



FABRYKI MEBLI „FORTE” S.A. CAPITAL GROUP

Extract of consolidated financial report
for the period ended 31.12.2018

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

Ostrów Mazowiecka, 04 kwietnia 2019 roku



FABRYKI MEBLI „FORTE” S.A. w Ostrowi Mazowieckiej, ul. Biała 1, 07-300 Ostrów Mazowiecka, Polska
tel: +48 29 64 42 222, fax: +48 29 64 42 110, infolinia: 801 644 222, www.forte.com.pl

Ostrów Mazowiecka, 04.04.2019

Dear Sirs, Madams and 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. Capital Group accompanied by a review of our operations in 2018 and an indication of the key perspectives for the Group’s development in 2019.

From the financial point of view, the previous year was the most difficult time for us in the last decade. It is true for both, the Company’s financial result and debt level. As long as the debt level of the Company has hardly been a surprise for anybody as it stemmed from a decision made in 2016 regarding the investment in our own chipboard production facility, you cannot say the same for our financial result ended at net PLN 34 million at the end of 2018 which is not satisfactory and has not been well received by the market.

As far as 2018 is concerned, there were a few essential events which need to be addressed here.

The market situation. 2018 was the first year in the Company’s history in which our sales volume dropped to the level we had never known before, starting in the second quarter and continuing till the beginning of the fourth quarter, that is to say, during the so called low sales season. This drop occurred across all markets serviced by us. Our recipients blamed weather conditions for this situation (hot summer lasting practically since April). The Sunday trade ban introduced in Poland has additionally contributed to our weak sales results. Product offer structuring, which means limiting some products offered to customers, has also directly translated into the turnover volume in 2018. Problems of our biggest customer, the Steinhoff Group, for whom our insurer significantly restricted trade credit insurance, coincided with the already difficult retail market situation. This restriction has had a negative impact on the turnover volume with companies within the Steinhoff Group in the period of time until the third quarter of 2018.

In April 2018, we had a grand opening of our new chipboard production facility in Suwałki. It was an enormously important and far-reaching moment for us, as thanks to this investment we were able to make the entire FORTE Group independent from external suppliers of this basic raw material used for the production of furniture. However, one should



FABRYKI MEBLI „FORTE” S.A. w Ostrowi Mazowieckiej, ul. Biała 1, 07-300 Ostrów Mazowiecka, Polska
tel: +48 29 64 42 222, fax: +48 29 64 42 110, infolinia: 801 644 222, www.forte.com.pl

bear in mind that for FORTE the production of chipboard means an entry into the entirely new area of operations. Despite our efforts and best technical, technological and know-how preparations, we were not able to miss a few stumbles which again have had a negative impact on the level of results obtained by us particularly in the third quarter.

The third key factor which significantly influenced 2018 was the cost of both, raw materials (in the first quarter of 2018, the market price of the chipboard when we did not have our own production facility yet, was breaking all records) and the pressure on the increase of salaries.

Looking from the perspective of past 2018, I can say that the most difficult moments are already behind our Capital Group. Already in the fourth quarter of 2018 our sales volume returned to the level from 2017 and it looks like the entire 2018/2019 high sales season will be better than the last one. Our new investment in the chipboard production facility seems quite stable now and it has already gone through the majority of the newcomer's issues. For the last few months, the facility has been maintaining stable production capacities which should allow us to produce ca. 450 K m³ of chipboard in 2019, which shall secure 100% of the Company's demand for the raw board. Similarly to 2018, we will sell any surplus in the chipboard production to other customers on the market.

We are continuously working on decreasing the level of costs and increasing the margin level. We are aware that, as is the case across the entire Polish economy, we will not be able to avoid the pressure to increase salaries and the gradual increase of energy costs. Therefore, activities of the Management Board planned for 2019 will primarily focus on consolidating processes to increase production efficiency, the product offer and collaboration with customers to raise profitability of our products as well as on limiting the debt within the Capital Group to the level enabling further investment expansion under the FORTE long-term growth strategy with an attempt to reach the EUR 400 million turnover level.

On behalf of the Management Board, I would like to thank all of our Employees for their huge involvement in the realisation of the results of the FABRYKI MEBLI “FORTE” S.A. Capital Group in 2018. I would also like to thank all our Shareholders for their trust vested in us.

Maciej Formanowicz

President of the Management Board

TABLE OF CONTENTS

Consolidated selected financial data.....	2
Consolidated profit and loss account.....	3
Consolidated statement of comprehensive income.....	4
Consolidated statement of financial situation (balance sheet).....	5
Consolidated cash flow statement.....	6
Consolidated statement of changes in equity.....	7
Consolidated statement of changes in equity.....	8
Commentary to the Group results and basic economic-financial amounts.....	9
Financial data of the Fabryki Mebli „FORTE” S.A. Group.....	9
Financial data of Fabryki Mebli „FORTE” S.A.....	10
Characteristics of assets and liabilities.....	10
Financial data of the Fabryki Mebli „FORTE” S.A. Group.....	10
Financial data of Fabryki Mebli „FORTE” S.A.....	11
Selected financial data.....	13
Profit and loss account.....	14
Statement of comprehensive income.....	15
Statement of financial situation (balance sheet).....	16
Cash flow statement.....	17
Statement of changes in equity.....	18
Statement Of Changes In Equity.....	19

CONSOLIDATED SELECTED FINANCIAL DATA

	in thousands of PLN		in thousands of EUR	
	31.12.2018	31.12.2017 adjusted	31.12.2018	31.12.2017 adjusted
Sales revenue	1 107 298	1 096 230	259 509	258 259
Profit (loss) on operating activities	72 503	98 691	16 992	23 250
Profit (loss) before tax	45 530	94 457	10 671	22 253
Net profit attributable to equity owners of the Parent company	34 471	77 340	8 079	18 220
Total comprehensive income for the period	(22 347)	92 756	(5 237)	21 852
Net cash flow from operating activities	76 804	72 643	18 000	17 114
Net cash flow from investment activities	(191 896)	(294 010)	(44 973)	(69 265)
Net cash flow from financial activities	108 728	178 668	25 482	42 092
Net increase (decrease) in cash and cash equivalents	(6 364)	(42 699)	(1 491)	(10 059)
Number of shares	23 930 769	23 930 769	23 930 769	23 901 084
Net profit per share attributable to equity owners of the parent (in PLN/EUR)	1,44	3,23	0,34	0,76
	31.12.2018	31.12.2017 adjusted	31.12.2018	31.12.2017 adjusted
Total assets	1 649 344	1 493 000	383 568	357 956
Total liabilities	1 035 731	846 075	240 868	202 852
Long-term liabilities	178 679	573 845	41 553	137 583
Short-term liabilities	857 052	283 194	199 314	67 898
Total equity attributable to equity owners of the Parent company	610 320	632 650	141 935	151 682
Share capital	23 931	23 931	5 565	5 738
Book value per share (in PLN/EUR)	25,50	26,44	5,93	6,34

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	For the period ended	
	31 December 2018	31 December 2017 adjusted
Continued operations		
Revenue from sales of goods, products and materials	1 101 077	1 088 759
Revenue from sales of services	6 221	7 471
Sales revenue	1 107 298	1 096 230
Cost of sales of sold goods, products and materials	(732 664)	(694 537)
Cost of sales of sold services	(4 128)	(4 858)
Cost of sales	(736 792)	(699 395)
Gross profit (loss) from sales	370 506	396 835
Other operating revenue	5 275	2 727
Costs of sales	(238 568)	(238 929)
General administrative costs	(59 342)	(52 061)
Other operating costs	(5 368)	(9 881)
Profit (loss) on operating activities	72 503	98 691
Financial revenue	3 143	9 274
Financial costs	(24 039)	(8 209)
Profit (loss) on derivative financial instruments	(508)	57
Share in the profit/ loss of investments valued at equity method	(5 569)	(5 356)
Profit (loss) before tax	45 530	94 457
Income tax	(11 076)	(17 012)
Profit (loss) on continued operations of the period	34 454	77 445
Profit (loss) of the period	34 454	77 445
Attributable to:		
Shareholders of the Parent Company	34 471	77 340
Non-controlling shareholders	(17)	105
Profit (loss) on continued operations of the period		
- basic	1,44	3,23
- diluted	1,44	3,23

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the reporting period ended	
	31 December 2018	31 December 2017 adjusted
Profit (loss) of the period	34 454	77 445
Other net comprehensive income, including:	(56 801)	15 311
Items which in the future will not be reclassified to the profit and loss account	(33 948)	(38 701)
Certificates valuation	(41 679)	(47 896)
Deferred tax regarding certificates valuation	7 919	9 100
Revaluation of employee benefit obligations	(235)	117
Deferred tax regarding employee benefits	47	(22)
Items which in the future may be reclassified to the profit and loss account	(22 853)	54 012
Foreign exchange differences on translation of foreign operations	236	(1 383)
Hedge accounting	(46 208)	67 036
Hedge costs	28 034	(1 829)
Total comprehensive income for the period	(22 347)	92 756
Attributable to:		
Shareholders of the Parent Company	(22 330)	92 651
Non-controlling shareholders	(17)	105

CONSOLIDATED STATEMENT OF FINANCIAL SITUATION (BALANCE SHEET)

	31 December 2018	31 December 2017 adjusted	1 January 2017 adjusted
ASSETS			
Non-current assets	1 186 369	1 055 155	609 243
Tangible fixed assets	876 956	788 085	351 827
Perpetual perpetuity of ground	10 138	10 138	10 142
Intangible assets	16 512	16 617	16 267
Financial assets	77 714	120 382	158 061
Real estate investment	73 991	73 270	72 946
Assets on deferred tax	122 309	10 964	11 871
Investments valued at equity method	-	2 266	-
Receivables due to financial derivative instruments	8 749	33 433	-
Current assets	462 975	437 845	564 743
Inventory	215 543	170 251	143 746
Trade and other receivables	153 935	185 911	320 635
Receivables due to financial derivative instruments	17 146	18 210	-
Income tax receivables	23 368	6 402	91
Accruals	6 114	4 004	3 231
Financial assets	307	199	1 162
Cash and cash equivalents	46 562	52 868	95 878
TOTAL ASSETS	1 649 344	1 493 000	1 185 857
LIABILITIES			
Total equity	613 613	635 961	546 610
Equity (attributable to shareholders of the Parent Company), including:	610 320	632 650	543 404
Basic equity	23 931	23 931	23 901
Surplus of share sale above their nominal value	114 556	114 556	113 214
Exchange differences on translation of foreign operations	(87)	(586)	797
Revaluation reserve from hedging instruments	(495)	46 479	(9 291)
Hedge cost	17 687	(6 198)	(5 823)
Other Revaluation reserves	(54 902)	(21 142)	17 654
Incentive Scheme	2 354	2 354	2 354
Other reserve capital	447 132	358 807	249 079
Retained earnings	60 144	114 449	151 519
Capital attributable to non-controlling shareholders	3 293	3 311	3 206
Long-term liabilities	178 679	573 845	411 804
Interest-bearing loans and borrowings	-	527 749	391 263
Payables to units priced at MPW	3 430	-	-
Deferred income tax provision	3 404	10 234	1 386
Provision for benefits after the employment period	4 067	3 601	3 395
Deferred revenues and accruals	162 075	29 735	13
Liabilities due to financial derivative instruments	969	301	842
Financial liabilities due to lease	1 918	-	13 915
Other long-term liabilities	2 816	2 225	990
Short-term liabilities	857 052	283 194	227 443
Trade and other liabilities	165 546	231 611	169 007
Contract liabilities	700	1 125	587
Current portion of interest-bearing loans and borrowings	683 398	45 291	27 066
Income tax liabilities	2 126	280	11 871
Deferred revenues and accruals	-	-	10 176
Provisions	2 808	2 716	2 916
Liabilities due to financial derivative instruments	632	679	1 076
Financial liabilities due to lease	1 842	1 492	4 744
Total liabilities	1 035 731	857 039	639 247
TOTAL LIABILITIES	1 649 344	1 493 000	1 185 857

CONSOLIDATED CASH FLOW STATEMENT

	For the period ended	
	31 December 2018	31 December 2017adjusted
Cash flows from operating activities		
Profit (loss) of the period	34 471	77 340
Adjustments by:	42 333	(4 697)
Share in the profit/ loss of investments valued at equity method	5 569	5 356
(Profit)/loss of non-controlling shareholders	(17)	105
Depreciation	44 989	26 946
Foreign exchange (gains)/losses	11 407	(17 248)
Net interest and dividends	12 270	7 854
(Profit)/loss on investment activities	114	863
Change in the valuation of derivative financial instruments	30	(13 416)
Change in receivables	27 180	3 391
Change in inventories	(45 292)	(26 505)
Change in liabilities, excluding loans and borrowings	335	5 754
Change in accruals and deferrals	(3 575)	(797)
Change in provisions	(266)	18 316
Income tax paid	(21 232)	(28 351)
Current tax recognised in the profit and loss account	11 076	11 864
Foreign exchange differences	92	70
Provision for retirement benefits	(188)	239
Valuation of the Incentive Scheme	(281)	779
Other adjustments	122	83
Net cash flows from operating activities	76 804	72 643
Cash flows from investment activities		
Sale of tangible fixed assets and intangible assets	669	894
Purchase of tangible fixed assets and intangible assets	(193 822)	(276 191)
Real property investments	(440)	(1 104)
Purchase of financial assets	(206)	(8 630)
Dividends received	296	278
Interest received	1 607	97
Borrowings granted	-	(9 354)
Net cash flows from investing activities	(191 896)	(294 010)
Cash flows from financing activities		
Inflows from loans and borrowings taken out	213 066	259 143
Contributions to capital	-	1 371
Repayment of loans and borrowings	(112 728)	(86 696)
Repayment of leasing liabilities	(680)	(1 187)
Dividends paid to shareholders of the Parent Company	-	(4 780)
Interest paid	(15 236)	(8 221)
Financial receipts from received subsidies	24 306	19 038
Net cash flows from financial activities	108 728	178 668
Net increase (decrease) in cash and cash (equivalents)	(6 364)	(42 699)
Net foreign exchange differences (from the opening balance translation)	58	(311)
Opening balance of cash	52 868	95 878
Closing balance of cash, including:	46 562	52 868
of limited disposability	168	5 650

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period ended 31 December 2018

	Attributable to the shareholders of the Parent Company										Foreign exchange differences on consolidation Equity of non-controlling interest	Other revaluation reserve Total equity
	Share capital	Share premium	Foreign exchange difference s on consolidati on	Other revaluation reserve	Incentive Scheme	Retained earnings	Revaluation reserve from hedging instruments	Hedge costs	Other reserve capital	Total		
As at 1 January 2018 adjusted	23 931	114 556	(586)	(21 142)	2 354	108 251	46 479	-	358 807	632 650	3 311	635 961
Changes in Accounting Principles (Policy)	-	-	-	-	-	-	-	-	-	-	-	-
Error adjustments	-	-	-	-	-	6 198	-	(6 198)	-	-	-	-
As at 1 January 2018 after adjustments	23 931	114 556	(586)	(21 142)	2 354	114 449	46 479	(6 198)	358 807	632 650	3 311	635 961
Increase of capital due to incentives program	-	-	-	-	-	-	-	-	-	-	(1)	(1)
Impairment of retained earnings to reserve capital	-	-	-	-	-	(88 325)	-	-	88 325	-	-	-
Provision for benefits after the employment period	-	-	-	-	-	(188)	-	-	-	(188)	-	(188)
Current result	-	-	-	-	-	34 471	-	-	-	34 471	(17)	34 454
Hedge cost for the period	-	-	-	-	-	-	-	24 867	-	24 867	-	24 867
Amount reclassified to sale revenue	-	-	-	-	-	-	7 981	3 166	-	11 147	-	11 147
Hedge accounting	-	-	-	-	-	-	(54 189)	-	-	(54 189)	-	(54 189)
Deferred tax regarding hedge accounting	-	-	-	-	-	-	(766)	(4 149)	-	(4 915)	-	(4 915)
Investment Certificates	-	-	-	(33 760)	-	-	-	-	-	(33 760)	-	(33 760)
Foreign exchange differences	-	-	499	-	-	(263)	-	-	-	236	-	236
Comprehensive income for the period	-	-	499	(33 760)	-	34 020	(46 974)	23 885	-	(22 390)	(17)	(22 347)
As at 31 December 2018	23 931	114 556	(87)	(54 902)	2 354	60 144	(495)	17 687	447 132	610 260	3 293	613 613

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

	Attributable to the shareholders of the Parent Company											Total equity
	Share capital	Share premium	Foreign exchange differences on consolidation	Other revaluation reserve	Incentive Scheme	Retained earnings	Revaluation reserve from hedging instruments	Hedge costs	Other reserve capital	Total	Equity of non-controlling interest	
As at 1 January 2017	23 901	113 214	797	17 654	2 354	151 519	(9 291)	(5 823)	249 079	543 404	3 206	546 610
Changes in Accounting Policy	-	-	-	-	-	-	-	-	-	-	-	-
Error adjustments	-	-	-	-	-	-	-	-	-	-	-	-
As at 1 January 2017 after adjustments	23 901	113 214	797	17 654	2 354	151 519	(9 291)	(5 823)	249 079	543 404	3 206	546 610
Settlement of Incentive Scheme	30	1 342	-	-	-	-	-	-	-	1 372	-	1 372
Payment of dividend for 2016	-	-	-	-	-	(4 780)	-	-	-	(4 780)	-	(4 780)
Reclassification to reserve capital	-	-	-	-	-	(109 728)	-	-	109 728	-	-	-
Real property revaluation	-	-	-	-	-	-	-	-	-	-	-	-
Other adjustments	-	-	-	-	-	3	-	-	-	3	-	3
Provisions for employee benefits												
Incentive Scheme	-	-	-	-	-	95	-	-	-	95	-	95
Profit (loss) for the period	-	-	-	-	-	77 339	-	-	-	77 339	105	77 444
Eliminating entry valuation	-	-	-	-	-	-	9 291	5 823	-	15 114	-	15 114
Hedge cost for the period	-	-	-	-	-	-	-	(6 198)	-	(6 198)	-	(6 198)
Hedge accounting	-	-	-	-	-	-	46 479	-	-	46 479	-	46 479
Investment Certificates	-	-	-	(38 796)	-	-	-	-	-	(38 796)	-	(38 796)
Foreign exchange differences	-	-	(1 383)	-	-	-	-	-	-	(1 383)	-	(1 383)
Comprehensive income for the period	-	-	(1 383)	(38 796)	-	77 434	55 770	(375)	-	92 650	105	92 755
As at 31 December 2017	23 931	114 556	(586)	(21 142)	2 354	114 448	46 479	(6 198)	358 807	632 649	3 311	635 960

Commentary to the Group results and basic economic-financial amounts**Financial data of the Fabryki Mebli „FORTE” S.A. Group**

Item	2018	2017 restated data	% change
Sales revenue	1 107 298	1 096 230	1,0%
Cost of sales	(736 792)	(699 395)	5,3%
Gross profit on sales	370 506	396 835	(6,6%)
Gross margin on sales %	33,5%	36,2%	
Selling costs	(238 568)	(238 929)	(0,2%)
G&A costs	(59 342)	(52 061)	14,0%
Operating profit (EBIT)	72 503	98 691	(26,5%)
EBITDA	117 492	125 637	(6,5%)
Share in profit/loss of subsidiaries valued under the equity method	(5 569)	(5 356)	4,0%
Gross profit	45 530	94 457	(51,8%)
Net profit	34 454	77 445	(55,5%)
Net profit margin %	3,1%	7,1%	
Return on equity (ROE)	5,6%	12,2%	
Return on assets (ROA)	2,3%	5,2%	

- After a period of several years of stable growth, 2018 was another year in which the Group did not maintain its positive growth trend in sales revenue and consequently in operating profit margin.
- In 2018, **sales revenue** amounted to PLN 1 107 298 thousand and was higher by 1.0% (in terms of value PLN 11 068 thousand) as compared to the previous year.
- Furniture sales were lower by 2% than in 2017, but due to additional sales of raw chipboard outside the Group in H2 2018, the consolidated revenue stood at 1% above 2017.
- Export sales of the FORTE Group totalled PLN 906 909 thousand – 81.9 % of total sales (in 2017 – PLN 933 837 thousand – 85.2 %). Sales in the Polish market amounted to PLN 200 389 thousand (18.1%) against PLN 162 393 thousand (14.6%) in the corresponding period of 2017.
- The percentage of sales in individual markets was as follows: German-speaking countries 49.7% (55.2% - 2017), other countries of Western and Northern Europe 19.8% (18.0% - 2017), Poland 18.1% (14.8% - 2017), Central and Southern Europe 12.0% (12.0% - 2017), non-European countries 0.4%.

The year 2018, in particular Q2 and Q3, was far below the expectations of the Management Board and the trends of recent years as regards the number of orders received or sales volume. Drops occurred across all markets serviced by the Group. Our recipients blamed weather conditions, and in Poland, additionally, the ban on Sunday trading. Other reasons for the drop in sales were the problems experienced by Steinhoff – one of the Group's largest customers – and the related restriction of trade credit insurance for entities within the Steinhoff Group. Moreover, in the opinion of the Management Board, product offer structuring, which means limiting some products offered to customers, in particular low margin ones, negatively affected the 2018 turnover.

In 2019, the Group intends to concentrate not so much on increasing furniture sales volumes but on changing the product sales structure and on diversifying sales markets, which should have a positive impact on the final margin. Another factor increasing the consolidated turnover shall be the sale of surplus production of raw chipboard manufactured by the subsidiary TANNE.

Gross margin on sales stood at a level of 33.5%, which is 2.7 percentage points lower than in the previous year.

The main reasons for a decrease in profitability are as follows:

- an increase in prices of basic raw materials used for production in Q1 and Q2 2018 (before and during the start-up of production of our own chipboard),
- additional costs related to special promotional campaigns in Q3 with selected customers, aimed at maintaining the production capacity;
- an increase in labour costs starting from Q3 2018.

Selling costs – the selling costs to revenue ratio amounted to 21.5% versus 21.8% in the corresponding period last year. In terms of value, selling costs decreased by PLN 361 thousand.

G&A costs – the G&A costs to revenue ratio stood at 5.4%, versus 4.7% last year. An increase in this category of costs is mainly due to the increase in salary costs as well as the consolidation of G&A costs of the chipboard production facility, which commenced its operations in April 2018.

Operating profit amounted to PLN 72 503 thousand (6.5% of revenue), compared to PLN 98 691 thousand (9% of revenue) in 2017.

Result on financial operations amounted to PLN (-) 20 896 thousand. The negative result was influenced in particular by an increase in interest costs on loans taken out by the Group (PLN 13 659 thousand) as well as foreign exchange losses (PLN 8 743 thousand).

In the reporting period, **net profit** totalled PLN 34 454 thousand (3.1% of revenue), compared to PLN 77 445 thousand in the comparative period (7.1% of revenue).

Financial data of Fabryki Mebli „FORTE” S.A.

Item	2018	2017 restated data	% change
Sales revenue	1 095 082	1 160 125	(5.6 %)
Cost of sales	(780 480)	(769 829)	1.4 %
Gross profit on sales	314 602	390 296	(19.4 %)
Gross margin on sales %	28,7 %	33,6 %	
Selling costs	(263 313)	(271 639)	(3.1 %)
G&A costs	(48 219)	(47 202)	2.2 %
Operating profit (EBIT)	50	65 055	(99.9 %)
EBITDA	23 228	87 686	(73.5 %)
Gross profit	2 471	66 707	(96.3 %)
Net profit	(2 534)	54 780	(104.6 %)
Net profit margin %	(0.2%)	4.7%	
Return on equity (ROE)	(0.4%)	9.0%	
Return on assets (ROA)	(0.3%)	6.0%	

Owing to the current structure of the FORTE Group, in which vertical integration of the added value chain is spread across individual companies, the Management Board does not comment on the above separate financial data, as the analysis of separate financial statements of the Parent Company does not make full economic sense.

Characteristics of assets and liabilities

Financial data of the Fabryki Mebli „FORTE” S.A. Group

Liquidity and efficiency analysis	2018	2017
Current ratio (current assets/current liabilities)	0,5	1,5
Quick ratio (current assets – inventories/current liabilities)	0,3	0,9
Receivable turnover in days (average trade receivables*365/sales revenue)	40	47
Inventory turnover in days (average inventories*365/cost of goods sold)	96	82
Liability turnover in days (average trade liabilities*365/cost of goods sold)	42	39

Current asset turnover in days (average current assets*365/sales revenue)	148	167
---	-----	-----

Characteristics of balance sheet items	2018		2017		% change
	PLN '000	% of balance sheet total	PLN '000	% of balance sheet total	2018/2017
Non-current assets	1 186 369	72%	1 055 155	71%	12,%
Current assets	462 975	28%	437 845	29%	5,7%
Total assets	1 649 344	100%	1 493 000	100%	
Equity	613 613	37%	635 961	43%	(3,5%)
Non-current liabilities and provisions	178 679	11%	573 845	38%	(68,9%)
Current liabilities and provisions	857 052	52%	283 194	19%	202,6%
Total liabilities	1 649 344	100%	1 493 000	100%	

Non-current assets rose by PLN 131 214 thousand, mainly as a result of an increase in deferred tax asset due to tax relief made available in connection with TANNE Sp. z o.o. and DYSTRI-FORTE Sp. z o.o. operating in the Special Economic Zone (PLN 122 309 thousand), an increase in tangible fixed assets in the amount of PLN 88 871 thousand and a decrease in the value of financial assets amounting to PLN 42 668 thousand.

The most significant increase in tangible fixed assets relates to expenditures incurred for the construction of the chipboard factory with equipment in the amount of PLN 90 399 thousand. A decrease in the value of financial assets is related to a decrease in the value of investment certificates held by FORTE BRAND Sp. z o.o.

In **current assets**, a decrease was recorded for trade and other receivables (PLN 31 976 thousand). Cash decreased by PLN 6 306 thousand, mainly as a result of its use for partial financing of the Group's capital expenditure.

The most significant increase in current assets was recorded for inventories (PLN 45 292 thousand) and income tax receivables (PLN 16 966 thousand).

On **liabilities** side, the most significant changes relate to: an increase in deferred revenue from tax relief made available in connection with TANNE Sp. z o.o. and DYSTRI-FORTE Sp. z o.o. operating in the Special Economic Zone (PLN 122 309 thousand), a decrease in the reserve from the valuation of derivatives qualified for hedge accounting (PLN 23 089 thousand) and other revaluation reserves (PLN 33 760 thousand). This decrease is related to a lower value of investment certificates held by the subsidiary FORTE BRAND Sp. z o.o.

Financial data of Fabryki Mebli „FORTE” S.A.

Liquidity and efficiency analysis	2018	2017
Current ratio (current assets/current liabilities)	1,1	2,3
Quick ratio (current assets – inventories/current liabilities)	0,7	1,4
Receivable turnover in days (average trade receivables*365/sales revenue)	40	44
Inventory turnover in days (average inventories*365/cost of goods sold)	67	69
Liability turnover in days (average trade liabilities*365/cost of goods sold)	45	40
Current asset turnover in days (average current assets*365/sales revenue)	127	119
	2018	% change

Characteristics of balance sheet items	2017				2018/2017
	PLN '000	% of balance sheet total	PLN '000	% of balance sheet total	
Non-current assets	557 049	60 %	518 281	58 %	7.5%
Current assets	377 924	40 %	382 736	42 %	(1.3%)
Total assets	934 973	100%	901 017	100%	3.8%
Equity	577 703	62 %	601 317	67 %	(3.9%)
Non-current liabilities and provisions	14 811	2 %	130 107	14 %	(88.6%)
Current liabilities and provisions	342 459	37 %	169 593	19 %	101.9%
Total liabilities	934 973	100%	901 017	100%	3.8%

Non-current assets rose by PLN 38 768 thousand, mainly as a result of an increase in tangible fixed assets in the amount of PLN 19 021 thousand, an increase in the value of investments in subsidiaries and jointly controlled entities in the amount of PLN 98 000 thousand, a decrease in the value of loans granted to subsidiaries totalling PLN 53 397 thousand, as well as a decrease in derivative receivables amounting to PLN 24 684 thousand.

An increase in the value of investments in subsidiaries is due to the recapitalisation of the subsidiary TANNE Sp. z o.o. in the amount of PLN 58 000 thousand and the subsidiary FORTE BRAND Sp. z o.o. in the amount of PLN 40 000 thousand. A decrease in the value of loans granted results from total loan repayment by the subsidiary TANNE Sp. z o.o.

In **current assets**, a decrease was recorded mainly for trade and other receivables (PLN 13 001 thousand) and for inventories (PLN 5 523 thousand). Corporate income tax receivables rose by PLN 16 910 thousand, because the Company paid income tax in a simplified form based on the profit generated in 2016.

On **liabilities** side, the most significant change relates to a decrease in the reserve from the valuation of derivatives qualified for hedge accounting (PLN 20 878 thousand).

In non-current liabilities, a decrease was recorded mainly for liabilities from loans and borrowings (PLN 115 315 thousand) due to maturity dates of loan contracts falling in 2018.

In current liabilities, an increase was recorded for trade and other liabilities (PLN 7 197 thousand) and for liabilities from loans and borrowings (PLN 166 060 thousand).

SELECTED FINANCIAL DATA

	in thousands of PLN		in thousands of EUR	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Sales revenue	1 095 082	1 160 125	256 646	273 311
Profit (loss) on operating activities	50	65 055	12	15 326
Profit (loss) before tax	2 471	66 707	579	15 715
Profit (loss) for the period	(2 534)	54 780	(594)	12 906
Total comprehensive income for the period	(23 614)	111 820	(5 534)	26 343
Net cash flows from operating activities	28 799	66 667	6 749	15 706
Net cash flows from investing activities	(72 883)	(47 708)	(17 081)	(11 239)
Net cash flows from financial activities	45 778	(38 443)	10 729	(9 057)
Net increase (decrease) in cash and cash equivalents	1 694	(19 484)	397	(4 590)
Number of shares	23 930 769	23 930 769	23 930 769	23 901 084
Declared or paid dividend per share (in PLN/EUR)	0,00	0,00	0,00	0,00
Net profit per share (in PLN/EUR)	(0,11)	2,29	(0,02)	0,54
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Total assets	934 973	901 017	217 436	216 025
Total liabilities	357 270	299 700	83 086	71 855
Long-term liabilities	14 811	130 107	3 444	31 194
Short-term liabilities	342 459	169 593	79 642	40 661
Total equity	577 703	601 317	134 350	144 170
Share capital	23 931	23 931	5 565	5 738
Book value per share (in PLN/EUR)	24,14	25,13	5,61	6,02

PROFIT AND LOSS ACCOUNT

	For the period ended	
	31 December 2018	31 December 2017
Continued operations		
Revenue from sales of products, goods and materials	1 084 745	1 151 433
Revenue from sales of services	10 337	8 692
Sales revenue	1 095 082	1 160 125
Cost of sales of sold products, goods and materials	(776 332)	(766 351)
Cost of sales of sold services	(4 148)	(3 478)
Cost of sales	(780 480)	(769 829)
Gross profit from sales	314 602	390 296
Other operating revenue	1 535	1 511
Costs of sales	(263 313)	(271 639)
General administrative costs	(48 219)	(47 202)
Other operating costs	(4 555)	(7 911)
Operating profit (loss)	50	65 055
Financial revenue	6 579	8 699
Financial costs	(4 158)	(7 047)
Profit (loss) before tax	2 471	66 707
Income tax	(5 005)	(11 927)
Profit (loss) on continued operations of the period	(2 534)	54 780
Profit (loss) of the period	(2 534)	54 780
Profit (loss) per share for the period (in PLN):		
- basic	(0,11)	2,29
- diluted	(0,11)	2,29

STATEMENT OF COMPREHENSIVE INCOME

	For the period ended	
	31 December 2018	31 December 2017
Profit (loss) of the period	(2 534)	54 780
Other net comprehensive income, including:	(21 080)	57 040
Items which in the future may not be reclassified to the profit and loss account	(202)	95
Revaluation of employee benefit obligations	(249)	117
Deferred tax regarding employee benefits	47	(22)
Items which in the future may be reclassified to the profit and loss account	(20 878)	56 945
Hedge accounting	(43 997)	68 586
Hedge cost	28 034	(1 829)
Deferred tax	(4 915)	(9 812)
Total comprehensive income for the period	(23 614)	111 820

STATEMENT OF FINANCIAL SITUATION (BALANCE SHEET)

	31 December 2018	31 December 2017	1 January 2017 adjusted
ASSETS			
Non-current assets	557 049	518 281	467 719
Tangible fixed assets	254 327	235 306	236 155
Perpetual perpetuity of ground	10 138	10 138	10 142
Intangible assets	1 167	1 330	968
Investment in subsidiaries and entities	260 974	162 974	154 394
Loans granted	21 591	74 988	60 946
Other long-term receivables	103	112	119
Receivables due to derivative financial instruments	8 749	33 433	-
Deferred income tax assets	-	-	4 995
Current assets	377 924	382 736	374 778
Reserves	140 409	145 932	143 247
Trade and other receivables	151 132	164 133	173 482
Receivables due to derivative financial instruments	17 119	18 210	-
Income tax receivables	23 308	6 398	-
Accruals	5 124	3 028	2 497
Financial assets	5 954	12 351	2 960
Cash and cash equivalents	34 878	32 684	52 592
TOTAL ASSETS	934 973	901 017	842 497
LIABILITIES			
Equity	577 703	601 317	492 905
Share capital	23 931	23 931	23 901
Surplus of share sale above their nominal value	114 556	114 556	113 214
Revaluation reserve from hedging instruments	3 266	48 029	(9 291)
Hedge costs	17 687	(6 198)	(5 823)
Business combination capital	(1 073)	(1 073)	(1 073)
Incentive Scheme	2 354	2 354	2 354
Other reserve capitals	395 679	341 274	248 859
Retained earnings	21 303	78 444	120 764
Long-term liabilities	14 811	130 107	170 862
Interest-bearing loans and borrowings	-	115 315	152 808
Deferred income tax provision	10 166	11 195	-
Provision for benefits after the employment period	3 675	3 296	3 283
Accruals	-	-	13
Liabilities due to derivative financial instruments	-	-	13 916
Financial liabilities due to lease	970	301	842
Short-term liabilities	342 459	169 593	178 730
Trade and other liabilities	166 217	159 020	152 839
Contract liabilities	699	1 125	587
Income tax liabilities	-	-	10 176
Current portion of interest-bearing loans and borrowings	172 111	6 051	6 729
Liabilities due to financial derivative instruments	-	-	4 744
Provisions	2 800	2 722	2 579
Financial liabilities due to lease	632	675	1 076
Total liabilities	357 270	299 700	349 592
TOTAL LIABILITIES	934 973	901 017	842 497

CASH FLOW STATEMENT

	31 December 2018	31 December 2017 adjusted
Cash flow from operating activity		
Profit/ (loss) of the period	(2 534)	54 780
Adjustments by:	31 333	11 887
Amortisation	23 178	22 631
Foreign exchange (profit)/loss	(2 755)	(2 369)
Net interest and dividends	2 616	(6 229)
(Profit)/ Loss on investing activity	114	892
Change in receivables	13 010	9 355
Change in inventories	5 523	(2 685)
Change in liabilities, excluding loans and borrowings	4 531	4 280
Change in prepayments and accruals	(2 055)	4 590
Change in provisions	-	(2 184)
Income tax paid	(18 000)	(25 690)
Current tax recognised in profit or loss	5 005	9 116
Provision for retirement benefits	166	135
Other	-	45
Net operating cash flow	28 799	66 667
Cash flows from investment activities		
Sales of property, plant and equipment and intangible assets	493	769
Purchases of property, plant and equipment and intangible assets	(39 102)	(21 032)
Purchase of financial assets	(98 000)	(8 630)
Dividends received	485	7 796
Interest received	1 115	877
Borrowings granted	(2 210)	(32 106)
Repayment of borrowings granted	64 336	4 618
Net investment cash flow	(72 883)	(47 708)
Cash flows from financing activities		
Wpłaty na kapitał	-	1 371
Inflow from loans and borrowings taken out	62 824	10 917
Repayment of loans and borrowings	(12 221)	(42 301)
Dividends paid	-	(4 780)
Interest paid	(4 151)	(2 484)
Repayment of leasing liabilities	(674)	(1 166)
Net financial cash flow	45 778	(38 443)
Net increase (decrease) in cash and cash equivalents	1 694	(19 484)
Net foreign exchange differences	(500)	425
Opening balance of cash	32 684	52 593
Cash at end of year, including:	34 878	32 684

STATEMENT OF CHANGES IN EQUITY

for the period ended on 31 December 2018

	Share capital	Supplementary capital from share premium	Retained earnings/ (accumulated loss)	Revaluation reserve from hedging instruments	Hedge costs	Other reserve capital	Business combination capital	Incentive Scheme	Total
As at 1 January 2018	23 931	114 556	72 246	48 029	-	341 274	(1 073)	2 354	601 317
Changes in adopted accounting principles (policy)	-	-	-	-	-	-	-	-	-
Error adjustments	-	-	6 198	-	(6 198)	-	-	-	-
As at 1 January 2018 after adjustments	23 931	114 556	78 444	48 029	(6 198)	341 274	(1 073)	2 354	601 317
Impairment of retained earnings to reserve capital	-	-	(54 405)	-	-	54 405	-	-	-
Payment of dividend for 2017	-	-	-	-	-	-	-	-	-
Hedge costs for the period	-	-	-	-	24 867	-	-	-	24 867
Amount reclassified to sale revenue	-	-	-	7 981	3 166	-	-	-	11 147
Hedge accounting	-	-	-	(51 978)	-	-	-	-	(51 978)
Deferred tax	-	-	-	(766)	(4 149)	-	-	-	(4 915)
Provision for benefits after the employment period	-	-	(202)	-	-	-	-	-	(202)
Current result	-	-	(2 534)	-	-	-	-	-	(2 534)
Comprehensive income for the period	-	-	(2 736)	(44 763)	23 885	-	-	-	(23 614)
As at 31 December 2018	23 931	114 556	21 303	3 266	17 687	395 679	(1 073)	2 354	577 703

STATEMENT OF CHANGES IN EQUITY

for the year ended on 31 December 2017

	Share capital	Supplementary capital from share premium	Retained earnings/ (accumulated loss)	Revaluation reserve from hedging instruments	Hedge costs	Other reserve capital	Business combination capital	Incentive Scheme	Total
As at 1 January 2017	23 901	113 214	120 764	(9 291)	(5 823)	248 859	(1 073)	2 354	492 905
Changes in adopted accounting principles (policy)	-	-	-	-	-	-	-	-	-
Error adjustments	-	-	-	-	-	-	-	-	-
As at 1 January 2017 after adjustments	23 901	113 214	120 764	(9 291)	(5 823)	248 859	(1 073)	2 354	492 905
Impairment of retained earnings to reserve capital	-	-	(92 415)	-	-	92 415	-	-	-
Capital increase due to incentive program	30	1 342	-	-	-	-	-	-	1 372
Payment of dividend for 2016	-	-	(4 780)	-	-	-	-	-	(4 780)
Hedge costs for the period	-	-	-	-	(375)	-	-	-	(375)
Hedge accounting	-	-	-	57 320	-	-	-	-	57 320
Current result	-	-	54 780	-	-	-	-	-	54 780
Provisions for fringe benefits	-	-	95	-	-	-	-	-	95
Comprehensive income for the period	-	-	54 875	57 320	(375)	-	-	-	106 034
As at 31 December 2017	23 931	114 556	78 444	48 029	(6 198)	341 274	(1 073)	2 354	601 317

Signature of the person entrusted with bookkeeping:

**Chief Accounting
Anna Wilczyńska**

.....

Signatures of all members of the Management Board:

**President of the Management Board
Maciej Formanowicz**

.....

**Member of the Management Board
Andreas Disch**

.....

**Member of the Management Board
Klaus Dieter Dahlem**

.....

**Member of the Management Board
Maria Florczuk**

.....

**Member of the Management Board
Mariusz Gazda**

.....

Ostrów Mazowiecka, 04 April 2019