to the amount of 105 000 thousand EUR guarantee associated with the Loan Agreement dated 17.10.2016
- for BGK statements of declaration of submission to enforcement in art. 777 § 1 point 5) of the Code of Civil Procedure, of all the assets of the Company to the amount of 105 000 thousand EUR guarantee associated with the Loan Agreement dated 17.10.2016
- statement on behalf of PKO BP S.A. on declaration of submission to enforcement in art. 777 § 1 point 5) of the Code of Civil Procedure, of all the assets of the Company amounts to 18 564 thousand EUR associated with guarantee of Hedging Agreement dated on 17.10.2016,
- BGK on declaration of submission to enforcement in art. 777 § 1 point 5) of the Code of Civil Procedure, of all the assets of the Company amounts to 21 750 thousand EUR associated with guarantee Hedging Agreement dated on 17.10.2016,
- statement on behalf of PKO BP S.A. on declaration of submission to enforcement in art. 777 § 1 point 6) of the Code of Civil Procedure, the registered pledge of shares pledged to the amount of 210 000 thousand EUR guarantee associated with the Loan Agreement dated 17.10.2016
- statement on behalf of PKO BP S.A. on declaration of submission to enforcement in art. 777 § 1 point 6) of the Code of Civil Procedure, the registered pledge of shares pledged to the amount of 40,314 thousand EUR associated with guarantee Hedging Agreement dated 17.10.2016.

11. Description of the use of securities issue proceeds by the Issuer.

The Issuer did not publish any prognosis of financial results in the reporting period.

12. Differences between the financial results indicated in the annual report and earlier forecasts for the given year.

The Issuer did not publish financial result forecasts for 2016.

5. Assessment and its justification, concerning the management of financial resources.

Net working capital	2016	2015
Current assets	564 743	390 373
Short-term liabilities	(222 345)	(218 797)
Net Working Capital (operating assets-short term liabilities)	342 398	171 576
Ratio of net working capital (net working capital /total assets)	29,17%	23,24%

Debt analysis	2016	2015
Total liabilities	621 590	259 892
Total debt ratio (total debts/total liabilities)	52,95%	35,20%
Credit rating ((net profit + depreciation)/total liabilities)	21,41%	40,04%

As at 31.12.2016, FORTE Group's long-term liabilities amounted to PLN 399 245 thousand and consisted mainly of liabilities from loans and borrowings (PLN 391 263 thousand), representing 98% of total long-term liabilities.

Short-term liabilities dated 31 December 2016 amounted to PLN 222 345 thousand and consisted primarily of the liabilities regarding Trade and other payables (PLN 114 130 thousand), representing 51.3% of total short-term liabilities and reserves and accruals (PLN 58 380 thousand), representing 4.4% of total current liabilities.

There are no dangers related too inability to repay incurred liabilities

14. Assessment of ability to fulfil investment plans in comparison to the resources available

On 19 October 2015, the Supervisory Board of the Dominant Unit approved of the Development Plan of production capacities of the FORTE Group by 2021.

Necessary elements of the Development Plan including in particular vertical integration are:

- Extension of production capacities of box furniture in particular by means of construction of the new production facility of furniture,
- Construction of production facility of wooden-derivative boards,
- Extension of logistic-warehouse areas.

Investment expenditure borne by FORTE Group in 2016 amounted to PLN 262 M, for comparison-in 2015-they amounted to PLN 68 M. The most significant investments for the Group in 2016 include: costs of investment related to construction of chip board factory in Suwałki, purchase of lines and machinery for expansion of production capacity in present production plants, expenditure for construction of exhibition hall in Germany and modernization of furniture store in Ostrów Mazowiecka.
Investment expenditure related to the accepted Development Plan will be continued also in subsequent years. Investment expenditure are financed mainly with long-term bank loans. Furthermore, Tanne Sp. z o.o., realizing the investment of construction of board factory, signed with the Ministry of Development an agreement concerning support for investment through granting government grant for the years 2016-2020 to the maximum amount of PLN 57 million.

15. Information regarding financial instruments in respect of: risk: price change, credit risk, risk of significant disturbances to cash flows and risk of a loss of the financial liquidity.

The Group also performs transactions involving derivatives, primarily zero-cost option strategies. The purpose of these transactions is to manage interest rate risk and currency risk arising in the course of business activity of the Group.

Apart from derivatives, the Group's principal financial instruments comprise bank loans, bonds, cash, treasury bills and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. Company has various other financial instruments such as trade debtors and trade creditors and contract liabilities, which arise directly from its operations.

It is – and has been throughout the audited period – the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Management Board verifies and agrees on policies for managing each of these risks and they are summarised below. Company also monitors the market price risk arising from all financial instruments held.

15.1. Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations that bear interest at floating interest rates (WIBOR, EURIBOR, LIBOR) increased by a margin. In order to analyse the sensitivity to changes in the interest rate of long-term financial liabilities of the Company i.e. loans and obligations under financial lease, their interest rate has been assumed to decline per annum for EURIBOR by 0.01 percentage point t. and increase per annum for WIBOR by 0.10 percentage point, as well as increase for LIBOR – by 0.55 percentage point (in 2015 WIBOR- decrease by 0.20 % point; EURIBOR decrease by 0.05 % point, LIBOR- increase by 0.30 % point).

The Company does not have any hedging instruments against interest rate risk.

Interest rate risk – sensitivity analysis

The sensitivity of gross profit due to rationally feasible changes in the interest rate are described in item 36. of additional explanatory notes to the financial statements.

15.2. Currency risk

The company is at currency risk which occurs as a result of the conduct by the Company of sale and purchase in currencies other than the valuation currency. About 85% of the Company's sales transactions are denominated in foreign currencies other than the reporting currency of operating entity conducting sale.

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

The sensitivity of gross profit due to changes in the fair value of monetary assets and liabilities to reasonably possible fluctuations in currency fluctuations have been presented in item 36. of additional explanatory notes to the consolidated financial statements.

Currency risk hedging

The basic method of managing the currency risk are hedging strategies which use derivative instruments. To hedge future foreign currency transactions, the Company uses symmetrical option strategies and forward contracts.

The impact of derivatives on the statement of financial position

Dated 31 December 2016, the fair value of exchange contracts that meet the criteria of assessment for hedge accounting amounted to (PLN 11 517 thousand) and the effective value was recognized fully in the reserve capital and revaluation of liabilities related to derivative financial instruments (2015: PLN 4 266 thousand).

The impact of derivatives on the result of the period

	01.01-31.12.2016	**01.01-31.12.2015**
Influence on sales revenue	18	2 011
Impact on revenue/financial costs, of which:	113	2 255
- due to the execution of derivatives in the period	*113*	*2 255*
- due to the valuation of derivatives in the period	-	-
Proceeds from derivatives on the result of the period, in total:	**131**	**4 266**

Hedge accounting

The Company uses cash flow hedge accounting. According to the principles of such accounting, changes in fair value of hedging instruments are included in the effective part in the equity of the Company and in the ineffective part in the profit and loss account. At the time of implementation of the hedged sales revenue, changes in fair value of hedging instruments are recognised in the profit and loss account.

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

At the end of each month, measurement is performed of the effectiveness of hedging – retrospective efficiency – 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.

Revaluation reserve from hedging instruments

Revaluation reserve from financial instruments is presented in item 29.3 of additional explanatory notes to the consolidated financial statements.

Fair value foreign exchange contracts

Collective data on the fair values and the related settlement terms, as well as summary information on the amount (volume) that constitutes the basis of future payments and the price of execution of effective forward contracts is presented in item 36.2 of additional explanatory notes to the consolidated financial statements.

Risks related to forward foreign exchange contracts are the risks of interest rate, exchange rate and the insolvency of a given counterparty. Credit risk is limited, however, because the counterparty to the transaction are banks with high financial standing.

15.3. Credit risk

The Company operates a procedure for granting the counterparty trade credit limit and describing its form of security. It is the Company's policy that all customers who trade on credit terms are subject to credit verification procedures.

A greater part of the trade receivables is insured, or secured by bank guarantees due to the central settlement. In addition, receivables from counterparties are regularly monitored by the trade and financial regulatory bodies. In the event of overdue receivables, in accordance with the applicable procedures sales are halted and debt collection begins.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments with positive fair value, the Company's exposure to credit risk arises from default of the counter party.

There are no significant concentrations of credit risk within the Group.

15.4. Liquidity risk

The Company is exposed to liquidity risk resulting from the relation of short-term liabilities to current assets. The lack of funds risk is monitored by the Group with the use of the periodical liquidity planning tool. This tool takes into account the maturity dates of investments and financial assets (e.g. receivable accounts, other financial assets) as well as projected cash flows from operating activity.

The Group's objective is to maintain balance between the continuity and flexibility of funding through the use of various sources such as bank loans, and financial leases

Detailed information on liquidity risk are described in item 36.4. of additional explanatory notes to the consolidated financial statements.

16. Short description of the Group performance and basic economic and financial parameters:

Description	2016	2015	Change (in %)
Sales revenue	1 090 294	954 275	14,3%
Cost of sales	(663 438)	(608 265)	9,1%
Gross profit from sales	426 856	346 010	23,4%
Gross margin	39,2%	36,3%	
Operating profit (EBIT)	144 370	98 159	47,1%

EBITDA	167 069	117 847	41,8%
Gross profit	139 222	98 842	40,9%
Net profit	110 385	84 373	30,8%
Net return on sales %	10,1%	8,8%	
Return on own equity	20%	17,6%	
Return on assets (ROA)	9,4%	11,4%	

Ended 2016 year was another year in which the Company consistently recorded positive growth in sales revenue and net profit.

Sales revenues in 2016 amounted to PLN 1 090 294 thousand and in relation to the previous year they were higher by 14,3% (by value of PLN 136 019 thousand).
In the Management Board's opinion achieving such good sales performance confirms the assumptions of the strategy of continuous development of the Group FORTE. The company produced a total of 3.9 million pieces of furniture that weresold to customers in more than 40 countries, mainly in Europe but also in Asia and Africa. Share in the growth of sales revenue was also beneficial for the Company, as an exporter, the level of EUR / PLN.

Gross profitability of sales stood at 39,2%, up 2.9 points percent higher than in the previous year. The main reasons for this improvement in profitability are: the positive impact of the increase in the EUR / PLN, the increased scale of production to lower unit costs, stable situation on the market prices of basic raw materials and consistent policy of budgetary discipline.
The costs of sales - charge of incomes of sales costs was 20,7%, compared to 21% in 2015. In terms of value, cost of sales increased by PLN 25 417 thousand.

Overheads - revenue load overheads amounted to 4.7% compared to 3.9% in 2015.The increase in this category of costs is mainly due to increased investment in programs related to the Company's continued policy focused on workforce development.
Operating business profit - The Company recorded a very significant 47% increase in operating profit. It amounted to PLN 144 370 thousand (13.2% of revenues), in comparison to PLN 98 159 thousand (10.3% of revenues) in 2015.

Net profit in the reporting period amounted to PLN 110 385 thousand(10,1% of revenues), compared with PLN 84 373 thousand in the comparative period (8.8% of revenues).

17. Assessment of factor and special events which impacted the operational result for the financial year, including defining the level of impact of these factor or special events on the achieved result.

There were no other factors or unusual events besides those described in section 16 of this report.

18. Description of external and internal factors important for the development and development prospects.

2016 was the Group's first year of implementation of the strategy for the years 2016-2021.

Capital expenditures incurred by the Group in 2016 amounted to PLN 262 million and will be continued in the coming years as part of the approved investment program, which includes the production of plate and the fifth production plant of Fabryki Mebli, along with warehouses. Implementation of the investment program is carried out in accordance with established schedules. This program will be partly refinanced through public aid (37.5 MILLION EUR) through direct subsidy granted in the form of a government grant (57.1 M PLN) and exemption from CIT in terms of the investment in the Suwalki Special Economic Zone.

Another project, which according to the Board will have a positive impact on the development of the activity of Group FORTE in the next few years is the decision to establish a joint venture manufacturing and selling furniture in India. The new company called FORTE FURNITURE PRODUCTS INDIA PVT. LTD based in Chennai will open up from 01.04.2017. The Indian market is a very large and promising market, which fits perfectly into the strategy of dynamic development of the Group FORTE.

19. Changes in the methods of managing the Issuer's company and its capital group.

Did not occur.

20. Any agreements concluded between the Issuer and the management staff providing that in case of the resignation or dismissal from the role without a significant cause or in case their dismissal or recall from the occupied position is due to merger of the Issuer by takeover.

The Parent Company has entered into the following agreements with the management staff:

- agreement providing that in the member of the Management Board is dismissed from the role, he/she is entitled to compensation in the amount equal to the remuneration equal to his or her 6 monthly salaries, unless the basis for the dismissal will be any of the following reasons: committing a crime by the MB member against the Company, serious and culpable violation by him or her of the provisions in the field of securities trading, breach of essential contractual obligations, existence of an impediment to the exercise by the member of the Management Board of their duties lasting longer than 2 months. The agreement also provides that the member of the Management Board may terminate the agreement in the event of a breach by the Company of the relevant obligations under the agreement. In this case, the member of the Management Board will be entitled to compensation in the amount of 6 of his/her monthly salaries. Also in case of non-appointment of the member of the Management Board for the term of office of the Management Board in 2014-2019 he or she will be entitled to compensation in the amount of 6 of his/her monthly salaries with the exception of the described above cases on the side of the member of Management Board.

21. The amount of remuneration, rewards and benefits, including those under the incentive or bonus schemes based on the Issuer's capital.

On 10 June 2014 Annual General Meeting of Shareholders of FABRYKI MEBLI „FORTE" S.A approved introduction of an incentive programme for the Members of Management Board („Incentive Sheme").
The aim of Incentive Program is to strive for development of the Company's Capital Group and its subsidiaries („Capital Group") through the creation of incentive mechanisms for people responsible for management, relating to the financial results of the Capital Group and increasing the value of Company shares.
This program is settled by issuing equity instruments in exchange for provided services – a total of 356 220 personal Subscription Warrants of the Company in three series at the issue prices equal to the arithmetic mean of share price of the Company, listed on the Warsaw Stock Exchange, calculated based on the exchange quotations of these shares in the period from 28 April 2014 to 10 June 2014.
The issue price of the Company share of series H has been adopted with the Resolution of the Supervisory Board dated 27 October 2014, in the amount of 46,19. Each Warrant entitles to acquire one share of series H for the issue price.
The table below presents the scope of the adopted incentive scheme, in accordance with the agreed Rules of the Incentive Scheme.

	Series D	**Series E**	**Series F**
Number of subscription warrants	(118 740)	(118 740)	(118 740)
Vesting period	10.06.2014 – 31.12.2014	01.01.2015 – 31.12.2015	01.01.2016 – 31.12.2016
Conditions for entitlement to acquire warrants	1/ non-reporting by the certified auditor of significant concerns regarding consolidated financial report of Capital Group for the financial year 2014.	1/ non-reporting by the certified auditor of significant concerns regarding consolidated financial report of Capital Group for the financial year 2015.	1/ non-reporting by the certified auditor of significant concerns regarding consolidated financial report of Capital Group for the financial year 2016.

	2) increase by at least 10% of net profit per Company's share as at 31 December 2014 compared to the result as at 31 December 2013 3) increase by at least 10% of the average price of the Company's shares on the Warsaw Stock Exchange in December 2014 compared to the average price of the Company's shares on the WSE in December 2013	2) increase by at least 10% of net profit per Company's share as at 31 December 2015 compared to the result as at 31 December 2014 3) increase by at least 10% of the average price of the Company's shares on the Warsaw Stock Exchange in December 2015 compared to the average price of the Company's shares on the WSE in December 2014	2) increase by at least 10% of net profit per Company's share as at 31 December 2016 compared to the result as at 31 December 2015 3) increase by at least 10% of the average price of the Company's shares on the Warsaw Stock Exchange in December 2016 compared to the average price of the Company's shares on the WSE in December 2015

Increase of net profit per one Company share constituting a condition for offering Warrants falling for a given period is established on the basis of a consolidated annual report of the Capital group, reviewed by an expert auditor and approved via resolution of the General Meeting of Shareholders of the Company.
Execution of Warrant rights may take place no sooner than post one year from the formal decision of their obtaining and no later than on 30 November 2018.
Series of incentive scheme are considered as separate programmes in the meaning of IFRS.

Fair value of incentive scheme

The fair value of the program for the F-series set for PLN 1 064 thousand and the value posted in the increase in equity and included in the incentive program and employee benefits expense.

The number and weighted average prices of the implementation of warrants are as follows:

	Series	Number of warrants	average price of execution
In place as at 01.01.2016, including		**237 480**	
	D	118 740	46,19
	F	118 740	46,19
Change in the course of reporting period		**-**	**-**
In place as at 31.12.2016, including:		**237 480**	
Possible for execution as at 31.12.2016	D	118 740	46,19
	F	118 740	46,19

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

	Period of 12 months ended	
	31.12.2016	**31.12.2015**
Management Board's remuneration, including:	**13 748**	**11 800**
in the Issuer's enterprise	**12 960**	**11 017**
Maciej Formanowicz	5 416	4 348
Gert Coopmann	2 956	2 558
Klaus Dieter Dahlem	2 008	1 922
Maria Florczuk	1 152	729
Mariusz Gazda	1 428	1 022
Rafał Prendke	-	438
for performing functions in the Governing Bodies of the subsidiaries	**788**	**783**
Maciej Formanowicz	547	537
Gert Coopmann	241	246

Supervisory Board:	**324**	**279**
Zbigniew Sebastian	84	69
Władysław Frasyniuk	-	17
Stanisław Krauz	60	52
Tomasz Domagalski	60	52
Stefan Golonka	60	52
Jerzy Smardzewski	60	37

22. Specification of the total number and face value of the Issuer's shares held by members of the management and supervisory bodies.

Persons supervising and managing of the Issuer.		**Number of shares with a nominal value of PLN 1 each,**
Gert Coopmann	Członek Zarządu	50 000
Zbigniew Sebastian	Przewodniczący Rady Nadzorczej	300

On 06.07.2016 and 22.07.2016 Mr Klaus Dieter Dahlem – Member of the Management Board of the Parent Company obtained the total of 50 000 items of shares of the Issuer.

23. Employment and personnel policy of the Group

The structure of employment according to professions education, gender and the type of work performed in the FORTE Group:

	Status as at:	
Employment structure	**2016**	**2015**
- as per education		
University degree	17%	15%
Secondary education	44%	46%
Vocational	28%	28%
Primary education	11%	11%
- as per gender		
Women	30%	28%
Men	70%	72%
- according to the type of work		
Blue-collar workers	80%	83%
White-collar workers	20%	17%

Average employment in the Group in the period January-December 2016 was shaped in the following manner:

	2016	**2015**
Management Board of the Parent Company	5	5
Management Boards of related entities	11	6
Administration	224	203
Sales Department	489	592
Production Division	2 417	2 107
Other	164	136
Total	**3 310**	**3 049**

23.1. Development and training

Training

Company employees have the opportunity to develop personal and professional qualifications in many areas. The Company offers participation in conferences and a series of corporate trainings to develop specialist skills, linguistic skills, and support personal development. As part of the educational project "FORTE Academy" postgraduate studies and development programs are organized offering training for managers, and specialized production workers in all branches of the Company. FORTE employees can also count on financing to their own studies that deepen their knowledge and improve skills within the framework of tasks.

"Yellow Elephant"

Company Preschool is a number of benefits for employed parents. First of all, it makes it easier to reconcile work and family life. FORTE workplace preschool with nursery is a facility of the highest standard in the country. Classes in preschool are taught in bilingual Polish - English system based on the author's curriculum. Children develop their individual passions and skills with additional sports and dance and participating in a number of thematic workshops and tours.

English for children and staff

The Parent Company in 2015 continued its innovative educational project together with the AMF Foundation, intended for children of workers of the factory in Ostrów Mazowiecka, called Forte School of Languages [Szkoła Języków Forte]. It offers free classes of English and German for school-aged children.

23.2. Internship programmes and practices.

The company collaborates with universities, secondary schools, and local governments in order to develop vocational education and training. It supports research and activities of didactic and scientific development in the field of wood economy and furniture industry. Representatives of FORTE staff participate in conferences and trade meetings, during which they share expertise and experience. In 2016, in Ostrow Mazowiecka an umbrella of FORTE class was established, in which future wood technologists will be educated. The company also offers a rich program of paid internships and internships for students.

Collaboration of Universities with the Company: Warsaw University of Life Sciences, Technical University of Bialystok, Poznan University of Life Sciences, School of Ecology and Management in Warsaw, Warsaw School of Economics, Warsaw University of Technology.

Secondary schools with the Company collaboration: Secondary School named after M. Kopernik in Ostrowia Mazowiecka, Group of Secondary Schools No. 1 in Ostrowia Mazowiecka, Technical School named after Gen. W. Anders Bialystok, Complex of Vocational Schools inl Hajnówka, School of Wood and junior high schools in Łomża, Complex of Vocational Schools No. 6 in Suwałki, Technical School in Suwałki.

24. Description of the Issuer's policy in terms of sponsorship and charitable activities

Charity and sponsorship plays in Fabryki Mebli "FORTE" S.A. special role and it is a permanent element of the Company, which is of high importance in the process of building the image of a socially responsible company.

Mission

Raising, educating and shaping attitudes, especially of young people in the spirit of a responsible society, committed, willing to work for personal development and social, sensitive and noticing the needs of other people and willing to help others.

Vision

The Company with regard to the policies of charity, focuses primarily on supporting initiatives aimed at leveling social differences and combating social exclusion of children and young people, especially talented, needy, and in a difficult situation.

The Company undertakes numerous initiatives and activities, which are aimed at promoting the wider education and comprehensive development of the younger generation.

Company's commitment to the development of art and culture manifests itself in supporting initiatives related to the development of culture, preserving cultural heritage and national heritage institutions and cultural events, which are located mainly in places of business activity.

Actions

The direction of charity and sponsorship of the Company is determined by two priorities:

1. Activities for the education and upbringing:
   - cooperation with working at the Company foundation AMF FOUNDATION NASZA DROGA
   - cooperation with universities and secondary schools which educate the future workforce of the Company (e.g. internships and traineeships, organization of patronage, competitions, teaching aid and aid in kind, the organization of lectures and conferences)
   - cooperation and material assistance in equipping educational institutions
   - supporting research and educational activities development in the field of wood and furniture industry,
   - individual material assistance for people in difficult situations.

2. Activities for the development of culture and art:
   - supporting the local cultural events (e.g. concerts, festivals, exhibitions, performances)
   - supporting local projects in the field of physical culture and sports (e.g. firefighting competitions)
   - supporting the implementation of cultural projects aimed at activation of local communities in the field of arts and broadly understood cultural education.

The Company does not support neither sponsor, in particular:

- parties and associations of a political nature,
- religious organizations,
- political events,
- religious events,
- events aimed at discrimination, act contrary to the law or general social norms
- events that threaten the environment,
- projects that threaten the Company's reputation,
- projects with which institutions involved in gambling or drug manufacturers collaborate (alcohol, cigarettes)
- spending on copyright royalties,
- promotion of physical persons relating to their own activities.

The above-mentioned areas of activities do not cover any other criteria (positive or negative), which may affect the Company's decision on its participation in the project.
In particularly justified cases the Company can give help or support for other purposes.

Rules for granting support

1. The company provides direct donations and includes sponsorship agreements,
2. Received requests or propositions of sponsorship are carefully analyzed and evaluated in accordance with the established charity policy,
3. The Company has the right, at any stage of project implementation and compliance to control how the spent / used funds / donations with the declared aim.
4. Gifted / sponsored who will not be able to use the funds transferred in accordance with the declared aim is obliged to return the total of received support.

25. Key data on FORTE shares:

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

Key data concerning FORTE shares:

Key data	2016	2015
Company's net profit in PLN '000	97 195	77 936
The highest share price in PLN	79,60	62,50
The lowest share price in PLN	46,52	49,39
Share price at the end of the year in PLN	76,00	53,40

P/E indicator as of the end of the year	18,69	16,38
Number of shares on the stock exchange (in items)	23 901 084	23 901 084
Average daily trading volume (in items)	14 355	21 526

WYKRES NOTOWAŃ DLA SPÓŁKI FORTE SA W OKRESIE OD 2016-01-01 DO 2016-12-31

Źródło: http://www.money.pl/gielda/archiwum/spolki/

26. Information concerning agreements known to the Issuer which may change the proportion of shares held by the existing shareholders

The Issuer does not possess such information.

27. Information concerning the control system of the employee share programmes.

Did not occur.

28. Information on court proceedings whose total value constitutes at least 10% of the Issuer's own funds.

Did not occur.

29. Information on the date of agreement conclusion by the Issuer with an entity authorised to audit financial statements regarding an audit or review of the financial statements and the period for which the agreement was concluded and the total amount of remuneration under the agreement.

In the reporting period and the comparative period, the Parent Company entered into the following agreements with BDO Sp. z o.o. as an entity authorised to audit financial statements:

On 3 August 2016:

- For carrying out an interim unit financial statements overview of Company and consolidated financial statements of the Capital Group prepared according to the status as of 06/30/2016. For completion of the abovementioned operations parties declared the remuneration in the amount of PLN 33 thousands net.
- For carrying out the unit assessment financial statements of Company and consolidated financial statements of the Capital Group prepared according to 12/31/2016 status. For completion of the abovementioned operations parties declared the remuneration in the amount of PLN 57 thousands net.

On 21 May 2015

- For an audit of the individual financial statements of the Company and the consolidated financial statements of the Capital Group prepared based on the data as at 30 June 2015. For the execution of the above agreement, the parties agreed remuneration in the amount of PLN 32 thousand net.
- For an audit of the individual financial statements of the Company and the consolidated financial statements of the Capital Group prepared based on the data as at 31 December 2015. For the execution of the above agreement, the parties agreed remuneration in the amount of PLN 56 thousand net.

30. The structure of assets and liabilities

Liquidity and efficiency analysis	2016	2015
Current liquidity (current assets/short-term liabilities)	2,5	1,8
Quick liquidity (current assets – inventories/short-term liabilities)	1,9	1,2
Receivables rotation in days (average receivables under supplies and services* 365/sales revenues) 43	50	50
Inventory turnover in days (average inventory* 365/own cost of sales)	77	85
Liabilities rotation in days (average supplies and services liabilities* 365/own cost of sales	34	29
Rotation of current assets in days (average current assets* 365/sales revenues) 146	160	143

Characteristics of the balance sheet structure	2016		2015		% Change
	in PLN '000	% of the balance sheet total	in PLN '000	% of the balance sheet total	2016/2015
Fixed assets	609 243	52%	347 977	47%	75%
Operating assets	564 743	48%	390 373	53%	45%
Total assets	**1 173 986**	**100%**	**738 350**	**100%**	
Own equity	552 396	47%	478 458	65%	15%
Long-term commitments and reserves	399 245	34%	41 095	6%	872%
Short-term commitments and reserves	222 345	19%	218 797	29%	2%
Total liabilities	**1 173 986**	**100%**	**738 350**	**100%**	

In 2016, the Group recorded an increase in balance sheet total by PLN 435 636 thousand

Fixed assets increased by PLN 261 266 thousands, which is mainly a result of borne by the Group due to investment of subsidiary TANNE Sp. z o.o. costs of construction of board plant (PLN 74 285 thousand) and expenditure incurred by subsidiary Terceira Sp. z o.o for purchase of investment certificates (PLN 157 200 thousand).

In **current assets** there was a significant increase in the position of receivables due to supplies and services together with other claims (PLN 133 302 thousand), mainly due to payment by Tanne Sp z o.o. advance payments towards future delivery of technological lines for the chip board factory. The Group also noted an increase in the item of inventory (PLN 4 724 thousand) as well as in the item cash (PLN 40 846 thousand).

On the side of **liabilities** there have been increases of liabilities connected with: bank loans (PLN 283 895 thousand), trade and other payables (PLN 40 077 thousand) and provisions and accruals (by PLN 23 521 thousand), liabilities due to income tax (PLN 6 399 thousand) and liabilities due to derivative financial instruments (PLN 11 517 thousand).

Increase of **bank loans balance** stems mainly from the use by the Group of part of investment loan for expenditure related to the construction of chip board plant (PLN 95 698 thousand), financing via a loan of the purchase of investment certificates (PLN 141 143 thousand) as well as partial recapitalisation by Parent Company of subsidiaries.

Increase in the balance of **trade liabilities** is the consequence of increased production as well as an increase of investment commitments of the Group. The Company timely performs all of its obligations which is confirmed by a stable indicator of rotation of liabilities.

The increase in **reserves and accruals** is due to, above all, an increase of sales revenues and the level of reserves on bonuses and non-inclusion of clients whose settlement will be conducted in 2017.

The Company maintains a good financial liquidity. The closing **balance of cash** at the end of the reporting period was PLN 95 878 thousand, which as compared to the end of 2015 was a increase by PLN 40 846 thousand.

31. Major events which influenced the activity and financial results of the Issuer in the financial year and after the end of the year, and those whose influence may be apparent in the forthcoming years

In the most important events of 2016, the Group may include:

- continuation of upward sales trend, which was reflected in producing record number of furniture packages and crossing of symbolic billion PLN in income from sale.
- Continuous optimisation of production processes, i.a. through development of investitions enabling further increase of productive abilities
- realisation of medium-term investment plans of the Group according to the accepted schedule
- including the Parent Company in the elite group of 25 Warsaw Stock Exchange companies recorded in Respect Index, which means companies which are run in a reliable and balanced way
- making a decision about creation joint venture which produces and sells furniture in India
- continuation of conscious policy geared towards employee's development- continuation of "Forte Academy"

32. Description of the structure of major capital . investments made within the given financial year

On 15 March 2016 Fabryki Mebli "FORTE" S.A. appointed together with AM&HP Sp. z o.o. the subsidiary FORESTIVO Sp. z o.o. with headquarters in Suwalki, whose main subject of activity is to provide a feedstock to produce particle boards. The registered capital is in the amount of PLN 200 thousand and is divided into 1000 shares each with nominal value of PLN 200 each. Fabryki Mebli "FORTE" S.A. has 50% share in a newly created company. Registration in National Court Register was made on 25 June 2016.

On 21 October 2016 a resolution was made by Extraordinary Partners Meeting about increasing the registered capital of Forte Iberia S.I.u Spain from the amount of EUR 15 thousand to EUR 65 thousand through creating 50 thousand of new shares of nominal value 1 EUR each in return for cash contribution in amount of EUR 50 thousands. Registration of increasing registered capital was made on 3 November 2016.

On 13 and 23 December 2016 Terceira Sp. z o.o. obtained the total of 157 200 items of non-public investment certificates issued in A and B series by SEZAM XX Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, managed by SKARBIEC Towarzystwo Funduszy Inwestycyjnych S.A with its seat in Warsaw. The price of issue of single certificate of A series and of B series amounted to PLN 1 thousand, whilst total purchase price of certificates amounted to PLN 157 200 thousand.

33. Description of the organization of the Issuer's capital group, with the list of consolidated companies, and description of changes in the organization of the Issuer's Capital Group together with their reasons.

The description has been set out in item 1 of these statements.

34. Characteristics of policy in the scope of directions of development of Issuer's Capital Group. Key directions of development of the Group

In the coming years the FORTE Group will continue to develop sale of mounted furniture on European markets through further increase of share in markets of individual countries and adequate adjustment of production capacity and security of delivery of basic raw materials (constructed chip board factory). In the longer term, the development of the Group will take place also outside Europe, the start of which is creation of JV company in India.

35. The goal of Forte Group is to diversify both the area of the offered product and distribution

channels.

- On 27.03.2013 the Dominant Company granted four sureties for credits incurred by FURNIREX Sp. z o.o. with its seat in Hajnówka for financing the technological investment of total PLN 18 299 thousand.

- FURNIREX Sp. z o.o. submitted the offer to the Dominant Company in accordance with which it invested means obtained from technological credits in modern investments which were located in the production area rented from Forte S.A. in Hajnówka. FURNIREX Sp. z o.o. with the use of modern technologies performs services of processing of the material entrusted for FORTE and other manufacturers of furniture. Sureties were granted for BRE Banku S.A. (presently mBank S.A.) with expiry date by 30.06.2018 Balance of credits as of 31.12.2016 amounts to PLN 1 464 thousand.

- On 28.06.2016 the Company provided surety and obliged itself to execute all financial obligations of its subsidiary DYSTRI-FORTE Sp. z o.o. with its seat in Warsaw at ul. Nowogrodzka 50 premises 515 stemming from loan agreement of 14 December 2015 concluded between DYSTRI-FORTE Sp. z o.o. and ING Bank Śląski SA. Company obliged itself to fulfil all liabilities of the Borrower covering in particular the total repayment of the main amount of the loan, interest, commission, fees and other costs up to the amount of EUR 8 700 thousand until 29 October 2024. Loan balance as per 31.12.2016 amounts to PLN 21 951 thousand.

- In reporting period finished on 31 December 2016 the Company gave the following securities to TANNE SP. Z O.O. towards subsidiary investment liabilities:

- towards SIEMPELKAMP Maschinen- und Anlagenbau GmbH from the agreement on design, delivery, installation and launching parts of production line to produce particle boards. Total net amount of the agreement amounted to EUR 23 650 thousand. The date of finishing investment realisation is planned for July 2018. The balance of commitments at the end of the reporting term amounts to EUR 11 636 thousand.

- towards Büttner Energie- und Trocknungstechnik GmbH from the agreement on design, delivery, installation and launching parts of production line to produce particle boards. Total net amount of the agreement amounts to EUR 15 000 thousand. The date of finishing investment realisation is planned for March 2018. The balance of commitments at the end of the reporting term amounts to EUR 7 380 thousand.

- towards PAL SRL from the agreement on design, delivery, installation and launching parts of production line to produce particle boards. Total net amount of the agreement amounts to EUR 22 947 thousand. The date of finishing investment realisation is planned for May 2018. The balance of commitments at the end of the reporting term amounts to EUR 13 768 thousand.

- towards BUDIMEX public company from the agreement on complex realisation of investment task in general execution system in terms of design and building the production/warehouse plant area of 33 600 m2 in a finished form. Total net amount of the agreement is EUR 28 550 thousand. The date of finishing investment realisation is planned for February 2017. The expiry date is 02/28/2016.The balance of commitments at the end of the reporting term is EUR 7 657 thousand.

- towards EWK Umwelttechnik GmbH from the agreement on complex realisation of investment task in terms of design and installation of the air purification system. Total net amount of the agreement is EUR 4 700 thousand. The expiry date is 12/31/2019. The balance of commitments at the end of the reporting term is EUR 4 230 thousand.

- towards Robert Burkle GmbH from the agreement on complex realisation of investment task in terms of design and installation of the lamination line. Total net amount of the agreement is EUR 3 125 thousand. The expiry date is 12/31/2017. The balance of commitments at the end of the reporting term is EUR 2 187 thousand.

- In the reporting period finished on 31 December 2016 the Company gave the following securities to TANNE SP. Z O.O. towards subsidiary's <u>loan liabilities</u>:

- guarantee up to EUR 105 000 thousand for TANNE SP. Z O.O. for commitments towards PKO BP Public company resulting from Credit Agreement from 10/17/2016

- guarantee up to EUR 105 000 thousand for TANNE SP. Z O.O. for commitments towards BGK resulting from Credit Agreement from 10/17/2016

- guarantee up to EUR 18 564 thousand for TANNE SP. Z O.O. for commitments towards PKO BP S.A. resulting from Hedging Agreement from 10/17/2016

- guarantee up to EUR 21 750 thousand for TANNE SP. Z O.O. commitments towards BGK resulting from Hedging Agreement from 10/17/2016

- Subordination of Claims Agreement conferred to the Company over TANNE SP. Z O.O. towards claims of PKO BP S.A. and BGK resulting from Credic Agreement from 10/17/2016 and Hedging Agreements from 10/17/2016

- establishing of financial deposits and registered pledges on the shares of TANNE SP. Z O.O. owned by the Company

- declaration towards PKO BP S.A. about submission to enforcement according to Article 777 § 1 point 5) of the Civil Code of conduct, from total asset of the Company to EUR 105 000 thousand related to guarantee Credit Agreement from 10/17/2016

- declaration towards BGK about submission to enforcement according to Article 777 § 1 point 5) of the Civil Code of conduct, from total asset of the Company to EUR105 000 thousand related to guarantee Credit Agreement from 10/17/2016

- declaration towards PKO BP S.A. about submission to enforcement according to Article 777 § 1 point 5) of the Civil Code of conduct, from total asset of the Company to EUR 18 564 thousand related to guarantee Hedging Agreement from 10/17/2016

- declaration towards BGK about submission to enforcement according to Article 777 § 1 point 5) of the Civil Code of conduct, from total asset of the Company to EUR 21 750 thousand related to guarantee Hedging Agreement from 10/17/2016

- declaration towards PKO BP S.A. about submission to enforcement according to Article 777 § 1 point 6) of the Civil Code of conduct, from the shares deposited with a registered pledge to the amount of EUR 210 000 thousand involved with guarantee Credit Agreement from 10/17/2016

- declaration towards PKO BP S.A. about submission to enforcement according to Article 777 § 1 point 6) of the Civil Code of conduct, from the shares deposited with a registered pledge to the amount of EUR 40.314 thousand related to guarantee Hedging Agreement from 10/17/2016

36. Selected financial data converted on the basis of the following exchange rates:

- Individual asset and liability positions from situation as at 31 December2016 were recalculated according to avarage 1 EUR rate on 31 December 2016 (1 EUR= 4,4240 PLN). Whereas profit and loss account positions both with cashflow table for the year 2016 were appraised according to rate representing the arithmetical mean of avarage rates valid on the last day of each month (1 avarage EUR for 2016= 4,3757 PLN)
- Individual items of assets and liabilities as at 31 December 2015 were converted according to the average exchange rate of EUR 1 dated 31.12.2015 (1 EUR = PLN 4.2615). Particular items of the profit and loss account and the cash flow statement for the year 2015 were calculated on the basis of exchange rates constituting the arithmetic mean of rates established on the last day of each month (EUR 1 between 1 January and 31 December 2015 = PLN 4.1848).

37. Statement of the Management Board concerning the entity authorised to audit financial statements of the Issuer.

The Management Board of Fabryki Mebli "FORTE" S.A. declares that the entity authorized to audit financial statements, carrying out annual research of issuer's financial statements was chosen according to the law and that this entity, together with statutory auditors conducting the audit complied with the conditions for provision of impartial and independent opinion about the assessed financial statement, according to valid law and in line with the professional standards.

38. Statement of the Management Board regarding the reliability of the financial statements of the Issuer.

The Management Board of Fabryki Mebli "FORTE" S.A. represents that, to the best of their knowledge, the annual consolidated financial statements of the Issuer's Capital Group for 2016 and comparative data were prepared in accordance with the binding accounting principles and truly, accurately and clearly reflect the actual and financial situation and the financial result of the Issuer.

Moreover, the Management Board represents that the annual Management Board's report on the operations contains a true description of the development and achievements as well as the condition of the of the Issuer's Capital Group, including basic risks and threats.

39. Description of the basic characteristics of internal control and risk management systems applied by the Issuer with respect to the process of preparing financial statements and consolidated financial statements.

The Management Board of the Company is responsible for conducting accountancy of the Company in accordance with the Act of 29th of September 1994 on accountancy (J. of L. from 2016 it. 1047 as amended) and for the system of internal control and efficiency of its functioning in the process of preparing financial reports.
A Member of the Management Board responsible for financial matters supervises the process of preparing the Parent Company's financial statements and interim reports. Both separate and consolidated statements are prepared by the employees of the Finance Office controlled by the Chief Accountant and the Member of the Management Board responsible for the Company's finances.
In order to provide reliability and correctness of the process of elaboration of financial reports a number of control mechanisms have been designed and implemented which are an integral part of the reporting system. These mechanisms consist, above all, in applying on an ongoing basis verification of reported data with accounting books, analytical data and other documents constituting the basis for elaboration of financial reports and the provisions of law in force in the scope of accounting rules and principles of elaboration of financial reports.
The process of preparing financial data for the purpose of reporting is automated, and subject to formalized operational and acceptance procedures.
The Parent Company possesses relevant procedures for preparing financial statements which aim at ensuring the complete and correct recognition of all business transactions in a given scope. These procedures include in particular:
adequate internal communication in the scope of preparing the process of preparing financial statements,
detailed planning of all activities related to the preparation of the financial statements and determining a detailed activity schedule together with assigning responsibility for given actions to individual persons.
Monitoring of the completeness of economic events is additionally supported by the V-desk electronic document circulation system. This system records in particular all incoming invoices of the Company, as well as all employee travels and agreements concluded by the Issuer. Access to electronic circulation of documents is grounded in the scope of their competence to authorised Company staff.
The V-desk system covers the registration, factual description, boasting and acceptance of invoices – in accordance with competences assigned by the Management Board.
Accepted invoices are imported to the SAP R3 operating system after prior verification of the correctness of accounting descriptions by the Accounting Office employees.
FABRYKI MEBLI "FORTE" S.A. keeps accounting books in the integrated SAP R/3 system, in accordance with the accounting policy of the Company approved by the Management Board, based on the International Accounting Standards.
The structure of the system ensures clear division of competences, consistency of accounting entries and control between the general ledger and sub-ledgers. High flexibility of the system allows for its ongoing adjustment to the changing accounting principles and other legal regulations.
The company uses investment procedure the key objective of which is to enable full supervision over every stage of planning ad realization of an investment. The ongoing analysis f investment processes ensures reliable financial, material and tangible information of an investment. It allows to identify potential errors, deviations or any irregularities within the realization of individual stages of an investment immediately. Thanks to this it is possible to implement necessary corrections related to the investment processes on an ongoing basis and, in particular, to perform correct and reliable calculations.
The Company manages risk in relation to the process of preparing financial statements also through current monitoring of changes in external provisions and regulations regarding reporting requirements and through preparing for their implementation significantly in advance.
A certified auditor is appointed by the Supervisory Board after being recommended by the Company's 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 Parent Company at closing meetings.

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

Member of the Management Board

Mariusz Gazda

…………………………………………………………..

Ostrów Mazowiecka, 20 March 2017

II CORPORATE GOVERNANCE

In accordance with § 91(5)(4) of the Regulation of the Minister of Finance of 19 February 2009 concerning current and periodic information provided by securities Issuers and conditions of recognizing as equivalent information required under the regulations of a state not being a member state (Journal of Laws No 259 item 133), the Management Board of Fabryki Mebli "FORTE" S.A. (hereinafter: "Company" or "FORTE") with its registered seat in Warsaw submits the statement regarding the Company's application of the principles of corporate governance in 2016. Declaration of application of principles of corporate governance by the Company in 2015 constitutes a separate part of the report on Issuer's activities and is published on the internet website of the Company.

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

Starting on 1 January 2016 the Company applied principles of corporate governance included in the document of „Good Practices of Companies Noted on WSE 2016", which constitutes appendix to the Agreement no. 26/1413/2015 of the WSE Council from 13 October 2015. The above noted document is publically available on the website of Warsaw Stock Exchange S.A. under address https://www.gpw.pl/lad_korporacyjny_na_gpw.

1. In the scope in which the Issuer withdraws from provisions of corporate governance rules, indication of those provisions and explanation of the reasons of this withdrawal

In 2016 the Company did not comply with the indicated below reccomendations and specific rules of corporate governance:

Part I
Specific rule I. Z. 1.20
"The record of the proceeding of the General Meeting of Shareholders in the audio or video form"

The Company does not apply this rule. In the assessment of the Management Board so far course of the General Meetings of Shareholders of Fabryki Mebli "FORTE" S.A. does not create the need of making and putting on the website the recording in the audio or video form. The General Meetings take place in the headquarters of the Company and therefore participation in them is not difficult for the shareholders who are interested in them. Apart from that, the Company, according to valid laws, is putting on the website an announcement about the Meeting together with agenda, resolution projects, any required documents as well as provides the public with adequate information in the form of current reports. Each course of the meetings is preserved via a specific record in the form of notarial protocol. What is more, publishing required current reports and sharing relevant information on the Company's website ensures shareholders' access to all important information concerning the General Meetings. These rules guarantee transparency of the General Meetings as well as their full and real course. The Company does not preclude the possibility to use the abovementioned rule in the future time.

Part IV
Reccomendation No. IV R. 2
"If justified due to shareholding structure or reported to the Company as shareholder's expectations, as long as the Company is capable of providing the technical infrastructures necessary to efficient conduct the General Meeting of Shareholders with the use of electronic means, it shall enable the shareholders to prticipate in General Meeting of Shareholders with the use of such means, especially through:

1) *The General Meeting's transmission in real time*
2) *two-way communication in real time, under which the shareholders can express their stands during the General Meetings while being in the place other than the General Meeting*
3) *carrying out personally or by representative the right to speak during the General Meeting*"

According to the Company, the manner of holding previous General Meetings sufficiently enables shareholders to participate in the General Meeting and to exercise their rights in this scope. Taking into consideration the costs related to ensuring the participation of shareholders in the General Meeting with the use of means of electronic communication as well as the risks and scarce experience of the market in the scope, the Parent Company decided in 2015 not to enable its shareholders to participate in the General Meeting with the use of electronic means of communication. As the use of modern technology becomes more widespread and adequate safety level of their application is ensured, the Parent Company will consider applying this principle in practice.

Specific rule No IV. Z.2

"If justified due to shareholding structure of the Company, the Company ensures widely available transmission of the General Meetings in real time"

The Company does not apply this rule. In the opinion of the Management Board the current, concentrated structure of the shareholding of the Company does not justify bearing the additional, significant costs connected with organization of the transmission. Currently used rules of participating in General Meetings comply with existing regulations of Commercial Companies Code, Status of the Company and other legislations. Organization of the course of the General Meetings in the sufficient way secures the business of all shareholders. The Company shall consider the possibility and desirability of using this rule.

Part V

Specific rule No. V. Z.6

"The Company specifies in internal regulations the criteria and circumstances in which the conflict of interest may occur in the Company and also the rules of procedure in case of conflict of interest or possibility of its occurrence. Internal regulations of the Company also take into account inter alia prevention of identification and solving the conflicts of interest and, what is more, rules of excluding a member of the Management Board or Supervisory Board from participation in considering the case falling within the scope of or in danger of conflict of interest."

the Company currently partly applies this principle. Within internal regulations of the Company (Management Board Regulations, Regulation of the Supervisory Board) principles of proceedings related to the occurrence of conflict of interests have been described, however, they are not described in such detail as they are within the above principle.

Part IV
Specific rule No. VI.Z.4

"The Company in the management report shall provide the report of remuneration policy containing at least:

1) *general information on the accepted in the company remuneration system,*
2) *information on terms and level of the remuneration for each of the Board members with division into fixed and variable components of the remuneration indicating key parameters for determining variable remuneration components and severance payment policy together with other* payments made on account of termination of service*, contract or other legal relationships of similar nature- separately for the Company and each individual present in membership of the Group,*
3) *information on granted for particular members of the Board and crucials managers apart-financed components of remuneration,*
4) *indication of substantial changes which within last financial year have occurred in the remuneration policy or information about lack of them,*
5) *performance evaluation on the remuneration policy in order to achieve its aims, especially long-term increase in value for shareholders and stable viability of the company*

The Company applies Remuneration Regulations determining the principles of remunerating and granting cash benefits to FORTE employees. In accordance with the valid provisions of law and the Parent 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, and the decision on the amount of remuneration for the Parent Company's Management Board is made by the Supervisory Board.
The amount of remuneration of members of the Parent Company's bodies and other benefits granted to these individuals during a given financial year are presented in the annual financial statements of the Company.

1. **Description of the basic characteristics of internal control and risk management systems applied by the.Issuer with respect to the process of preparing financial statements and consolidated financial statements**

Management Board of the Company is responsible for the conduct of Company accounts in accordance with the Act of 29 September 1994 on accounts (Journal of Law, no. from 2016 , item 1047 as amended) and the internal control system and efficiency of its functioning in the process of creating financial reports.
A Member of the Management Board responsible for financial matters supervises the process of preparing the Company's financial statements and interim reports. Both separate and consolidated statements are prepared by the employees of the Finance Office controlled by the Chief Accountant and the Member of the Management Board responsible for the Company's finances.

In order to provide reliability and correctness of the process of elaboration of financial reports a number of control mechanisms have been designed and implemented which are an integral part of the reporting system. These mechanisms consist, above all, in applying on an ongoing basis verification of reported data with accounting books, analytical data and other documents constituting the basis for elaboration of financial reports and the provisions of law in force iin the scope of accounting rules and principles of elaboration of financial reports.
The process of preparing financial data for the purpose of reporting is automated, and subject to formalised operational and acceptance procedures.
The Company possesses relevant procedures for preparing financial statements which payment ensuring the complete and correct recognition of all business transactions in a given scope. These procedures include in particular:
· adequate internal communication in the scope of preparing the process of preparing financial statements,
· detailed planning of all activities related to the preparation of the financial statements and determining a detailed activity scheduled together with assigning responsibility of individual persons for given actions.
The monitoring of the completeness of economic events is additionally supported by the V-desk electronic document circulation system. This system records in particular all incoming invoices, as well as all agreements concluded by the Issuer. Access to electronic circulation of documents is grounded in the scope of their competence to authorised Company staff.
The V-desk system covers the registration, factual description, boasting and acceptance of invoices – in accordance with competences assigned by the Management Board.
Accepted invoices are imported to the SAP R3 operating system after prior verification of the correctness of accounting descriptions by the Accounting Office employees.

FABRYKI MEBLI "FORTE" S.A. keeps accounting books in the integrated SAP R/3 system, in accordance with the accounting policy of the Company approved by the Management Board, based on the International Accounting Standards.
The structure of the system ensures clear division of competences, consistency of accounting entries and control between the general ledger and sub-ledgers. High flexibility of the system allows for its ongoing adjustment to the changing accounting principles and other legal regulations.
The company uses investment procedure the key objective of which is to enable full supervision over every stage of planning ad realization of an investment. The ongoing analysis f investment processes ensures reliable financial, material and tangible information of an investment. It allows to identify potential errors, deviations or any irregularities within the realization of individual stages of an investment immediately. Thanks to this it is possible to implement necessary corrections related to the investment processes on an ongoing basis and, in particular, to perform correct and reliable calculations.
The company manages risk in relation to the process of preparing financial statements also through current monitoring of changes in external provisions and regulations regarding reporting requirements and through preparing for their implementation significantly in advance.
A certified auditor is appointed by the Supervisory Board after obtaining recommendation from Company's Management Board. A certified auditor is appointed by the Supervisory Board after consulting the Company's Management Board. The results of the audit are presented by the auditor to the management of the Company at closing meetings.

2. Shareholders holding directly or indirectly significant stakes of shares.

In accordance with the most current information possessed by the Company, the shareholding structure as at 31 December 2016 was as follows:

Item	Shareholder	Number of held shares and votes	% stake in share capital	% share in the overall number of votes
1.	MaForm SARL	7 763 880	32,48%	32,48%
2.	Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	2 300 000	9,62%	9,62%
3.	Skarbiec Towarzystwo Funduszy Inwestycyjnych S.A.*	2 149 448	8,99%	8,99%
4.	ING Otwarty Fundusz Emerytalny	1 200 000	5,02%	5,02%

* including Bentham Sp. z o.o. 2 050 000 shares 8.58% of shares in company capital and general number of votes

3. Holders of any securities which provide special control rights with description of these entitlements

The Parent Company did not issue securities which provide special control rights.

4. Restrictions on voting rights, such as restrictions on the execution of voting rights by a shareholder of a defined part or amount of votes, time-related restrictions on the execution of voting rights or subscriptions, in accordance with which, in cooperation with the Parent Company, equity rights related to securities are separate from the ownership of securities.

The Company does not provide for any restrictions regarding exercising the right to vote.

5. Limitations in transferring the ownership right to the Issuer's securities

There are no limitations in transferring the ownership right to the Parent Company's securities.

6. Description of principles concerning the appointment and dismissal of managers and their entitlements in particular the right to decide on the issuance or redemption of shares

In accordance with the Company's Articles of Association, the Management Board consists of between one and seven members appointed for a joint term of office. The number of Management Board Members is determined by the Supervisory Board which also appoints the President of the Management Board and other Members of the Management Board. The Management Board is appointed for a joint five -year term of office. In accordance with the Code of Commercial Companies, Members of the Management Board may be dismissed by the Supervisory Board at any moment. The Supervisory Board determines the terms and conditions of remunerating Members of the Management Board, including the provisions of agreements and appointment letters binding Members of the Management Board with the Company. In accordance with the Articles of Association of the Company, the Management Board directs the activities of the Company and represents it before third parties. 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 not restricted to the competencies of the Company's other bodies.
The powers of the Management Board of the Company related to the right to decide on redeeming shares do not deviate from the regulations contained in the Code of Commercial Companies.

7. Principles of introducing amendments to the articles of association or memorandum of association of the Issuer's Parent Company.

The Company's Articles of Association are amended in accordance with mandatory provisions of the Code of Commercial Companies, 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 establish the consolidated text of the amended Company's Articles of Association.
Company Management, acting pursuant to the Regulation of the Ministry of Finance regarding current information and periodical information submitted by the Issuers of stocks and the conditions for considering as equivalent the information required by the provisions of law of non-member country as of 19 February 2009 (Journal of Laws no. 33, item 259 as amended) informs the shareholders of the intended, , conducted changes to the content of the Company Statute and regarding elaboration of the unified text of the Statute including the changes made, by publishing current reports and by placing the current text of the Statute on the internet website of the Company.

8. The manner of functioning of the General Meeting and its principal powers and a description of the rights of shareholders and the manner of their execution, in particular the principles arising from regulations of the general meeting, if such regulations have been adopted and are not a direct result of the existing law

The manner of functioning of the General Meeting of Fabryki Mebli "FORTE" S.A. and its powers, as well as the rights of shareholders and the manner of their execution are determined by the following documents:

1. the Commercial Companies Code,
2. The Company's Articles of Association,
3. Regulations of General Meetings.

The schedule of works regarding organising General Meetings is planned in such a way as to duly perform obligations towards shareholders and allow them to execute their rights.
On 19 April 2016, the General Meeting was convened by the Parent Company's Management Board through a notice published on the Parent Company's website at least 26 days prior to the date of the General Meeting, and in a manner specified for transmitting current information according to the provisions on public offering and conditions governing the introduction of financial instruments to organised 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 the votes cast, unless the provisions of law or the Company's Articles of Association provide otherwise. Votes in favour of or against a resolution are considered votes cast.
The following matters were reserved in the Articles of Association to the exclusive decision of the General Meeting:

terms and conditions and manner of redeeming shares of the Company ,terms and conditions 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, and a share in real property, sale and transfer of rights of property use, property encumbrance, establishing tail property rights on the Company property (decisions on such matters are reserved for the Parent Company's Supervisory Board). Representatives of the media may be present during the General Meeting. The participants of the Annual General Meeting of the Parent Company always include Members of the Management Board and the Supervisory Board and the Company's certified auditor. The course of the Annual General Meeting in 2016 was compliant with the provisions of the Code of Commercial Companies and the Company's Regulations of General Meetings. Members of the Management Board, Supervisory Board and the certified auditor of the Company present during the Meeting were ready to give any explanations and respond to the shareholders' questions in the scope of their competencies in accordance with the binding provisions of law.

Shareholders can participate in the General Meeting and exercise the voting right in person or through a proxy.

9. Composition of issuer's managing, supervising and administering bodies, changes they underwent during the last financial year and description of their activities emitenta and their committees

SUPERVISORY BOARD

The Company's Supervisory Board acts on the basis of the provisions of the Code of Commercial Companies, the Company's Articles of Association and the Regulations of the Supervisory Board of Fabryki Mebli "FORTE" S.A. with its registered seat in Ostrów Mazowiecka. The Supervisory Board consists of between five and seven members. The Chairman of the Supervisory Board is appointed by the General Meeting during which also the number of Supervisory Board members is established. From among its members, the Supervisory Board appoints the Vice-chairman and, if necessary, the secretary. If the number of members of the Supervisory Board falls below the minimum number set out in the Code of Commercial Companies, the General Meeting supplements /appoints/ Members of the Supervisory Board for the remaining part of the term of office.
The term of office of the Supervisory Board is four years. General Meeting of Fabryki Mebli "FORTE" S.A. established on 10 June 2014 a five-person Supervisory Board of the Company in the present term of office.
In 2016, the Supervisory Board of Fabryki Mebli "FORTE" S.A. was composed of:
Zbigniew Sebastian – Chairman,
Stefan Golonka – Vice-chairman,
Tomasz Domagalski-Member,
Stanisław Krauz - Member,
Jerzy Smardzewski - Member,

The competence of the Supervisory Board includes in particular adopting resolutions on matters regarding:
a) purchasing and selling real property, perpetual usufruct or a share in real property, selling and transferring rights to use real property, encumbrance on real property, establishing limited property rights on the property of the Company,
b) taking out loans exceeding the Company's financial plan,
c) granting sureties to the amount exceeding in total the equivalent of EURO 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 the amount not exceeding in total the equivalent of EURO 150 000,
f) concluding, terminating and amending lease agreements and other such agreements, if they are concluded for a period longer than three years and when the annual lease rent paid by the Company exceeds the equivalent of EUR 150 000,
g) lease of enterprise or its part,
h) purchasing and selling establishments and branches of the Company,
i) selling the Company's enterprise or its part,
j) approving employee participation in profits and granting special pension rights,
k) establishing the 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 EURO 50 000.

Meetings of the Supervisory Board are held when necessary, but at least three times within a financial year.
The Members of the Supervisory Board may cast their vote in writing via another Member of the Supervisory Board. The Supervisory Board may also adopt resolutions in writing or through direct remote communication means. A resolution is valid if all Members of the Supervisory Board have been notified of the content of the draft resolution.
Taking into consideration the fact that in the current term of office the Supervisory Board is composed of five persons, the functions of the Audit Committee are performed by the whole Supervisory Board.

No other committees were established in the Company.

MANAGEMENT BOARD

The Company's Management Board acts on the basis of the provisions of the Code of Commercial Companies, the Company's Articles of Association and the Regulations of the Management Board of Fabryki Mebli "FORTE" S.A. with its registered seat in Ostrów Mazowiecka. The Management Board consists of between one and seven members appointed for a joint term of office. The Management Board of FABRYKI MEBLI „FORTE" S.A. was appointed for joint 5-year term of office for the years 2014-2019. Within the period from 1 January to 31 December 2016 the Management Board of the Company consisted of:
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.

In accordance with the Articles of Association of the Company, the Management Board directs the activities of the Company and represents it before third parties. 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 not restricted to the competencies of the Company's other bodies. Resolutions of the Management Board are adopted by a simple majority of votes cast. In the event of equal split of votes, the Management Board President's vote prevails.
The following persons are authorised to make declarations of will and contract obligations on behalf of the Company:
the President of the Management Board acting independently, two Members of the Management Board acting jointly, one Member of the Management Board acting jointly with a registered signatory.

2. Description of diversity policy applied for administrative bodies, managing and supervising the Issuer as regards the aspects such as, for example, age, gender or education and experience, aims of this policy, ways of its realization and results in the particular reporting period

The Management Board on 16 March 2016 adopted a resolution on the acceptance of the diversity policy used in FABRYKI MEBLI "FORTE" S.A. (hereinafter referred to as diversity policy). Diversity policy shall specify the strategy of company as regard to managing the diversity in respect of business activities of the Company and its remuneration policy. It represents a commitment of the Company to use universal rules of respect and tolerance towards other people together with effective use of each employee's potential. Diversity policy shall provide elimination of any form of discrimination both due to origin, age, gender, nationality, ethnic origin, political beliefs, health status, disability, religion, lifestyle, sexual orientation or any other criteria or basics prohibited by law.
The aim of adopted diversity policy is to build awareness and culture of the Company open to diversity, which contributes to success of the organisation, leads to enhancing the effectiveness and counteracts any form of discrimination and mobbing as well as has an influence on improving the results gained by the Company.
The diversity policy includes the following areas of Company's operations:

1) managing the diversity in the work place
2) education, training and personal development,
3) breaking down the boundries in the work place,
4) working towards prevent discrimination and mobbing in the work place,
5) intergenerational dialogue
6) creating proper atmosphere in the work place
7) monitoring and controling use of adopted diversity policy

Adopted by the Company diversity policy is currently implemented in particular areas of its activity, thus it it hard in such short period of time to assess its results. However, the Management Board presumes that implementation, realization and monitoring of use of this diversity policy in longer perspective will provide profits for the Company, its employees and counterparties. The implementation of this policy is constantly and up to date monitored by the Management Board.

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

……………………… ………………………

Member of the Management Board
Mariusz Gazda

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Ostrów Mazowiecka, 20 March 2017