FABRYKI MEBLI „FORTE"S.A.

Separated financial statements ended on 31th December 2017

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, 5th April, 2018

Telefon: +48 22 543 16 00
Telefax: +48 22 543 16 01
E-mail: office@bdo.pl
Internet: www.bdo.pl

BDO Sp. z o.o.
ul. Postępu 12
02-676 Warszawa
Polska

Fabryki Mebli Forte S.A.
07-300 Ostrów Mazowiecka, ul. Biała 1

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

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

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

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

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

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

Responsibilities of the Auditor

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

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

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

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

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

The audit consisted of performing procedures aimed at obtaining audit evidence on the amounts and information disclosed in the financial statements. We choose the procedures based on our judgement, including an assessment of the risk of material misstatements in the 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 financial statements in order to plan our audit procedures, and not to express an opinion on the effectiveness of the entity's internal controls. An audit also includes assessing the appropriateness of the accounting policies used and the reasonableness of the estimates made by the entity's management, as well as evaluating the overall presentation of the financial statements.

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

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

Independence

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

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

Selection of Auditor

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

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

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Most significant types of risk

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

Risk of material misstatement	Audit procedures performed in response to the risk
Recognition of revenue	
The Company's sales revenue for the financial year ended 31 December 2017 has been presented in Note 9.1 to the accompanying financial statements and includes: – revenue from the sale of finished products, goods for resale and raw materials in the amount of 1.151.433 thousand zł, and – revenue from the sale of services in the amount of 8.692 thousand zł. We have classified recognition of revenue as a key audit matter due primarily to the significance of this item to the readers of the accompanying financial statements and the complex nature of the Company's accounting recognition of revenue. We paid special attention to the Company's recognition of the effects of cash flow hedge accounting. In the audited period the Company generated a profit on the settlement of options in the amount of 2.725 thousand zł, which has been recognized under sales revenue (in 2016 it had been 131 thousand zł). Another important aspect was, in our opinion, the assignment of revenue to the correct reporting period, as well as completeness of revenue in view of the Company's use of INCOTERMS.	As part of our audit procedures we familiarized ourselves with the internal control environment, assessed its design and performed effectiveness tests of the identified key controls, in particular those relating to the approval of contracts and supplies. We followed the tests of controls with detailed procedures that included a verification of the assignment of revenue to the reporting period, completeness of recognition of corrective invoices, reconciliation of the various transactions with source documents, as well as a check of the entity's recognition of the adjustment resulting from the settlement of options. We also performed analytical procedures consisting of analyzing the sales trend and sales margin, as well as compared revenue and the cost of goods sold. We obtained an additional assurance from independent confirmations of trade receivable balances and (if no confirmation was received from a vendor) from a test of receivables paid after the balance sheet date.
Recognition of hedge accounting	
The Company uses cash flow hedge accounting to manage currency risk by implementing a strategy aimed at securing against the risk associated with future cash flows from revenue from the sale of finished products. The Company has zero-cost option collars consisting of a purchased put and a written call option with exercise prices based on the EUR/PLN exchange rate. We assessed the area of hedge accounting as one of special risk due to the complexity of the accounting models associated with the valuation and settlement of these financial instruments and with the measurement of hedge effectiveness in the context of the penalties indicated in IAS 39.	Because valuation techniques and models may be subjective and may be based on different assumptions relating to pricing and exercise dates, as part of our audit procedures we obtained an understanding of the Company's internal risk management procedures and controls relating to the formation and application of hedging strategies. In addition, we agreed the valuation and existence of the various derivative instruments with independent bank confirmations. We also familiarized ourselves with the reports prepared for the Company by its external advisors. We paid special attention to the accounting models used by the Company. As part of this audit procedure we checked the accuracy of determining the intrinsic and time value of the options held by the Company, verified the calculation of interest and profit/loss on the exercised options, as well as the recognition of the resulting values in the accompanying financial statements.

Opinion

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

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

b) are prepared based on correctly kept accounting books, in line with Chapter 2 of the Accounting Act,

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

Report on Other Legal and Regulatory Requirements

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

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

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

In connection with our audit of the year-end financial statements it was our responsibility to read the Directors' Report on the Company's activities and to report whether it has been prepared in accordance with binding regulations, and whether it is consistent with the information presented in the year-end financial statements.

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

In our opinion, the Directors' Report on the Company's activities has been prepared in accordance with Article 49 of the Accounting Act and the Decree, and is consistent with the information presented in the year-end financial statements. Furthermore, based on our knowledge obtained during the audit about the Company and its environment we have identified no material misstatements in the Directors' Report on the Company's activities.

Opinion on the Declaration on the Application of Corporate Governance

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

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

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

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

In accordance with the requirements of the Certified Auditors Act we hereby inform you that the Company has prepared the declaration on non-financial information referred to in Article 49b par. 1 of the Accounting Act as a separate section of the Directors' Report on the group's activities.

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

Warsaw, 5 April 2018

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

Auditor in charge:

Dr. Anna Bernaziuk
Certified Auditor No. 173

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

Dr. André Helin
Managing Partner
Reg. No. 90004

Ostrów Mazowiecka, 05.04.2018

Dear Sirs, Dear Shareholders,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Maciej Formanowicz

Management Board President

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Selected financial data

	In thous. PLN		In thous. EUR	
	31.12.2017	31.12.2016 (adjusted)	31.12.2017	31.12.2016 (adjusted)
Net revenue from sales of products, goods, materials and services	1 160 125	1 104 669	273 311	252 455
Profit (loss) on operating activities	65 055	111 348	15 326	25 447
Pre-tax profit (loss)	66 244	111 439	15 606	25 468
Period profit (loss)	54 405	91 372	12 817	20 882
Net comprehensive profit for the period	111 820	78 776	26 343	18 003
Net cash flow from operating activities	66 667	164 546	15 706	37 604
Net cash flow from investment activities	(47 708)	(171 311)	(11 239)	(39 151)
Net cash flow from financing activities	(38 443)	13 475	(9 057)	3 080
Net increase/decrease in cash and cash equivalents	(19 484)	6 710	(4 590)	1 533
Number of shares (in pcs)	23 930 769	23 901 084	23 930 769	23 901 084
Declared or paid dividend per one share (in PLN /EUR)	-	1.00	-	0.23
Profit (loss) per ordinary share (in PLN/ EUR)	2.27	3.82	0.53	0.87
	31.12.2017	**31.12.2016 (adjusted)**	**31.12.2017**	**31.12.2016 (adjusted)**
Total assets	901 017	842 497	216 025	190 438
Total liabilities	299 700	349 592	71 855	79 022
Long-term liabilities	130 107	170 862	31 194	38 622
Short-term liabilities	169 593	178 730	40 661	40 400
Equity capital	601 317	492 905	144 170	111 416
Share capital	23 931	23 901	5 738	5 403
Book value per share (in PLN /EUR)	25.14	20.62	6.02	4.66

PROFIT AND LOSS ACCOUNT

		For the reporting period ended		
		31 Dec 2017	**31 Dec 2016**	**31 Dec 2016 (adjusted)**
Continuing operations	**Note**			
Revenue from sales of products, goods and materials	9.1.	1 151 433	1 082 796	1 082 909
Revenue from sales of services	9.1.	8 692	21 760	21 760
Sales revenue		**1 160 125**	**1 104 556**	**1 104 669**
Cost of products, goods and materials sold	9.6.	(766 351)	(661 275)	(661 275)
Cost of services sold	9.6.	(3 478)	(15 230)	(15 230)
Cost of sales		**(769 829)**	**(676 505)**	**(676 505)**
Gross profit on sales		**390 296**	**428 051**	**428 164**
Other operating revenue	9.2.	1 511	3 119	3 119
Selling costs	9.6.	(271 639)	(263 892)	(263 892)
G&A costs	9.6.	(47 202)	(47 456)	(47 456)
Other operating costs	9.3.	(7 911)	(8 587)	(8 587)
Profit (loss) on operating activities		**65 055**	**111 235**	**111 348**
Financial revenue	9.4.	8 699	11 303	11 303
Financial costs	9.5.	(7 047)	(4 023)	(4 023)
Profit (loss) on derivative financial instruments	35.2.	(463)	113	(7 189)
Pre-tax profit (loss)		**66 244**	**118 628**	**111 439**
Income tax	10.	(11 839)	(21 433)	(20 067)
Period profit (loss) on continuing operations		**54 405**	**97 195**	**91 372**
Discontinued operations		-	-	-
Period profit (loss) on discontinued operations		-	-	-
Period profit (loss)		**54 405**	**97 195**	**91 372**
Period profit (loss) per one share (in PLN):	13.			
– basic		2.27	4.07	3.82
– diluted		2.27	4.07	3.82

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

STATEMENT OF COMPREHENSIVE INCOME

	Note	31 Dec 2017	31 Dec 2016	31 Dec 2016 (adjusted)
			For the reporting period ended	
Period profit (loss)		**54 405**	**97 195**	**91 372**
Other net comprehensive income, incl.:		**57 415**	**(12 633)**	**(12 596)**
Items that will not be reclassified to profit or loss in future periods		**95**	**1 291**	**1 291**
Revaluation of employee benefit liabilities	16.1	117	280	280
Deferred tax regarding employee benefits		(22)	(53)	(53)
Incentive scheme	36.1.	-	1 064	1 064
Items that may be reclassified to profit or loss in future periods	27.3.	**57 320**	**(13 924)**	**(13 887)**
Valuation of hedging instruments		70 765	(17 189)	(17 144)
Deferred tax regarding hedge accounting		(13 445)	3 265	3 257
Comprehensive income for the period		**111 820**	**84 562**	**78 776**

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

	Note	As at 31 Dec 2017	31 Dec 2016	31 Dec 2016 (adjusted)
ASSETS				
Non-current assets		**518 281**	**466 362**	**467 719**
Tangible fixed assets	17.	245 444	246 297	246 297
Intangible assets	18.	1 330	968	968
Investments in subsidiaries and jointly controlled entities	19.	162 974	154 394	154 394
Loans granted	25.	74 988	60 946	60 946
Other long-term receivables	20.	112	119	119
Receivables from derivative financial instruments	24.,35.2.	33 433	-	-
Deferred tax assets	10.2.	-	3 638	4 995
Current assets		**382 736**	**374 778**	**374 778**
Inventory	21.	145 932	143 247	143 247
Trade and other receivables	22.	164 133	173 482	173 482
Receivables from derivative financial instruments	24.,35.2.	18 210	-	-
Income tax receivables		6 398	-	-
Prepayments	23.	3 028	2 497	2 497
Loans granted	25.	12 351	2 960	2 960
Cash and cash equivalents	26.	32 684	52 592	52 592
TOTAL ASSETS		**901 017**	**841 140**	**842 497**
LIABILITIES				
Equity capital		**601 317**	**498 691**	**492 905**
Share capital	27.1.	23 931	23 901	23 901
Share premium	27.2	114 556	113 214	113 214
Hedging instruments revaluation reserve	27.3	48 029	(9 328)	(9 291)
Capital from merger		(1 073)	(1 073)	(1 073)
Incentive scheme	36.1.	2 354	2 354	2 354
Other reserve capital	27.3.	341 274	248 859	248 859
Retained earnings	27.4.	72 246	120 764	114 941
Long-term liabilities		**130 107**	**156 946**	**170 862**
Interest-bearing bank loans and borrowings	28.	115 315	152 808	152 808
Deferred income tax provisions	10.2.	11 195	-	-
Provision for post-employment benefits	16.1.,29.	3 296	3 283	3 283
Liabilities under derivative financial instruments	24.	-	-	13 916
Accruals	29.	-	13	13
Financial liabilities under lease	15.	301	842	842
Short-term liabilities		**169 593**	**185 503**	**178 730**
Trade and other liabilities	30.	160 145	97 962	153 426
Current part of interest-bearing bank loans and borrowings	28.	6 051	6 729	6 729
Income tax liability	30.	-	10 176	10 176
Liabilities under derivative financial instruments	24.	-	11 517	4 744
Provisions	29.	2 722	58 043	2 579
Financial liabilities under lease	15.	675	1 076	1 076
Total liabilities		**299 700**	**342 449**	**349 592**
TOTAL LIABILITIES		**901 017**	**841 140**	**842 497**

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

CASH FLOW STATEMENT

	For the reporting period ended		
	31 Dec 2017	**31 Dec 2016**	**31 Dec 2016 (adjusted)**
Cash flows from operating activities			
Period profit/(loss)	**54 405**	**97 195**	**91 372**
Adjustments by:	**12 262**	**67 351**	**73 174**
Depreciation	22 631	20 782	20 782
Foreign exchange (gains)/losses	(2 369)	4 057	4 057
Net interest and dividends	(6 229)	(8 995)	(8 995)
(Profit)/loss on investment activities	892	236	236
	-	3 266	-
Change in receivables	9 355	10 780	10 780
Change in inventory	(2 685)	(4 368)	(4 368)
Change in liabilities, excluding loans and borrowings	4 280	17 953	73 417
Change in prepayments and accruals	4 590	20 389	(36 432)
Change in provisions	(1 809)	(4 925)	5 521
Income tax paid	(25 690)	(20 151)	(20 151)
Current tax recognised in the profit and loss account	9 116	26 730	26 730
Provision for retirement benefits	135	533	533
Valuation of the incentive scheme	-	1 064	1 064
Other adjustments	45	-	-
Net cash flows from operating activities	**66 667**	**164 546**	**164 546**
Cash flows from investment activities			
Sale of tangible fixed assets and intangible assets	769	233	233
Purchase of tangible fixed assets and intangible assets	(21 032)	(40 077)	(40 077)
Purchase of financial assets	(8 630)	(95 312)	(95 312)
Dividends received	7 796	10 290	10 290
Interest received	877	333	333
Loans granted	(32 106)	(94 542)	(94 542)
Repayment of loans granted	4 618	47 714	47 714
Other investment inflows	-	50	50
Net cash flows from investment activities	**(47 708)**	**(171 311)**	**(171 311)**
Cash flows from financing activities			
Contributions to capital	1 371	-	-
Inflows from loans and borrowings taken out	10 917	100 030	100 030
Repayment of loans and borrowings	(42 301)	(60 492)	(60 492)
Dividends paid	(4 780)	(23 901)	(23 901)
Interest paid	(2 484)	(1 850)	(1 850)
Repayment of liabilities under lease	(1 166)	(312)	(312)
Net cash flows from financing activities	**(38 443)**	**13 475**	**13 475**
Net increase (decrease) in cash and cash equivalents	**(19 483)**	**6 710**	**6 710**
Net foreign exchange differences	425	(37)	(37)
Opening balance of cash	**52 593**	**45 846**	**45 846**
Closing balance of cash, incl.:	**32 684**	**52 593**	**52 593**
Restricted cash	-	-	-

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

	Share capital	Share premium	Retained earnings/ uncovered (losses)	Hedging instruments revaluation reserve	Other reserve capital	Capital from merger	Incentive scheme	Total
As at 1 January 2017	**23 901**	**113 214**	**120 764**	**(9 328)**	**248 859**	**(1 073)**	**2 354**	**498 691**
Changes to the adopted accounting principles (policy)	-	-	-	-	-	-	-	-
Corrections of errors	-	-	(5 823)	37	-	-	-	(5 786)
As at 1 January 2017 after corrections	**23 901**	**113 214**	**114 941**	**(9 291)**	**248 859**	**(1 073)**	**2 354**	**492 905**
Write-off of previous years' result on reserve capital	-	-	(92 415)	-	92 415	-	-	-
Capital increase in connection with the implementation of the incentive scheme	30	1 342	-	-	-	-	-	**1 372**
Dividend payment for 2016	-	-	(4 780)	-	-	-	-	**(4 780)**
Provisions for employment benefits	-	-	95	-	-	-	-	**95**
Current result	-	-	54 405	-	-	-	-	**54 405**
Hedge accounting	-	-	-	57 320	-	-	-	**57 320**
Total income for the period	**-**	**-**	**54 500**	**57 320**	**-**	**-**	**-**	**111 820**
As at 31 December 2017	**23 931**	**114 556**	**72 246**	**48 029**	**341 274**	**(1 073)**	**2 354**	**601 317**

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016 (adjusted)

	Share capital	Share premium	Retained earnings/ uncovered (losses)	Hedging instruments revaluation reserve	Other reserve capital	Capital from merger	Incentive scheme	Total
As at 1 January 2016	**23 901**	**113 214**	**101 278**	**4 596**	**194 824**	**(1 073)**	**1 290**	**438 030**
Changes to the adopted accounting principles (policy)	-	-	-	-	-	-	-	**-**
Corrections of errors	-	-	-	-	-	-	-	**-**
As at 1 January 2016 after corrections	**23 901**	**113 214**	**101 278**	**4 596**	**194 824**	**(1 073)**	**1 290**	**438 030**
Write-off of previous years' result on reserve capital	-	-	(54 035)	-	54 035	-	-	**-**
Dividend payment for 2015	-	-	(23 901)	-	-	-	-	**(23 901)**
Provisions for employment benefits	-	-	227	-	-	-	-	**227**
Current result	-	-	91 372	-		-		**91 372**
Hedge accounting	-	-	-	(13 887)	-	-	-	**(13 887)**
Valuation of the incentive scheme	-	-	-	-	-	-	1 064	**1 064**
Total income for the period	**-**	**-**	**91 599**	**(13 887)**	**-**	**-**	**1 064**	**78 776**
As at 31 December 2016	**23 901**	**113 214**	**114 940**	**(9 291)**	**248 859**	**(1 073)**	**2 354**	**492 905**

ACCOUNTING PRINCIPLES (POLICY) AND EXPLANATORY NOTES

1. General information

These financial statements of Fabryki Mebli „FORTE" S.A. cover the year ended 31 December 2017 and include comparative data for the year ended 31 December 2016.

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

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

The Company was assigned REGON statistical ID number: 550398784.

The Company has been incorporated for an indefinite term.

Main activities of the Company include:

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

The Company has its registered office in Ostrów Mazowiecka, at ul. Biała 1.

Composition of the Management Board of the Company

Composition of the Management Board of the Parent Company as at 31 December 2017 and the date of publication of these financial statements:

- Maciej Formanowicz – President of the Management Board
- Mariusz Gazda – 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

Composition of the Supervisory Board

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

Changes in the composition of the Supervisory Board

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

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

Identification and approval of the financial statements

The Company prepared the financial statements for the year ended 31 December 2017, which were approved for publication by the Management Board on 5 April 2018.

Company's investments

The Company has investments in the following subsidiaries and jointly controlled entities:

Subsidiaries	Registered office	Scope of activity	Percentage share of the Company in equity 31.12.2017	31.12.2016
MV FORTE GmbH	Erkelenz (Germany)	Dealership	100%	100%
FORTE MÖBEL AG	Baar (Switzerland)	Dealership	99%	99%
FORTE BALDAI UAB	Vilnius (Lithuania)	Dealership	100%	100%
FORTE SK S.r.o.	Bratislava (Slovakia)	Dealership	100%	100%
FORTE FURNITURE Ltd.	Preston (United Kingdom)	Dealership	100%	100%
FORTE IBERIA S.l.u.	Valencia (Spain)	Dealership	100%	100%
FORTE MOBILIER SARL	Lyon (France)	Dealership	100%	100%
KWADRAT Sp. z o.o.	Bydgoszcz	Real estate services and rental	81%	81%
**GALERIA KWADRAT Sp. z o.o.*	*Bydgoszcz*	*Real estate management*	*81%*	*81%*
TM HANDEL Sp. z o.o.	Warsaw	Business and management consultancy services	100%	100%
TM HANDEL Sp. z o.o. S.K.A.	Ostrów Mazowiecka	Purchase, sale and management of real estate, business and management consultancy services	100%	100%
***FORT INVESTMENT Sp. z o.o.*	*Ostrów Mazowiecka*	*Purchase, sale and management of real estate, business and management consultancy services*	*100%*	*100%*
TANNE Sp. z o.o. *****	Warsaw	Manufacturing activity	100%	100%
DYSTRI-FORTE Sp. z o.o.***	Warsaw	Warehousing and storage of goods	100%	100%
ANTWERP Sp. z o.o. w likwidacji	Warsaw	Activities of head offices and holding companies	100%	100%
TERCEIRA Sp. z o.o.****	Warsaw	Lease of intellectual property, rental and management of real estate	100%	100%
FORESTIVO Sp. z o.o.	Suwałki	Trade in raw materials for production of chipboard	50%	50%
FORTE FURNITURE PRODUCTS INDIA PVT. LTD	Chennai (India)	Production and sale of furniture	50%	-
ANTWERP FP Sp. z o.o.	Ostrów Mazowiecka	Sale of furniture	100%	-

* indirectly related company - 100% subsidiary of KWADRAT Sp. z o.o.
** indirectly related company - 100% subsidiary of TM HANDEL Sp. z o.o.
*** change of registered office to Ostrów Mazowiecka as of 02.02.2018
**** change of business name to FORTE- BRAND Sp. z o.o. as of 15.02.2018
***** change of registered office to Ostrów Mazowiecka as of 13.03.2018

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

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

On 11 July 2017, ANTWERP FP SP. Z O.O., a 100% subsidiary of Fabryki Mebli FORTE S.A., was established. The core business of the company includes selling FORTE furniture.

2. Important values based on professional judgement and estimates

2.1. Professional judgement

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

Classification of lease agreements

The Company 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.

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 Company based on current estimates. The review carried out in the reporting period ended did not show the necessity to make adjustments to depreciation rates.

2.2. 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.

Impairment of assets

The Company carried out an analysis of the impairment of inventory, fixed assets and loans granted. The results of the analysis have been presented respectively: inventory in note 21, fixed assets in note 17. No identifications of impairment were found for loans granted.

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 Company applies professional judgement in selecting appropriate methods and assumptions. The methods used for measuring the fair value of financial instruments are presented in note 34.2.

Valuation of provisions

Provisions for employee benefits are determined using actuarial valuations. The assumptions made in this respect are presented in note 16.1.

Deferred tax asset

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

3. Basis for preparation of the financial statements

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

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

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

In order to fully understand the financial situation and performance of Fabryki Mebli „FORTE" S.A. as a Parent Company of Capital Group, these financial statements should be read in conjunction with the annual consolidated financial statements for the period ended 31 December 2017.

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

Declaration of conformity

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

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

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

Measurement currency and reporting currency

The measurement currency of the Company and the reporting currency of these consolidated financial statements is the Polish zloty.

4. Changes to the applied accounting principles and error corrections

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

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

- Amendments to IAS 7: *Disclosure Initiative*

Amendments to IAS 7 were published on 29 January 2016 and apply to annual periods beginning on or after 1 January 2017. The objective of the changes was to broaden the scope of information provided to users of financial statements relating to financing activity of an entity by additional disclosure of changes in the carrying amount of liabilities arising from financing activities of an entity.

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

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

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

On 8 December 2016, 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.

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

Error correction

In the reporting period ended 31.12.2017, the Company made a fundamental correction to the financial statements for 2016 by means of adjusting the allocation of the admitted hedging instruments between the Company's equity and income statement.

By assessing the option strategies as hedging instruments under hedge accounting in 2016, the Company did not separate intrinsic value and time value of currency options. Pursuant to the hedging documentation prepared at the time of establishing the link, intrinsic value of options was indicated as the hedging instrument.

Where the separated intrinsic value of options acts as a hedge, IAS 39 requires that changes in time value of these options be recognised in the profit and loss account, therefore the Company revalued its portfolio of hedging instruments by separating intrinsic value and time value of options.

A change in time value of options active as at 31.12.2016 amounted to (-) PLN 7 189 thousand and pursuant to IAS 39, it was recognised in the profit and loss account under "loss on derivative financial instruments" and an amount of PLN 1 366 thousand under "deferred tax". A change in intrinsic value of options amounted to (-) PLN 11 471 thousand and net of deferred tax in the amount of PLN 2 179 thousand, it was recognised in the statement of financial position under "hedging instruments revaluation reserve".

In order to adjust the presentation of its financial data to the requirements of IAS 1, the Company changed the presentation of some of the accrued expenses that were previously recognised under provisions and accruals of the statement of financial position to trade and other liabilities. A detailed specifications of the accrued expenses that are now recognised in other liabilities is presented in note 31 of these financial statements.

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

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

PROFIT AND LOSS ACCOUNT

	For the reporting period ended		
	31 Dec 2016 was	**31 Dec 2016 is**	**Change**
Continuing operations			
Revenue from sales of products, goods and materials	1 082 796	1 082 909	113
Revenue from sales of services	21 760	21 760	-
Sales revenue	**1 104 556**	**1 104 669**	**113**
Cost of products, goods and materials sold	(661 275)	(661 275)	-
Cost of services sold	(15 230)	(15 230)	-
Cost of sales	**(676 505)**	**(676 505)**	**-**
Gross profit on sales	**428 051**	**428 164**	**113**
Other operating revenue	3 119	3 119	-
Selling costs	(263 892)	(263 892)	-
G&A costs	(47 456)	(47 456)	-
Other operating costs	(8 587)	(8 587)	-
Profit (loss) on operating activities	**111 235**	**111 348**	**-**
			-
Financial revenue	11 303	11 303	-
Financial costs	(4 023)	(4 023)	-
Profit (loss) on derivative financial instruments	113	(7 189)	(7 302)
Pre-tax profit (loss)	**118 628**	**111 439**	**(7 189)**

Income tax	(21 433)	(20 067)	(1 366)
Period profit (loss) on continuing operations	**97 195**	**91 372**	**(5 823)**
Discontinued operations	-	-	-
Period profit (loss) on discontinued operations	-	-	-
Period profit (loss)	**97 195**	**91 372**	**(5 823)**
Period profit (loss) per one share (in PLN):			
– basic	4.07	3.82	(0.25)
– diluted	4.07	3.82	(0.25)

STATEMENT OF COMPREHENSIVE INCOME

	For the reporting period ended		
	31 Dec 2016 was	**31 Dec 2016 is**	**Change**
Period profit (loss)	**97 195**	**91 372**	**(5 823)**
Other net comprehensive income, incl.:	**(12 633)**	**(12 596)**	**37**
Items that will not be reclassified to profit or loss in future periods	**1 291**	**1 291**	**-**
Revaluation of employee benefit liabilities	280	280	-
Deferred tax regarding employee benefits	(53)	(53)	-
Incentive scheme	1 064	1 064	-
Items that may be reclassified to profit or loss in future periods	**(13 924)**	**(13 887)**	**37**
Hedge accounting	(17 189)	(17 144)	45
Deferred tax regarding hedge accounting	3 265	3 257	(8)
Comprehensive income for the period	**84 562**	**78 776**	**(5 786)**

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

	As at 31 Dec 2016	**As at 31 Dec 2016 adjusted**	**Change**
ASSETS			
Non-current assets	**466 362**	**467 719**	**1 357**
Tangible fixed assets	246 297	246 297	-
Intangible assets	968	968	-
Investment properties	-	-	-
Financial assets	215 459	215 459	-
Deferred tax assets	3 638	4 995	1 357
Current assets	**374 778**	**374 778**	**-**
Inventory	143 247	143 247	-
Trade and other receivables	173 482	173 482	-
Prepayments	2 497	2 497	-

Financial assets	2 960	2 960	-
Cash and cash equivalents	52 592	52 592	-
TOTAL ASSETS	**841 140**	**842 497**	**1 357**
LIABILITIES			
Equity capital	**498 691**	**492 905**	**(5 786)**
Share capital	23 901	23 901	-
Share premium	113 214	113 214	-
Hedging instruments revaluation reserve	(9 328)	(9 291)	37
Capital from merger	(1 073)	(1 073)	-
Incentive scheme	2 354	2 354	-
Other reserve capital	248 859	248 859	-
Retained earnings	120 764	114 941	(5 823)
Long-term liabilities	**156 946**	**170 862**	**13 916**
Interest-bearing bank loans and borrowings	152 808	152 808	-
Provision for post-employment benefits	3 283	3 283	-
Accruals	13	13	-
Financial liabilities under lease	842	842	-
Liabilities under derivative financial instruments	-	13 916	13 916
Short-term liabilities	**185 503**	**178 730**	**(6 773)**
Trade and other liabilities	97 962	153 426	55 464
Current part of interest-bearing bank loans and borrowings	6 729	6 729	-
Income tax liability	10 176	10 176	-
Liabilities under derivative financial instruments	11 517	4 744	(6 773)
Provisions and accruals	58 043	2 579	(55 464)
Financial liabilities under lease	1 076	1 076	-
Total liabilities	**342 449**	**349 592**	**7 143**
TOTAL LIABILITIES	**841 140**	**842 497**	**1 357**

CASH FLOW STATEMENT

	For the reporting period		
	31 Dec 2016	**31 Dec 2016 adjusted**	**Change**
Cash flows from operating activities			
Period profit/(loss)	**97 195**	**91 372**	**(5 823)**
Adjustments by:	**67 351**	**73 174**	**(5 823)**
Depreciation	20 782	20 782	-
Foreign exchange (gains)/losses	4 057	4 057	-
Net interest and dividends	(8 995)	(8 995)	-
(Profit)/loss on investment activities	236	236	-
Change in the valuation of deriv. fin. instruments	3 266	-	(3 266)
Change in receivables	10 780	10 780	-
Change in inventory	(4 368)	(4 368)	-
Change in liabilities, excluding loans and borrowings	17 953	73 417	55 464
Change in prepayments and accruals	20 389	(36 432)	(56 821)
Change in provisions	(4 925)	5 521	10 446

Income tax paid	(20 151)	(20 151)	-
Current tax recognised in the profit and loss account	26 730	26 730	-
Provision for retirement benefits	533	533	-
Valuation of the incentive scheme	1 064	1 064	-
Net cash flows from operating activities	**164 546**	**164 546**	**-**
Cash flows from investment activities			
Sale of tangible fixed assets and intangible assets	233	233	-
Purchase of tangible fixed assets and intangible assets	(40 077)	(40 077)	-
Purchase of financial assets	(95 312)	(95 312)	-
Dividends received	10 290	10 290	-
Interest received	333	333	-
Loans granted	(94 542)	(94 542)	-
Repayment of loans granted	47 714	47 714	-
Other investment inflows	50	50	-
Net cash flows from investment activities	**(171 311)**	**(171 311)**	**-**
Cash flows from financing activities			
Inflows from loans and borrowings taken out	100 030	100 030	-
Repayment of loans and borrowings	(60 492)	(60 492)	-
Dividends paid	(23 901)	(23 901)	-
Interest paid	(1 850)	(1 850)	-
Repayment of liabilities under lease	(312)	(312)	-
Net cash flows from financing activities	**13 475**	**13 475**	**-**
Net increase (decrease) in cash and cash equivalents	**6 710**	**6 710**	**-**
Net foreign exchange differences	(37)	(37)	-
Opening balance of cash	**45 846**	**45 846**	**-**
Closing balance of cash, incl.:	**52 593**	**52 593**	**-**
Restricted cash	-	-	-

5. Amendments to existing standards and new regulations for periods beginning on or after 1 January 2018

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

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

- IFRS 9 *Financial Instruments*

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

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

In the Company's assessment, the introduction of IFRS 9 will have a material effect on the Company's financial statements in the area of hedge accounting only. In the reporting period ended 31.12.2017, in accordance with IAS 39, the Company recognised in the profit and loss account under "loss on derivative financial instruments" time value of option strategies in the amount of (-) PLN 7.652 thousand and deferred tax in the amount of PLN 1 454 thousand. In accordance with IFRS 9, starting in 2018, the Company's equity will be adjusted by both the intrinsic and time value of the hedging options under hedge accounting. As at 1 January 2018, the Company will disclose the effect of reversing time value of options in the financial statements, showing a positive impact on the profit and loss account under "profit on derivative financial instruments" in the amount of PLN 7 652 thousand and a change in deferred tax (-) PLN 1 454 thousand.

The application of IFRS 9 in the area of impairment will not have a material impact on the financial statements. In addition, as a result of the application of IFRS 9, the classification of some financial assets will change.

- IFRS 14 *Regulatory Deferral Accounts*

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

The 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 transitional nature of the standard, the European Commission decided not to start the formal procedure for approving this standard and to wait for the target standard.

- IFRS 15 *Revenue from Contracts with Customers*

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

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

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

- Clarifications to IFRS 15: *Revenue from Contracts with Customers*

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

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

- IFRS 16 *Leases*

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

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

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

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

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

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

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

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

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

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

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

- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

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

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

- IFRIC 23 *Uncertainty over Income Tax Treatments*

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

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

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

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

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

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

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

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

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

On 12 December 2017, minor amendments to the following three standards were made resulting from the review of IFRS:

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

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

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

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

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

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

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

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

- IFRS 14 *Regulatory Deferral Accounts,* published on 30 January 2014 (suspended adoption process for use by EU countries),
- IFRS 17 *Insurance Contracts*, published on 18 May 2017, Amendments to IFRS 10 and IAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture,* published on 11 September 2014 (suspended adoption process for use by EU countries),
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*, published on 8 December 2016,
- IFRIC 23 *Uncertainty over Income Tax Treatments*, published on 7 June 2017,
- Amendment to IFRS 9: *Prepayment Features with Negative Compensation*, published on 12 October 2017,
- Amendment to IAS 28: *Long-term Interests in Associates and Joint Ventures,* published on 12 October 2017,

- Amendments to various standards resulting from annual review of the International Financial Reporting Standards (*Annual Improvements 2015-2017*), published on 12 December 2017,
- Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement,* published on 7 February 2018.

6. Significant accounting policies

6.1. Stocks and shares in subsidiaries, associates and joint ventures

Stocks and shares in subsidiaries, associates and joint ventures are recognised at historical cost in accordance with IAS 27, adjusted for impairment losses determined in accordance with the principles set out in IAS 36.

6.2. Revenue

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

Sale of goods and services

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

Interest

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

Dividends

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

Government grants

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

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

6.3. 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 Company outstanding in that period.

6.4. Leases

The Company as a lessee

Finance leases which substantially transfer to the Company 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.

6.5. Foreign currency transactions

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.

6.6. Borrowing costs

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

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

6.7. Retirement benefits

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

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

Benefit costs are divided into the following components:

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

The Company 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.

6.8. Share-based payments

Equity-settled transactions

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

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

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

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

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

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

Value Added Tax

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

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

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

6.10. Tangible fixed assets

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

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

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

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

Type	Year 2017	Year 2016
Buildings and structures	25 – 50 years	25 – 50 years
Machinery and equipment	5 – 50 years	5 – 50 years
Office equipment	3 – 10 years	3 – 10 years

Means of transport	5 – 10 years	5 – 10 years
Computers	3 – 5 years	3 – 5 years
Leasehold improvements	5 – 10 years	5 – 10 years

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

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

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

6.11. 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 properties are made solely when changes occur in their use, evidenced by the ending of occupation by the owner, the conclusion of an operating lease, or the completion of construction or development of investment property. If an asset occupied by the Group as an owner-occupied asset becomes an investment property, the Group accounts for such a property in accordance with the policy stated under the item of *Tangible fixed assets* until the date of change in the manner of its use.

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

6.12. Intangible assets

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

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

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

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

Research and development costs

R&D costs are written down to the profit and loss account when identified. Expenditure on development activities carried out within the project are carried forward to the next period, if it can be considered to be recovered in the future. After the initial recognition of expenditures on development, historical cost model is applied, requiring assets to be carried at purchase/manufacturing costs, less accumulated amortisation and accumulated impairment losses. 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 Company's intangible assets is as follows:

	Patents and licenses	Computer software	Other
Useful life	For patents and licenses used on the basis of a fixed-term agreement, this period is assumed taking into account the additional period for which use can be extended.	5 years	5 year
Amortisation method applied	Depreciated over the term of the contract – the straight-line method.	Using the straight-line method.	Using the straight-line method.
Internally generated or acquired	Acquired	Acquired	Acquired
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 amortisation of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account when the asset is derecognised.

6.13. Impairment of non-financial non-current assets

An assessment is made at each reporting date to determine whether there is any indication that an asset from non-financial fixed assets may be impaired. If such indication exists, or in the case annual impairment testing is required, the Company 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 and impairment losses on assets used for continuing operations are recognised in other operating costs.

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

6.14. 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 Company intends to complete the sale within one year from the date of reclassification.

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

In the statement of financial position, 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.

6.15. 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.

6.16. Financial assets

Financial assets are classified into one of the following categories:

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

Financial assets held to maturity

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

Financial assets at fair value through profit or loss

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

When a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss. It does not apply to cases where the embedded derivative does not significantly modify the cash flows or where it is clear that separation of the embedded derivative is prohibited. Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

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

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

(iii) the financial liabilities asset contains an embedded derivative that would need to be separately recorded.

Loans granted and receivables

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

Financial assets available for sale

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

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

Financial assets are derecognised if the Company 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.

6.17. Impairment of financial assets

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

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

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

Financial assets carried at cost

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

Financial assets available for sale

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

6.18. 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.

6.19. Financial derivatives

Derivative instruments used by the Company 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..

6.20. Hedge accounting

The 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 likely.

The main objective of cash flow hedge accounting is to protect the operating revenue against changes in the foreign exchange rate between the date of creation of foreign currency exposure and hedging transaction and the date of implementation of foreign currency exposure and hedging transaction.

To hedge future foreign exchange transactions, the Company uses symmetrical option strategies. In particular, the Company separates intrinsic value of an option, expecting its high efficiency in securing the related position.

Hedging instruments are generally held to maturity. In exceptional cases, where circumstances justify the need, the Company may decide to roll over the hedging instrument.

Changes in intrinsic value of hedging options within hedge accounting are included in the Company's equity under the revaluation of hedging instruments, while the change in time value of these contracts is recognised in the profit and loss account of the Company. At the time of implementing the hedged sales revenue, changes in fair value of hedging instruments are recognised in the profit and loss account 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 intrinsic value of hedging options 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 80%-125%.

The 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.

6.21. Trade and other receivables

Trade receivables, generally characterised by 1 to 3 month maturity period, are recognised and carried at original invoice amount, less allowances for doubtful receivables.

Allowances for receivables are estimated when the collection of full amount is no longer probable. Non-recoverable receivables are written off the profit and loss account at the time of identifying their non-recoverability.

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

6.22. 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 cash flow statement, cash and cash equivalents balance consists of cash and cash equivalents as defined above.

6.23. Interest-bearing bank loans, borrowings and debt securities

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

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

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

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

6.24. Trade and other liabilities

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

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated for hedging instruments. Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; or (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains embedded derivatives that would need to be separately recorded.

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

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

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

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

6.25. Provisions

Provisions are recognised when the Company 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 Company 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.

7. Information on operating segments

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

The Management Board conducted a detailed analysis of possibilities and reasonability of dividing operating segments based on IFRS 8. Internal analysis and reports for management purposes of the 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 disclosure for each direction of sales, the Management Board of the Company decided not to separate the operating segments under IFRS 8.

8. Seasonality of operations

Seasonality can be observed in the Group's sales revenue.
The value of sales revenue achieved in the period of the last two years is presented below:

	Domestic	% share in total quarter sales	**Export**	% share in total quarter sales	Revenue from sales of products, goods, materials and services	% share in annual sales
Q1 2017	36 762	13%	257 132	87%	293 894	25%
Q2 2017	36 045	15%	206 347	85%	242 392	21%
Q3 2017	73 391	25%	223 219	75%	296 610	26%
Q4 2017	78 666	24%	248 563	76%	327 229	28%
Total 2017	**224 864**	**19%**	**935 261**	**81%**	**1 160 125**	**100%**
Q1 2016	37 907	13%	261 941	87%	299 848	27%
Q2 2016	49 047	19%	205 029	81%	254 076	23%
Q3 2016	48 951	20%	196 723	80%	245 674	22%
Q4 2016	45 390	15%	259 681	85%	305 071	28%
Total 2016	**181 295**	**16%**	**923 374**	**84%**	**1 104 669**	**100%**

9. Revenue and costs

9.1. Sales revenue

Sales revenue	**For the reporting period ended 31.12.2017**	**31.12.2016 (adjusted)**
Revenue from sales of products, goods and materials	**1 151 433**	**1 082 909**
- products	1 072 816	1 061 869
- goods	7 878	8 945
- materials	70 739	12 095

Revenue from sales of services	**8 692**	**21 760**
Total net sales revenue	**1 160 125**	**1 104 669**
- incl. from related entities	107 597	58 813

Information on key customers

The biggest customers for the products of the Company is Steinhoff Group International with its registered office in France and Roller GmbH with its registered office in Germany. Share in turnover with Steinhoff Group and with Roller GmbH exceeded 10% of the Company's revenue from sales for each of the mentioned contractors. There are no formal ties between the customers and the Company.

9.2. Other operating revenue

Other operating revenue	For the reporting period ended 31.12.2017	31.12.2016
Reversal of allowances	613	39
Profit on sales of tangible fixed assets	76	-
Grants	24	28
Compensations and donations	563	2 616
Other	235	436
Total other operating revenue	**1 511**	**3 119**

9.3. Other operating costs

Other operating costs	For the reporting period ended 31.12.2017	31.12.2016
Creation of allowances for receivables and inventory	679	2 145
Liquidation and impairment losses on tangible fixed assets	964	69
Scrapping of inventory	2 767	4 092
Donations	527	740
Penalties and compensations	2 318	298
Legal costs	64	71
Loss on disposal of tangible fixed assets	-	198
Costs of employee benefits	135	533
Inventory shortages	103	236
Other	354	205
Total other operating costs	**7 911**	**8 587**

9.4. Financial revenue

Financial revenue	For the reporting period ended 31.12.2017	31.12.2016
Dividends	7 796	10 290
Interest	903	1 013
Total financial revenue	**8 699**	**11 303**

9.5. Financial costs

Financial costs	For the reporting period ended 31.12.2017	31.12.2016
Interest on loans and leases	2 447	1 857
Exchange differences on financial assets and liabilities	4 538	2 166
Other	62	-

Total financial costs	**7 047**	**4 023**

9.6. Costs by type

Costs by type	**For the reporting period ended 31.12.2017**	**31.12.2016**
Depreciation	22 631	20 782
Consumption of materials and energy	535 073	494 375
Third-party services	238 870	231 396
Taxes and fees	8 327	7 742
Payroll	146 853	138 341
Social insurance and other benefits	37 798	34 694
License fees	21 457	21 235
Other costs by type	13 581	8 925
	1 024 590	**957 490**
Change in product inventory and accruals	(7 432)	3 070
Own cost of reinvoiced services	2 760	13 880
Manufacturing cost of products for internal purposes	(2 708)	(3 416)
Costs of sales	(271 639)	(263 892)
General management costs	(47 202)	(47 456)
Manufacturing cost of products and services sold	**698 369**	**659 676**
Value of goods and materials sold	**71 460**	**16 829**
Cost of sales	**769 829**	**676 505**

9.7. Depreciation costs recognised in the profit and loss account

Depreciation costs in the profit and loss account	**For the reporting period ended 31.12.2017**	**31.12.2016**
Depreciation costs recognised in:		
Cost of sales	18 023	16 302
Selling costs	2 476	2 653
G&A costs	2 132	1 827
	22 631	**20 782**

9.8. Cost of employee benefits

Cost of employee benefits	**For the reporting period ended 31.12.2017**	**31.12.2016**
Cost of employee benefits recognised in:		
Cost of sales	125 380	112 307
Selling costs	27 028	28 953
G&A costs	32 243	31 775
	184 651	**173 035**

10. Income tax

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

	For the reporting period ended 31.12.2017	**31.12.2016 (adjusted)**

Current income tax		
Current charge due to income tax	9 131	27 041
Adjustments related to current income tax from previous years	(15)	(312)
Deferred income tax		
Relating to the origination and reversal of temporary differences	2 723	(6 662)
Tax charge recognised in the profit and loss account	**11 839**	**20 067**

10.1. Reconciliation of effective tax rate

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Company's effective income tax rate for 12 months ended 31 December 2017 and 31 December 2016:

	For the reporting period ended	
	31.12.2017	**31.12.2016 (adjusted)**
Profit/(loss) before tax	**66 244**	**111 439**
Tax at the statutory rate applicable in Poland, i.e. 19% (2016: 19%)	12 586	21 173
Corrections concerning income tax from previous years	(15)	(312)
Unrecognised tax loss		
Non-deductible costs	8 298	852
Tax loss written off		
Non-taxable income	(1 566)	(2 064)
Temporary differences from previous years	7	-
Other	-	418
Tax at the effective rate being 12.04% (2016: 18.07%)	11 839	20 067
Income tax (charge) recognised in the profit and loss account	11 839	20 067
Income tax attributable to discontinued operations	-	-
	11 839	**20 067**

10.2. Deferred income tax

Deferred income tax results from the following items:

Deferred income tax		**Balance sheet As at**		**Profit and loss account For the reporting period ended**	
Balance sheet item	**Temporary difference title**	**31.12.2017**	**(adjusted) 31.12.2016**	**31.12.2017**	**(adjusted) 31.12.2016**
Deferred tax liability					
Tangible fixed assets	Revaluation of fixed assets	13 066	12 223	843	934
Tangible fixed assets	Land in perpetual usufruct	1 869	1 869	-	(33)
Tangible fixed assets	Investment relief	40	84	(44)	(51)
Tangible fixed assets	Revaluation write-down on fixed assets	-	-	-	1
Trade and other receivables/ liabilities	Exchange rate differences	(846)	(1 281)	435	(551)
Accruals	Accruals	(4 163)	(5 236)	1 073	(2 223)
Trade and other receivables	Revaluation of receivables	(199)	(291)	92	139
Short-term financial investments	Valuation of hedge accounting	(1 454)	(1 366)	(88)	(1 366)

Trade and other receivables	Compensations	-	-	-	(248)
Trade and other receivables Financial assets	Interest accrued	48	49	(1)	44
Inventory, trade and other receivables	Revenue under Incoterms DDP and DAP	(938)	(1 080)	142	(218)
Trade and other liabilities	Provision for transport costs	158	196	(38)	67
Inventory	Revaluation of inventory	(1 600)	(1 663)	63	(1 144)
Provision for post-employment benefits	Provisions for post-employment benefits	(307)	(282)	(25)	(102)
Trade and other liabilities	Accrued bonuses	(4 446)	(5 228)	782	(2 400)
Trade and other liabilities	Salaries and surcharges	(822)	(798)	(24)	(35)
Trade and other liabilities	Liabilities overdue above 30 days	-	-	-	65
Investments in subsidiaries and jointly controlled entities	Revaluation write-down on shares in subsidiaries	(77)	(76)	(1)	5
Trade and other liabilities	Other	-	486	(486)	454
Deferred tax liability		**329**	**(2 394)**	**-**	**-**
Derivative instrument revaluation recognised in the statement of comprehensive income		**11 266**	**(2 179)**	**-**	**-**
Asset/ Provision for pension benefits – capital part recognised in the statement of comprehensive income		**(400)**	**(422)**	**-**	**-**
Total deferred tax asset/liability		**11 195**	**(4 955)**	**2 723**	**(6 662)**

Deferred tax of PLN (22) thousand for employee benefits and PLN 13 445 thousand for hedge accounting was recognised in other comprehensive income.

11. Tax settlements

The current tax burden is calculated based on the applicable tax laws. Tax burden is calculated based on tax rates applicable in a given financial year. The Company does not operate in any Special Economic Zone which would differentiate the rules for determining tax burdens in relation to general provisions in this respect. Tax year as well as balance sheet year coincide with calendar year.

12. Social assets and Social Fund liabilities

The Act on Social Fund of 4 March 1994 as amended stipulates that the Company's Social Benefits Fund is established and run by employers employing over 25 employees in full-time positions. The Company operates such a Fund and makes periodical write-downs based on the minimum required amount. The purpose of the Fund is to subsidize the Company's social activity, loans to employees and other social expenditure.

The Company has offset assets of the Fund and liabilities towards the Fund, as these are not separate assets of the Company. Therefore, net receivables on account of the Fund as at 31 December 2017 are PLN 96 thousand (as at 31 December 2016 – net receivables amounted to PLN 353 thousand).

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

	31.12.2017	**31.12.2016**
Loans granted to employees	1 650	1 612
Cash	1 373	1 656
Liabilities towards the Fund	(2 927)	(2 915)
Balance after offsetting	**96**	**353**
Allowances for the Fund during the financial period	**4 371**	**4 003**

13. Earnings per share

Basic 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.

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

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

	For the reporting period ended	
	31.12.2017	31.12.2016 (adjusted)
Profit (loss) on continuing operations	54 405	91 372
Loss on discontinued operations	-	-
Period profit (loss)	54 405	91 372
Profit (loss) attributed to normal shareholders, applied to calculate diluted earnings per share	54 405	91 372

	As at	
	31.12.2017	31.12.2016
Weighted average number of issued ordinary shares, applied to calculate basic earnings per share	23 930 769	23 901 084
Impact of dilution:	-	-
Bonds convertible into shares	-	-
Adjusted weighted average number of ordinary shares, applied to calculate diluted earnings per share	23 910 381	23 901 084

Profit (loss) per share attributable to Shareholders of the Company at the end of the period (in PLN)	31.12.2017	31.12.2016 (adjusted)
– basic	2.27	3.82
– diluted	2.27	3.82

In the period between the balance sheet date and the date of preparing these financial statements, no other transactions on ordinary shares or potential ordinary shares occurred, except for the new series H shares issue described above, resulting from the implementation of the incentive scheme.

14. Dividend paid and proposed

At the time of publication of these financial statements, the Management Board of the Company has not yet submitted its position with regard to potential dividend payment for 2017.

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

15. Leases

15.1. Finance lease and hire purchase

As at 31 December 2017, the Company has finance lease agreements for machinery, equipment and means of transport with the option to buy. The leased assets are secured by blank promissory notes.

The duration of the agreements is: 60 months for machinery and equipment, and 24-36 months for means of transport and 50 months for IT equipment.

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

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

	Minimum lease payments	
	31.12.2017	**31.12.2016**
Within 1 year	701	1 135
Within 1 to 2 years	307	632
Within 2 to 5 years	-	236
Over 5 years	-	-
Minimum lease payments, in total	**1 008**	**2 003**
Minus financial costs	(32)	(85)
Present value of minimum lease payments	**976**	**1 918**
short-term	675	1 076
long-term	301	842

Tangible fixed assets held under finance lease

	31.12.2017	**31.12.2016**
Machinery and equipment	258	492
Means of transport	718	1 426
	976	**1 918**

15.2. Operating lease and hire purchase

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

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

	Minimum payments	
	31.12.2017	**31.12.2016**
Within 1 year	253	203
Within 1 to 5 years	71	85
Over 5 years	-	-
Future minimum lease payments, in total	**324**	**288**

16. Employee benefits

16.1. Pensions and other post-employment benefits

The Company pays to retiring employees retirement benefits in the amount set out in the Labour Code. Therefore – based on a valuation carried out by a professional actuarial company – the Company recognises a provision for the current value of this retirement benefit liability. Key management staff is covered by benefits on the same basis as other employees. 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	
	31.12.2017	**31.12.2016**
Discount rate (%)	3.2%	3.5%
Expected inflation rate (%)	2.5%	2.5%
Employee turnover ratio (%)	12.4-13,7%	11.2-14.2%
Expected salary growth rate (%)	3.5%	3.5%

	Change	
Provision for pensions and disability benefits	**2017**	**2016**
As at 1 January	3 705	3 452
Interest costs	130	100

Current service costs	420	389
Past service costs and curtailments	-	137
Benefits paid	(415)	(94)
Actuarial profit/(loss) from changes in demographic assumptions	(42)	-
Actuarial profit/(loss) from changes in economic assumptions	84	(177)
Actuarial profit/(loss) from differences between assumptions and implementation	(160)	(102)
Profit/loss on settlement of benefit schemes	-	-
As at 31 December	**3 722**	**3 705**
Including:		
long-term	3 296	3 283
short-term	426	422

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

Amounts recognised in the comprehensive income:

	2017	**2016**
Benefit costs:		
Current service costs	(420)	(389)
Interest costs	(130)	(100)
Future service costs	-	(137)
Components of scheme costs recognised in profit or loss:	**(550)**	**(626)**
Actuarial profit/(loss) from changes in demographic assumptions	42	-
Actuarial profit/(loss) from changes in economic assumptions	(84)	177
Actuarial profit/(loss) from differences between assumptions and implementation	159	103
Current components of scheme costs recognised in equity	**117**	**280**
Deferred tax on benefits	(22)	(53)
Total amount of scheme costs recognised in equity	25	(92)
Total annual costs:	**(433)**	**(346)**

In accordance with IAS 19, the sensitivity of liabilities to changes in the discount rate and the salary growth rate is presented below. An increase and decrease in interest rates by 0.5% was assumed.

Assumptions	% change	Impact on the provision for pensions and disability benefits
Discount rate (%)	0.5%	(138)
	(0.5%)	148
Expected salary growth rate (%)	0.,5%	149
	(0.5%)	(140)

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

17. Tangible fixed assets

	As at	
	31.12.2017	**31.12.2016**
Land	14 389	13 716
Buildings and structures	92 488	91 702

Machinery and equipment	116 346	124 358
Means of transport	7 188	7 019
Other fixed assets	4 385	4 823
Fixed assets under construction	10 648	4 679
Total	**245 444**	**246 297**

	Land	Buildings and structures	Machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construct ion	Total
Net value as at 1 January 2017	**13 716**	**91 702**	**124 358**	**7 019**	**4 823**	**4 679**	**246 297**
Increase	860	4 740	8 594	2 058	271	19 498	36 021
incl. finance lease	-	-	-	*223*	-	-	*223*
Decrease, incl.	(187)	(1 101)	(9 801)	(1 231)	(47)	(13 529)	(25 896)
liquidation	*(3)*	*(1 101)*	*(3 178)*	*(507)*	*(3)*	-	*(4 826)*
sale	*(184)*	-	*(6 623)*	*(724)*	*(10)*	-	*(7 541)*
bringing a fixed asset under construction into use	-	-	-	-	-	*(13 529)*	*(13 529)*
Elimination of accumulated depreciation due to disposal of assets	-	487	9 385	1 022	43	-	10 937
Depreciation charge for the period	-	(3 340)	(16 190)	(1 680)	(705)	-	(21 915)
Net value as at 31 December 2017	**14 389**	**92 488**	**116 346**	**7 188**	**4 385**	**10 648**	**245 444**
As at 1 January 2017							
Gross value	13 716	118 336	253 121	16 410	8 261	4 679	414 523
Accumulated depreciation and impairment loss	-	(26 634)	(128 763)	(9 391)	(3 438)	-	(168 226)
Net value	**13 716**	**91 702**	**124 358**	**7 019**	**4 823**	**4 679**	**246 297**
As at 31 December 2017							
Gross value	14 389	121 975	251 914	17 237	8 485	10 648	424 648
Accumulated depreciation and impairment loss	-	(29 487)	(135 568)	(10 049)	(4 100)	-	(179 204)
Net value	**14 389**	**92 488**	**116 346**	**7 188**	**4 385**	**10 648**	**245 444**

	Land	Buildings and structures	Machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construct ion	Total
Net value as at 1 January 2016	**12 850**	**84 204**	**112 594**	**6 874**	**4 787**	**6 612**	**227 921**
Increase	1 037	10 651	26 650	1 720	665	36 017	76 740
incl. finance lease	-	-	-	*843*	-	-	*843*
Decrease, incl.	(171)	(108)	(556)	(755)	(98)	(37 950)	(39 638)
liquidation	*(171)*	*(108)*	*(395)*	*(219)*	*(98)*	-	*(991)*
sale	-	-	*(161)*	*(536)*	-	-	*(697)*
Elimination of accumulated depreciation due to disposal of assets	-	45	475	646	96	-	1 262
Reversal of an impairment loss recognised in the profit and loss account	-	-	3	-	-	-	3
Depreciation charge for the period	-	(3 090)	(14 808)	(1 466)	(627)	-	(19 991)
Net value as at 31 December 2016	**13 716**	**91 702**	**124 358**	**7 019**	**4 823**	**4 679**	**246 297**
As at 1 January 2016							
Gross value	12 850	107 793	227 027	15 445	7 694	6 612	377 421
Accumulated depreciation and impairment loss	-	(23 589)	(114 433)	(8 571)	(2 907)	-	(149 500)
Net value	**12 850**	**84 204**	**112 594**	**6 874**	**4 787**	**6 612**	**227 921**
As at 31 December 2016							
Gross value	13 716	118 336	253 121	16 410	8 261	4 679	414 523
Accumulated depreciation and impairment loss	-	(26 634)	(128 763)	(9 391)	(3 438)	-	(168 226)
Net value	**13 716**	**91 702**	**124 358**	**7 019**	**4 823**	**4 679**	**246 297**

Total tangible fixed assets remaining at the Company's disposal as at 31 December 2017 amounted to PLN 245 444 thousand (as per 31 December 2016 PLN 246 297 thousand). As of 31 December 2017, the Company did not have tangible fixed assets classified as held for sale (as per 31 December 2016: none).

Assets pledged as collateral

The carrying amount of tangible fixed assets used as at 31 December 2017 by the Company under finance lease agreements and hire purchase agreements is PLN 1 888 thousand, of which PLN 369 thousand relates to the lease of machinery and equipment, PLN 1 519 thousand relates to the lease of means of transport (as at 31 December 2016: PLN 3 145 thousand).

Land and buildings with a carrying amount of PLN 85 718 thousand (as at 31 December 2016: PLN 96 457 thousand) are covered by mortgages established to secure bank loans of the Company (note 28 – interest-bearing bank loans and borrowings).

Additionally, machinery and equipment with a carrying amount of PLN 59 614 thousand are subject to registered pledge (as at 31 December 2016: PLN 65 898 thousand).

Both in the reporting period ended 31 December 2017 and in the comparative period, borrowing costs were not capitalised.

Investment commitments

As at 31 December 2017, the Company's investment commitments amount to PLN 3 210 (as at 31 December 2016: PLN 771 thousand).

Purchase and sale

In the 12-month period ended 31 December 2017, the Company purchased fixed assets with a value of PLN 22 269 thousand (in the comparative period ended 31 December 2016: PLN 38 791 thousand) and sold fixed assets with a net value of PLN 692 thousand (in the comparative period ended 31 December 2016: PLN 151 thousand). The most important investments made by the Company in 2017 include expenditures incurred on the modernisation of road pavement infrastructure, modernisation of skylights, purchase of press for wrapping elements and purchase of forklifts.

18. Intangible assets

	As at 31.12.2017	As at 31.12.2016
Patents and licences	852	306
Completed development works	478	662
Total	**1 330**	**968**

	Patents and licences	Other	Completed development works	Total
Net value as at 1 January 2017	**306**	**-**	**662**	**968**
Increase	694	-	508	1 202
Decrease	-	-	(437)	(437)
Depreciation charge for the period	(147)	-	(569)	(716)
Elimination of accumulated depreciation due to disposal	-	-	313	313
Net value as at 31 December 2017	**853**	**-**	**477**	**1 330**
As at 1 January 2017				
Gross value	5 772	812	1 678	8 262
Accumulated depreciation	(5 466)	(812)	(1 016)	(7 294)
Net value	**306**	**-**	**662**	**968**
As at December 2017				
Gross value	6 466	812	1 749	9 027
Accumulated depreciation	(5 614)	(812)	(1 271)	(7 697)
Net value	**852**	**-**	**478**	**1 330**

	Patents and licences	Other	Completed development works	Total
Net value as at 1 January 2016	**464**	**-**	**660**	**1 124**
Increase	-	-	680	680
Decrease, incl.:	-	-	(989)	(989)
liquidation	-	-	*(989)*	*(989)*
Depreciation charge for the period	(158)	-	(633)	(791)
Elimination of accumulated depreciation due to disposal	-	-	944	944
Net value as at 31 December 2016	**306**	**-**	**662**	**968**
As at 1 January 2016				
Gross value	5 772	812	1 987	8 571
Accumulated depreciation	(5 308)	(812)	(1 327)	(7 447)
Net value	**464**	**-**	**660**	**1 124**
As at December 2016				
Gross value	5 772	812	1 678	8 262

Accumulated depreciation	(5 466)	(812)	(1 016)	(7 294)
Net value	**306**	**-**	**662**	**968**

Expenditure on research and development

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

Description of collateral established on intangible assets:

No collateral is established on intangible assets of the Company.

Intangible assets held for sale

As at the balance sheet date, there are no intangible assets held for sale.

Intangible assets with an indefinite useful life

As at 31 December 2017, the Company did not have any intangible assets with an indefinite useful life.

19. Investments in subsidiaries and jointly controlled entities

	As at	
	31.12.2017	**31.12.2016**
Stocks/ shares in subsidiaries	162 971	154 391
Other stocks and shares		3
	162 974	**154 394**

Stocks and shares in subsidiaries are valuated at historical cost less any impairment losses.

Stocks and shares in subsidiaries and jointly controlled entities as at 31 December 2017:

Company name	Type of relationship	Date of taking over the control/ significant influence/ shares	Value of stocks/ shares at acquisition price	Revaluation adjustments	Carrying amount of stocks/ shares
MV FORTE GmbH	Subsidiary	14.08.1992	1 838	-	1 838
FORTE BALDAI UAB	Subsidiary	16.04.1999	164	-	164
FORTE MÖBEL AG	Subsidiary	02.03.1999	352	-	352
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)	-
KWADRAT Sp. z o.o.	Subsidiary	18.12.2008	6 514	-	6 514
TM Handel Sp. z o.o. S.K.A.	Subsidiary	30.10.2012	50	-	50
TANNE Sp. z o.o.	Subsidiary	26.02.2015	90 005	-	90 005
DYSTRI-FORTE Sp. z o.o.	Subsidiary	13.02.2015	4 000	-	4 000

ANTWERP Sp. z o.o.	Subsidiary	03.09.2015	5	(5)	-
TERCEIRA Sp. z o.o.	Subsidiary	26.07.2016	50 981	-	50 981
FORESTIVO Sp. z o.o.	Jointly-controlled entity	15.03.2016	101	-	101
FORTE FURNITURE PRODUCTS INDIA PVT. LTD	Jointly-controlled entity	18.01.2017	8 580	-	8 580
ANTWERP FP SP. z o.o.	Subsidiary	11.07.2017	5	-	5
TOTAL			**163 375**	**(404)**	**162 971**

Stocks and shares in subsidiaries as at 31 December 2016:

Company name	Type of relationship	Date of taking over the control/ significant influence/ shares	Value of stocks/ shares at acquisition price	Revaluation adjustments	Carrying amount of stocks/ shares
MV FORTE GmbH	Subsidiary	14.08.1992	1 838	-	1 838
FORTE BALDAI UAB	Subsidiary	16.04.1999	164	-	164
FORTE MÖBEL AG	Subsidiary	02.03.1999	352	-	352
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)	-
KWADRAT Sp. z o.o.	Subsidiary	18.12.2008	6 514	-	6 514
TM Handel Sp. z o.o. S.K.A.	Subsidiary	30.10.2012	50	-	50
TANNE Sp. z o.o.	Subsidiary	26.02.2015	90 005	-	90 005
DYSTRI-FORTE Sp. z o.o.	Subsidiary	13.02.2015	4 000	-	4 000
ANTWERP Sp. z o.o.	Subsidiary	03.09.2015	5	-	5
TERCEIRA Sp. z o.o.	Subsidiary	26.07.2016	50 981	-	50 981
FORESTIVO Sp. z o.o.	Jointly-controlled entity	15.03.2016	101	-	101
TOTAL			**154 790**	**(399)**	**154 391**

Stocks and shares held by the Company in other entities are as follows:

As at 31 December 2017 and 31 December 2016:

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

Description of collateral established on long-term financial assets:

Shares with a carrying amount of PLN 90 005 thousand in the subsidiary TANNE Sp. z o.o. are subject to a registered pledge and serve as collateral for an investment loan contracted to finance the construction of a chipboard factory.

19.1. Impairment tests for stocks and shares in subsidiaries

According to financial data provided by subsidiaries, the shares of which were not covered by impairment losses, there is no indication of impairment of shares, therefore no impairment tests were conducted for stocks and shares in subsidiaries.

20. Other long-term receivables

	As at	
	31.12.2017	**31.12.2016**
Long-term receivables	51	58
Other	61	61
	112	**119**

21. Inventory

	As at	
	31.12.2017	**31.12.2016**
Materials (in net value)	51 648	55 823
Work in progress (at production cost)	25 906	22 101
Finished products:		
At purchase/ production cost	70 354	66 832
At net realisable value	66 974	63 664
Goods	1 404	1 659
Total inventory at the lower of cost and net realisable value	**145 932**	**143 247**

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

Changes in inventory write-downs were as follows:

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

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

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

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

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

22. Trade and other short-term receivables

	As at	
	31.12.2017	**31.12.2016**
Trade receivables from related entities	12 878	9 701
Trade receivables from other entities	113 225	146 933
Other budget receivables	37 536	15 506
Other receivables from third parties	494	1 342
Total (net) receivables	**164 133**	**173 482**
Allowance for receivables	1 544	1 704
Gross receivables	**165 677**	**175 186**

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

	As at	
	31.12.2017	**31.12.2016**
a) up to 1 month	73 974	101 180
b) over 1 month and up to 3 months	23 485	29 863
c) over 3 months and up to 6 months	8	42
d) over 6 months and up to 1 year	20	-
e) over 1 year	-	-
f) overdue receivables	30 160	27 253
Total trade receivables (gross)	**127 647**	**158 338**
Allowance for receivables	(1 544)	(1 704)
Total trade receivables (net)	**126 103**	**156 634**

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

	As at	
	31.12.2017	**31.12.2016**
a) up to 1 month	22 812	20 983
b) over 1 month and up to 3 months	5 813	3 069
c) over 3 months and up to 6 months	294	1 303
d) over 6 months and up to 1 year	134	403
e) over 1 year	1 107	1 495
Total overdue trade receivables (gross)	**30 160**	**27 253**
Allowance for receivables	(1 544)	(1 704)
Total overdue trade receivables (net)	**28 616**	**25 547**

For terms and conditions of related party transactions, refer to note 36.1. of explanatory notes.

Trade receivables do not bear interest and have a payment term of 1 to 3 months.

The Company has a policy to sell only to verified customers. A significant part of the Company's receivables is insured or secured by bank guarantees as part of the central payment processing system. Owing to that, as the Management Board believes, there is no additional credit risk that would not be covered by the allowance for doubtful debts related to trade receivables of the Company.

As at 31 December 2017, the Company's trade receivables totalling PLN 1 544 thousand (as at 31 December 2016: PLN 1 704 thousand) were considered to be difficult to recover and hence written off.

Allowance for receivables was recognised in the profit and loss account under other operating costs.

Changes in allowance for receivables were as follows:

	Change 2017	2016
Allowance as at 1 January	1 704	2 459
Creation	679	613
Use	(227)	(1 332)
Release	(612)	(36)
Allowance as at 31 December	**1 544**	**1 704**

An analysis of trade receivables, which as at 31 December 2017 and 31 December 2016 were overdue but were not considered irrecoverable, is presented below:

			Overdue but recoverable				
	Total	**Not overdue**	< 30 days	30 – 90 days	90 – 180 days	180 – 365 days	>365 days
31 Dec 2017	126 103	97 487	22 812	5 804	-	-	-
31 Dec 2016	156 634	131 085	20 983	3 069	1 303	194	-

23. Prepayments

Prepayments	As at 31.12.2017	31.12.2016
Property and motor insurance	1 042	949
Fairs	185	108
Settlement of project costs	1 229	910
Business trips	24	222
Licences	109	68
Other	439	240
	3 028	**2 497**

24. Derivative financial instruments

Fair value of derivatives (zero cost option strategies)	As at 31.12.2017	31.12.2016 (adjusted)
Long-term receivables from derivative financial instruments	33 433	-
Short-term receivables from derivative financial instruments	18 210	-
Long-term liabilities under derivative financial instruments	-	13 916
Short-term liabilities under derivative financial instruments	-	4 744

For details of derivatives, refer to note 36.2 of explanatory notes.

25. Loans granted

Non-current assets	As at 31.12.2017	31.12.2016
Loans granted to related entities	71 588	60 946
Loans granted to other entities	3 400	-
	74 988	**60 946**
Current assets		
Loans granted to related entities	12 102	1 704
Interest on loans granted to related entities	228	248
Loans granted to other entities	-	1 000

Interest on loans granted to other entities	21	8
	12 351	**2 960**
Total	**87 339**	**63 906**

For details of loans granted to related entities, refer to note 33.3 of explanatory notes.

On 23 June 2016, the Company granted a loan of PLN 1 000 thousand PLN to Furnirex Sp. z o.o. The loan repayment date has been set to 31 December 2017. On 6 March 2017, an annex was signed, increasing the loan amount to PLN 3 400 thousand with maturity date of 31 January 2020.

26. Cash and cash equivalents

	As at	
	31.12.2017	**31.12.2016**
Cash at bank and in hand	32 684	17 369
Other cash (overnight deposits and deposits under three months, bonds with maturity under 3 months)	-	35 223
	32 684	**52 592**

Cash at bank earns interest at variable interest rates. Short-term deposits are made for varying periods of between one day and three months, depending on immediate cash requirements of the Company, and earn interest at negotiated interest rates.

The fair value of cash and cash equivalents as at 31 December 2017 is PLN 32 684 thousand (as at 31 December 2016: PLN 52 592 thousand).

As at 31 December 2017, the Company did not have restricted cash (as at 31 December 2016: did not occur).

27. Share capital and supplementary/ reserve capital

27.1. Share capital

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

On 8 September 2017, the Company's share capital was increased from PLN 23 901 084 to PLN 23 930 769 as a result of Member of the Management Board, Mr Gert Coopmann, taking up 29 685 series H shares with a nominal value of PLN 1 each, issued under a conditional share capital increase based on Resolution No. 19/2014 of the Annual General Meeting of the Company of 10 June 2014 in connection with the implementation of the incentive scheme.

By virtue of Resolution No. 1019/2017 of the Management Board of the Warsaw Stock Exchange of 6 September 2017, series H shares were introduced as of 8 September 2017 by way of an ordinary procedure to exchange trading in the main market.

Nominal value of shares

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

Shareholder rights

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

Major shareholders

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

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

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

27.2. Share premium

During the 12 months ended 31 December 2017, there were changes in equity from the sale of shares above their nominal value. The equity increased in the reporting period by PLN 1 342 as a result of the implementation of the incentive scheme and the issue of series H shares (2016: no changes occurred). Currently, the share premium amounts to PLN 114 556 thousand.

27.3. Other capital

Financial instruments revaluation reserve

	As at	
	31.12.2017	**31.12.2016 (adjusted)**
Opening balance of accumulated result on financial instruments hedging cash flows	(9 291)	4 596
Amount recognised in equity in the reporting period due to hedging transactions	73 490	(17 013)
Amount transferred to profit and loss account due to:		
- ineffectiveness of concluded transactions	-	-
- conclusion of transactions subject to hedging	(2 725)	(131)
- discontinuance of hedge accounting	-	-
Deferred income tax	(13 445)	3 257
Closing balance of accumulated result on financial instruments hedging cash flows	**48 029**	**(9 291)**

Other reserve and supplementary capital

	Statutory supplementary capital	Other reserve capital	Total
As at 1 January 2017	1 250	247 609	**248 859**
Deduction from profit for investments and financing the Company's current operations	-	92 415	92 415
As at 31 December 2017	**1 250**	**340 024**	**341 274**

	Statutory supplementary capital	Other reserve capital	Total
As at 1 January 2016	1 250	193 574	**194 824**

Deduction from profit for investments and financing the Company's current operations	-	54 035	54 035
As at 31 December 2016	**1 250**	**247 609**	**248 859**

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

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

In accordance with the Company's Articles of Association, by virtue of resolutions adopted by the General Meeting, reserve capital may be used, in particular, to increase the share capital or to pay dividends to shareholders.

27.4. Undistributed profit/loss and dividend payment restrictions

Retained earnings	**31.12.2017**	**31.12.2016 (adjusted)**
Net profit	54 405	91 372
Undistributed profit/loss	17 841	23 569
	72 246	**114 941**

Undistributed profit/loss comes from the valuation of non-current assets to fair values as defined at the moment of transition of the Company to IFRS, the valuation of retirement benefits and from the fundamental error correction referred to in note 4, less any deferred tax.

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

27.5. Financial reporting in hyperinflationary economies

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

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

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

28. Interest-bearing bank loans and borrowings

Short-term	**Nominal interest rate %**	**Repayment date**	**31.12.2017**	**31.12.2016**
PKO BP S.A. – investment loan of EUR 3 500 thousand – short-term part	1M EURIBOR	to 22.12.2018	3 744	4 075
mBank S.A. – investment loan of EUR 2 400 thousand – short-term part	1M EURIBOR	to 31.12.2018	2 307	2 654
Total short-term			**6 051**	**6 729**

Long-term	**Nominal interest rate %**	**Repayment date**	**31.12.2017**	**31.12.2016**
PKO BP S.A.– revolving loan of PLN 100 000 thousand – long-term part	depending on the currency used 1M WIBOR /1M EURIBOR	to 09.06.2019	44 764	61 936
ING Bank Śląski S.A. – revolving loan of PLN 100 000 thousand – long-term part	depending on the currency used 1M WIBOR /1M EURIBOR /1M LIBOR	to 30.06.2019	54 717	79 736
mBank S.A. – revolving loan of EUR 5 000 thousand – long-term part	depending on the currency used O/N WIBOR or O/N EURIBOR or O/N LIBOR	to 12.12.2019	15 834	5 533
PKO BP S.A. – investment loan of EUR 3 500 thousand – long-term part	1M EURIBOR	to 22.12.2018	-	2 447
mBank S.A. – investment loan of EUR 2 400 thousand – long-term part	1M EURIBOR	to 31.12.2018	-	3 156
Total long-term			**115 315**	**152 808**

Collaterals for bank loans	**31 December 2017**
PKO BP S.A. – investment loan of EUR 3 500 thousand	1. Registered pledge on purchased movable property of not less than EUR 5 130 thousand 2. Assignment of rights from insurance policy 3. Blank promissory note issued by the Borrower, with a promissory note declaration
mBank S.A. – investment loan of EUR 2 400 thousand	1. Registered pledge on purchased machinery and equipment up to the maximum collateral amount of EUR 3 600 thousand 2. Assignment of rights from insurance policy
PKO BP S.A. – revolving loan of PLN 100 000 thousand	1. Joint contractual capped mortgage up to PLN 120 000 thousand established on the perpetual usufruct right to the Issuer's developed properties and buildings located thereon that constitute objects of property separated from land, located in Hajnówka and Ostrów Mazowiecka 2. Blanc promissory note with a promissory note declaration, transfer of rights from insurance contracts for properties on which mortgage was established 3. Registered pledge on inventories of items specified as to their kind, located in the Branch in Hajnówka
ING Bank Śląski S.A. – revolving loan of PLN 100 000 thousand	1. Registered pledge on movable property of the factory in Suwałki and Ostrów Mazowiecka up to the maximum collateral amount of PLN 120 000 thousand 2. Joint capped mortgage up to PLN 54 000 thousand established on the perpetual usufruct of land and the ownership right to buildings of the factory in Suwałki, along with the assignment of rights from insurance policy 3. Registered pledge on inventories with a minimum value of PLN 65 000 in the factory in Suwałki and Ostrów Mazowiecka up to the maximum collateral amount of PLN 120 000 4. Assignment of rights from insurance policy
mBank S.A. – revolving loan of EUR 5 000 thousand	1. Blank promissory note issued by the Borrower, with a promissory note declaration 2. Registered pledge on fixed assets up the maximum collateral amount of EUR 6 000 thousand

Breakdown of loans by currency (translated into PLN)

Currency	**As at**	
	31.12.2017	**31.12.2016**
PLN	115 315	-
EUR	6 051	136 204
USD	-	23 333
	121 366	**159 537**

With the nominal interest rate, negotiated bank margins, which reflect the risk related to financing the Company, should be additionally taken into account.

29. Provisions

	As at	
	31.12.2017	**31.12.2016**
Long-term accrued/ deferred income due to:		
Subsidy for fixed assets purchased	-	13

Short-term provisions:		
Short-term provision for post-employment benefits	426	422
Provision for warranty repairs	2 283	2 133
Accrued/ deferred income due to:		
Subsidy for fixed assets purchased	13	24
	2 772	**2 592**

The Company creates a provision for the costs of expected warranty repairs and returns of products sold during the last year based on the level of warranty repairs and returns recorded in previous years. It is expected that the vast majority of these costs will be incurred in the next financial year. 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.

Changes in provisions were as follows:

Provision	Opening balance	Use	Reversal	Increase	Closing balance
Warranty repairs	2 133	-	-	150	2 283

For details concerning changes in the provision for post-employment benefits, refer to note 16.1 of explanatory notes.

30. Trade and other liabilities (short-term)

	As at 31.12.2017	31.12.2016
Trade liabilities	**89 978**	**78 383**
To related entities	28 205	10 745
To other entities	60 648	67 051
Advances received for deliveries	1 125	587
Tax, customs, social security liabilities	**5 657**	**5 347**
Personal income tax	1 296	1 167
Social insurance	4 204	4 037
Other	157	143
Other liabilities	**64 510**	**69 696**
Payroll liabilities to employees	12 632	12 373
Investment commitments	3 210	771
Other liabilities	1 387	1 088
Accruals due to:	*47 281*	*55 464*
Commissions on sales	2 446	3 331
Bonuses for customers	27 652	30 041
Holiday benefits	4 266	2 577
Annual bonus for the Management Board	5 330	7 670
Costs of auditing financial statements	37	35
Third-party services	5 800	11 310
Conventional penalties	1 750	500
	160 145	**153 426**
Corporate income tax liabilities	-	10 176
Total liabilites	**160 145**	**163 602**

Terms and conditions of the above financial liabilities:

For terms and conditions of related party transactions, refer to point 36.1 of explanatory notes. Trade liabilities do not bear interest and they are usually payable within 7 to 60 days. Other liabilities do not bear interest and are payable within 1 month.

The amount resulting from the difference between liabilities and receivables from goods and services tax is returned to the Company by competent tax authorities in 60-day periods.

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

31. Contingent liabilities

- On 28.06.2016, the Company provided a guarantee and committed to pay all cash liabilities of its subsidiary DYSTRI-FORTE Sp. z o.o. with its registered office in Warsaw, ul. Nowogrodzka 50 lok. 515, arising from the loan agreement of 14 December 2015 concluded between DYSTRI-FORTE Sp. z o.o. and ING Bank Śląski SA. The Company agreed to satisfy any and all liabilities of the Borrower, covering, in particular, full repayment of the principal amount of the loan, interest, commissions, fees and other costs, up to the amount of EUR 8 700 000, until 29 October 2024. As at 31.12.2017, the loan balance amounts to PLN 22 842 thousand (as at 31 December 2016: PLN 21 951 thousand).
- The Company provided the following collateral securities on investment liabilities of its subsidiary TANNE Sp. z o.o.:
  - to SIEMPELKAMP Maschinen- und Anlagenbau GmbH arising from the agreement for design, delivery, installation and launching part of the production line to manufacture chipboard. The total net value of the agreement amounts to EUR 23 650 thousand. Investment project completion is planned for July 2018. The balance of outstanding liabilities for the end of the reporting period is EUR 4 363 thousand.
  - to Büttner Energie- und Trocknungstechnik GmbH arising from the agreement for design, delivery, installation and launching part of the production line to manufacture chipboard. The total net value of the agreement amounts to EUR 15 000 thousand. Investment project completion is planned for March 2018. The balance of outstanding liabilities for the end of the reporting period is EUR 2 767 thousand.
  - to PAL SRL arising from the agreement for design, delivery, installation and launching part of the production line to manufacture chipboard. The total net value of the investment amounts to EUR 22 947 thousand. Investment project completion is planned for May 2018. The balance of outstanding liabilities for the end of the reporting period is EUR 8 031 thousand.
  - to EWK Umwelttechnik GmbH arising from the agreement for comprehensive implementation of an investment task in the form of designing and installing the air cleaning system. The total net value of the agreement amounts to EUR 4 700 thousand. The liability expires at 31.12.2019. The balance of outstanding liabilities for the end of the reporting period is EUR 2 350 thousand.
  - to H.K. POM arising from the agreement for comprehensive implementation of an investment task in the form of developing supports on the wood storage yard. The total net value of the agreement amounts to PLN 298 thousand. The liability expires at 31.03.2018. The balance of outstanding liabilities for the end of the reporting period is PLN 146 thousand.

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

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

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

32. Legal proceedings

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

33. Information on related entities

33.1. Transactions with entities related by capital links

Total amounts of transactions concluded with subsidiaries are presented in the table below. Transactions relate to the sale of products, goods and services and to the purchase of services.

Related entity		Sale to related entities	Purchase from related entities	Receivables from related entities	Liabilities towards related entities
MV Forte GmbH	31.12.2017	1 453	19 108	1 311	1 440
	31.12.2016	1 432	19 225	1 358	1 865
FORTE MOEBEL AG	31.12.2017	36 198	3 424	5 743	223
	31.12.2016	35 725	2 945	6 956	635
DYSTRI-FORTE Sp. z o.o.	31.12.2017	1 745	23 525	528	4 346
	31.12.2016	2 029	12 612	568	2 761
TERCEIRA Sp. z o.o.	31.12.2017	2 269	22 537	623	2 120
	31.12.2016	396	21 661	215	5 067
TANNE Sp. z o.o.*	31.12.2017	63 584	73 017	2 017	19 721
	31.12.2016	15 066	12	337	7
ANTWERP Sp. z o.o. w likwidacji	31.12.2017	-	-	-	-
	31.12.2016	-	-	-	-
FORTE MOBILIER S.a.r.l.	31.12.2017	-	-	-	-
	31.12.2016	-	-	-	-
TM HANDEL Sp. z o.o.	31.12.2017	11	359	98	37
	31.12.2016	4 145	438	267	187
TM HANDEL Sp. z o.o. S.K.A	31.12.2017	1	-	-	-
	31.12.2016	1	-	-	-
FORT INVESTMENT Sp. z o.o.	31.12.2017	1	-	-	-
	31.12.2016	1	-	-	-
FORTE BALDAI UAB	31.12.2017	-	178	-	15
	31.12.2016	-	184	-	15
FORTE SK S.r.o	31.12.2017	-	1 121	-	92
	31.12.2016	9	1 154	-	97
FORTE FURNITURE Ltd	31.12.2017	-	757	-	61
	31.12.2016	-	731	-	-
FORTE IBARIA S.l.u.	31.12.2017	-	1 581	-	129
	31.12.2016	9	1 314	-	111

FORTE FURNITURE PRODUCTS INDIA PVT	31.12.2017	1 194	-	1 176	-
	31.12.2016	-	-	-	-
ANTWERP FP Sp. z o.o.	31.12.2017	1 141	17	1 382	21
	31.12.2016	-	-	-	-
Total	**31.12.2017**	**107 597**	**145 624**	**12 878**	**28 205**
	31.12.2016	**58 813**	**60 276**	**9 701**	**10 745**

* A significant increase in turnover among companies results from the launch of operating activities by TANNE in 2017.

33.2. Information on entities bound by personal links

MaForm SARL Luxemburg holds a 32.44% stake in the share capital of Fabryki Mebli „FORTE" S.A.

MaForm Holding Luxemburg SARL holds a 100% stake in the share capital of MaForm SARL Luxemburg.

MaForm Holding AG holds a 90.34% stake in the share capital of MaForm Holding Luxemburg SARL. The remaining 9.66% stake in the share capital of MaForm Holding Luxemburg SARL is held by Ms Maria Florczuk – Member of the Management Board of Fabryki Mebli „FORTE" S.A.

Mr Maciej Formanowicz – President of the Management Board of Fabryki Mebli „FORTE" S.A. together with his wife have a 100% stake in MaForm Holding AG.

33.3. Other transactions

Joint venture in which the Company is a venturer

In the reporting period ended 31 December 2017, the Company did not carry out joint ventures.

Terms and conditions of transactions with related entities

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

Loans and borrowings granted to related entities

In the reporting period ended 31 December 2017, the Company entered into the following agreements and annexes to loan agreements made with related entities:
- on 30 March 2017, an annex to the loan agreement made with a subsidiary FORT INVESTMENT Sp. z o.o., under which the loan will be repaid in 8 equal instalments from 31 March 2018,
- on 30 May 2017, an annex to the loan agreement made with a subsidiary MV FORTE GmbH, under which the loan was extended until 30.06.2017 and its repayment term was set at 12 instalments by 31 December 2020,
- on 29 June 2017, an annex to the loan agreement made with a subsidiary DYSTRI-FORTE Sp. z o.o., under which the loan amount was increased to EUR 700 thousand. The loan may be used by 31 March 2018. A detailed repayment schedule will be agreed between the Companies after the loan is used and its repayment will start from 30.09.2018,
- on 30 June 2017, an annex to the loan agreement made with a subsidiary TM- HANDEL Sp. z o.o. SKA, under which the loan amount was increased to PLN 20 thousand and the repayment date was set at 30 June 2018,
- on 7 September 2017, a loan agreement with a subsidiary Terceira Sp. z o.o. in the amount of PLN 500 thousand in connection with modernisation of the facility at ul. Robotnicza in Wrocław, with repayment date by December 2020,
- on 18 September 2017, a loan agreement with a subsidiary Terceira Sp. z o.o. in the amount of PLN 3 000 thousand. The final drawdown may take place by 31 December 2018, after that date, the amounts and dates of instalments to be repaid will be determined,
- on 12 October 2017, a loan agreement with a subsidiary Forte Furniture Products India Ltd in the equivalent of USD 2 000 thousand with a repayment date of at least 5 years, not later than by March 2025, interest payable quarterly starting from December 2017.

The balance of loans granted to related entities as at 31 December 2017 are presented in the table below:

Related entity	Loan amount in	Loan currency	Repayment date	Loan balance as at 31.12.2017	Interest amount as at 31.12.2017

	currency in '000			in PLN '000	
KWADRAT Sp. z o. o.	439	EUR	July 2021	1 358	4
GALERIA KWADRAT Sp. z o.o.	1 254	PLN	June 2023	1 020	6
FORT INVESTMENT Sp. z o.o.	5 000	PLN	December 2019	660	4
DYSTRI-FORTE Sp. z o.o.	700	EUR	-	2 920	8
FORTE MOBILIER S.a.r.l.	40	EUR	December 2019	125	-
TANNE Sp. z o.o.		PLN	June 2023	-	9
TANNE Sp. z o.o.	20 000	EUR	June 2023	55 056	145
TM- HANDEL Sp. z o.. SKA	20	PLN	June 2018	20	-
MV FORTE GmbH	3 400	EUR	March 2020	14 181	36
TERCEIRA Sp. z o.o.	3 000	PLN	-	1 000	7
TERCEIRA Sp. z o.o.	500	PLN	December 2020	500	2
FORTE FURNITURE PRODUCTS INDIA Ltd	1 642	EUR	March 2025	6 850	7
Total:				**83 690**	**228**
Including:					
Short-term part:					
KWADRAT Sp. z o. o.				340	4
GALERIA KWADRAT Sp. z o.o.				170	6
FORT INVESTMENT Sp. z o.o.				330	4
DYSTRI-FORTE Sp. z o.o.				947	8
FORTE MOBILIER S.a.r.l.				62	-
TANNE Sp. z o.o.				-	9
TANNE Sp. z o.o.				5 506	145
TM- HANDEL Sp. z o. SKA				20	-
MV FORTE GmbH				4 727	36
TERCEIRA Sp. z o.o.				-	7
TERCEIRA Sp. z o.o.				-	2
FORTE FURNITURE PRODUCTS INDIA Ltd				-	7
Total:				**12 102**	**228**
Long-term part:					
KWADRAT Sp. z o. o.				1 018	
GALERIA KWADRAT Sp. z o.o.				850	
FORT INVESTMENT Sp. z o.o.				330	
DYSTRI-FORTE Sp. z o.o.				1 973	
FORTE MOBILIER S.a.r.l.				63	
TANNE Sp. z o.o.				49 550	
TANNE Sp. z o.o.				-	
TM- HANDEL Sp. z o.. SKA				9 454	
MV FORTE GmbH				1 000	
TERCEIRA Sp. z o.o.				500	
FORTE FURNITURE PRODUCTS INDIA Ltd				6 850	
Total:				**71 588**	

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

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

Related entity	Loan amount in currency in '000	Loan currency	Repayment date	Loan balance as at 31.12.2017 in PLN '000	Interest amount as at 31.12.2016

KWADRAT Sp. z o. o.	439	EUR	July 2021	1 441	4
GALERIA KWADRAT Sp. z o.o.	1 254	PLN	June 2023	1 020	7
FORT INVESTMENT Sp. z o.o.	5 000	PLN	December 2017	660	4
DYSTRI-FORTE Sp. z o.o.	227	EUR	June 2017	1 004	3
FORTE MOBILIER S.a.r.l.	30	EUR	December 2019	88	-
TANNE Sp. z o.o.	20 000	EUR	June 2023	58 397	230
ANTWERP Sp. z o.o.	30	PLN	June 2017	30	-
TM- HANDEL Sp. z o.. SKA	10	PLN	June 2017	10	-
MV FORTE GmbH	3 400	EUR	March 2020	-	-
Total:				**62 650**	**248**
Including:					
Short-term part:					
KWADRAT Sp. z o. o.				-	4
GALERIA KWADRAT Sp. o.o.				-	7
DYSTRI-FORTE Sp. z o.o.				1 004	4
FORTE INVESTMENT Sp. z o.o				660	3
ANTWERP Sp. z o.o.				30	-
TM-HANDEL Sp. z o.. SKA				10	-
TANNE Sp. z o.o.				-	230
Total:				**1 704**	**248**
Long-term part:					
KWADRAT Sp. z o. o.				1 441	-
GALERIA KWADRAT Sp. o.o.				1 020	-
FORTE MOBILIER S.a.r.l.				88	-
TANNE Sp. z o.o.				58 397	-
Total:				**60 946**	**-**

34. Financial instruments

34.1. Carrying value

Classification of financial instruments according to IAS MSR 39 as at 31 December 2017	Financial assets available for sale	Loans and receivables	Financial liabilities at fair value through profit and loss	Financial liabilities at amortised cost	Hedging instruments	Financial assets excluded from the scope of IAS 39	**Total**
Non-current financial assets:	**3**	**74 988**	**-**	**-**	**33 433**	**-**	**108 424**
Financial assets	3	74 988	-	-	-	-	74 991
Receivables from derivatives	**-**	**-**	**-**	**-**	33 433	**-**	**33 433**
Current financial assets:	**-**	**171 632**	**-**	**-**	**18 210**	**-**	**189 842**
Trade and other receivables	-	126 597	-	-	-	-	126 597
Receivables from derivatives	-	-	-	-	18 210	-	18 210
Cash and cash equivalents	-	32 684	-	-	-	-	32 684
Other financial assets	-	12 351	-	-	-	-	12 351
Long-term financial liabilities:	**-**	**-**	**-**	**(115 315)**	**-**	**(301)**	**(115 616)**
Interest-bearing loans and borrowings	-	-	-	(115 315)	-	-	(115 315)
Financial liabilities under lease	-	-	-	-	-	(301)	(301)
Short-term financial liabilities:	**-**	-	-	**(147 907)**	**-**	**(675)**	**(148 582)**
Trade and other liabilities	-	-	-	(141 856)	-	-	(141 856)
Current part of bank loans and borrowings	-	-	-	(6 051)	-	-	(6 051)
Financial liabilities under lease	-	-	-	-	-	(675)	(675)
	3	**246 620**	**-**	**(263 222)**	**51 643**	**(976)**	**34 068**

Classification of financial instruments according to IAS MSR 39 as at 31 December 2016 (adjusted)							
	Financial assets available for sale	Loans and receivables	Financial liabilities at fair value through profit and loss	Financial liabilities at amortised cost	Hedging instruments	Financial assets excluded from the scope of IAS 39	**Total**
Non-current financial assets:	**3**	**60 946**	**-**	**-**	**-**	**-**	**60 949**
Financial assets	3	60 946	-	-	-	-	60 949
Current financial assets:	**-**	**213 528**	**-**	**-**	**-**	**-**	**213 528**
Trade and other receivables	-	157 976	-	-	-	-	157 976
Cash and cash equivalents	-	52 592	-	-	-	-	52 592
Other financial assets	-	2 960	-	-	-	-	2 960
Long-term financial liabilities:	**-**	**-**	**-**	**(152 808)**	**(13 916)**	**(842)**	**(167 566)**
Interest-bearing loans and borrowings	-	-	-	(152 808)	-	-	(152 808)
Liabilities under derivatives	-	-	-	-	(13 916)	-	(13 916)
Financial liabilities under lease	-	-	-	-	-	(842)	(842)
Short-term financial liabilities:	**-**	-	-	**(142 435)**	**(4 744)**	**(1 076)**	**(155 028)**
Trade and other liabilities	-	-	-	(135 706)	-	-	(135 706)
Liabilities under derivatives	-	-	-	-	(4 744)	-	(4 744)
Current part of bank loans and borrowings	-	-	-	(6 729)	-	-	(6 729)
Financial liabilities under lease	-	-	-	-	-	(1 076)	(1 076)
	3	**274 474**	**-**	**(295 243)**	**(18 660)**	**(1 918)**	**(41 344)**

The Company does not have any financial assets provided as collateral.

34.2. Fair value

	As at 31.12.2017		As at 31.12.2016	
	Carrying value	Fair value	Carrying value	Fair value
	108 424	108 424	60 949	60 949
Non-current financial assets				
Long-term receivables from derivatives	33 433	33 433	-	-
Cash and cash equivalents	32 684	32 684	52 952	52 952
Other current financial assets	12 351	12 351	2 960	2 960
Short-term receivables from derivatives	18 210	18 210	-	-
Interest-bearing bank loans and borrowings	(115 315)	(115 315)	(152 808)	(152 808)
Long-term financial liabilities under lease	(301)	(301)	(842)	(842)
Long-term liabilities under derivatives	-	-	(13 916)	(13 916)
Current part of bank loans and borrowings	(6 051)	(6 051)	(6 729)	(6 729)
Short-term financial liabilities under lease	(675)	(675)	(1 076)	(1 076)
Short-term liabilities under derivatives	-	-	(4 744)	(4 744)

The Company does not compare the carrying values and fair values of these classes of financial instruments that are classified as receivables or short-term liabilities.

Stocks and shares included in the category of financial assets available for sale refer to non-listed entities, for which it is impossible to reliably determine their fair value by alternative methods and are valued at purchase price less any impairment losses.

34.3. Fair value hierarchy

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

	As at 31.12.2017		As at 31.12.2016	
	Level 2	Level 3	Level 2	Level 3
Non-current financial assets	-	3	-	3
Receivables from derivatives	51 643	-	-	-
Liabilities under derivatives	-	-	(18 660)	-
	51 643	**3**	**(18 660)**	**3**

Methods of determining the fair value of financial instruments

Level I

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

Level II

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

The fair value of derivatives is determined based on models for the valuation of financial instruments using generally available exchange rates (EUR - 4.1709) and interest rates (1M -12 M WIBID, 1M-12M EURIBOR). Exchange rate volatility indices are obtained from Reuters or Bloomberg websites.

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

Exchange rates at which currency options are concluded are presented in note 35.2 Hedge accounting.

Level III

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

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

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

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

Items of income, expense, profit and loss as at 31 December 2017						
	Financial assets available for sales	Loans and receivables	Financial liabilities at amortised cost	Hedging instruments	Financial assets excluded from the scope of IAS 39	**Total**
Interest income/(expense)	-	903	(2 330)	-	(60)	**(1 487)**
Foreign exchange profit/(loss)	-	(14 324)	9 763	-	23	**(4 538)**
Impairment allowances/(reversals)	-	(66)	-	-	-	**(66)**
Dividends	8	-	-	-	-	**8**
Adjustment of sales on hedging transactions	-	-	-	2 725	-	**2 725**
Profit/(loss) on the valuation of derivatives	-	-	-	(463)	-	**-**
Total net profit(loss)	**8**	**(13 487)**	**7 433**	**2 262**	**(37)**	**(3 821)**

Items of income, expense, profit and loss as at 31 December 2016 (adjusted)						
	Financial assets available for sales	Loans and receivables	Financial liabilities at amortised cost	Hedging instruments	Financial assets excluded from the scope of IAS 39	**Total**
Interest income/(expense)	-	1 013	(1 532)	-	(69)	**(588)**
Foreign exchange profit/(loss)	-	4 730	(6 864)	-	(32)	**(2 166)**
Impairment allowances/(reversals)	-	(577)	-	-	-	**(577)**
Dividends	11	-	-	-	-	**11**
Adjustment of sales on hedging transactions	-	-	-	131	-	**18**
Profit/(loss) on the valuation of derivatives	-	-	-	(7 189)	-	**113**
Total net profit(loss)	**11**	**5 166**	**(8 396)**	**(7 058)**	**(101)**	**(10 378)**

35. Financial risk management objectives and policies

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

The Company also concludes transactions involving derivatives, primarily currency futures contracts, such as *zero-cost option strategies*. The purpose of these transactions is to manage currency risk arising in the course of the Company's operations. The principle applied by the Company currently and throughout the period covered by the report is not to trade in financial instruments.

The main risks arising from the Company's financial instruments include interest rate risk, liquidity risk, currency risk and credit risk. The Management Board verifies and agrees policies for managing each of these risks - these policies are briefly discussed below. The Company also monitors the market price risk for all financial instruments it holds. The Company's accounting policies regarding derivatives are discussed in note 6.19.

35.1. Interest rate risk

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

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

Interest rate risk – sensitivity analysis

The sensitivity of gross financial result to reasonably possible changes in interest rates assuming that other factors remain unchanged in relation to liabilities with a variable interest rate is presented in the table below.

	Change in percentage points	Impact on gross financial result
Year ended 31.12.2017		
PLN	0.25 pp	288
EUR	0.03 pp	-
USD	0.60 pp	-
Year ended 31.12.2016		
PLN	(0.10 pp)	(13)
EUR	(0.01 pp)	(1)
USD	0.55 pp	128

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

31 December 2017 – variable interest rate

	<1 year	1–2 years	2-5 years	>5 years	Total
Bank loans	6 051	115 315	-	-	121 366
Finance lease	675	301	-	-	976

31 December 2016 – variable interest rate

	<1 year	1–2 years	2-5 years	>5 years	Total
Bank loans	6 729	5 603	147 205	-	159 537
Finance lease	1 076	610	232	-	1 918

As at 31 December 2017, the effective interest rate for loans contracted by the Company was 0.9020% (2016: 0.9717%).

The Company's financial instruments that are not included in the above tables are not interest-bearing and therefore they are not subject to interest rate risk.

35.2. Currency risk

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

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

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

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

	Percentage change in exchange rates	Impact on gross financial result	Impact on equity
31 December 2017			
Trade receivables	2%	2 446	-
Loans granted	2%	1 610	-
Cash	2%/7 %	634	-
Hedging instruments*	2%	-	(32 241)
Trade liabilities	2%/7 %	(971)	-
Bank loans	2%	(121)	-
Leases	2%	(3)	-
Total impact of increase in exchange rates		**3 595**	**(32 241)**
Trade receivables	(1%)	(1 223)	
Loans granted	(1%)	(805)	
Cash	(1%)	(248)	
Hedging instruments*	(1%)	-	16 121
Trade liabilities	(1%)	471	
Bank loans	(1%)	61	
Leases	(1%)	1	
Total impact of decrease in exchange rates		**(1 743)**	**16 121**
31 December 2016			
Trade receivables	1%/ 5%	1 535	-
Loans granted	1%	609	-
Cash	1%/ 5%	161	-
Hedging instruments*	1%	-	(8 482)
Trade liabilities	1%/ 5%	(376)	-
Bank loans	1%/ 5%	(2 529)	-
Leases	1%	(24)	-
Total impact of increase in exchange rates		**(624)**	**(8 482)**
Trade receivables	(5 %)	(7 648)	-
Loans granted	(5 %)	(3 046)	-
Cash	(5 %)	(802)	-
Hedging instruments*	(5 %)	-	43 710
Trade liabilities	(5 %)	1 880	-
Bank loans	(5 %)	6 810	-

Leases	(5 %)	120	-
Total impact of decrease in exchange rates		**(2 686)**	**43 710**

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

Currency risk hedging

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

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

Impact of derivatives on the financial statements

As at 31 December 2017, fair value of open positions in derivatives amounted to PLN 51 643 thousand. PLN 59 295 thousand PLN was recognised in the capital from the revaluation of derivative financial instruments as intrinsic value, while the amount PLN (7,652) thousand was recognised in the profit and loss account as time value.

In the reporting period ended 31 December 2017, the result on derivatives amounted to PLN 2,262 thousand and related to the implementation of expiring option strategies covered by hedge accounting in the amount of PLN 2,725 thousand and PLN (463) thousand recognised as loss on derivatives as per the balance of reversal of the valuation from the previous year in the amount of PLN 7 189 thousand and current valuation in the amount of PLN (7,652) thousand.

Impact of derivatives on the result of the period

	01.01-31.12.2017	01.01-31.12.2016
Impact on sales revenue	2 725	131
Impact on financial revenue/costs		
- due to the valuation of derivatives in the period	*(463)*	*(7 189)*
Total impact of derivatives on the result of the period:	**2 262**	**(7 058)**

Hedge accounting

A summary of more important hedge accounting policies is presented in note 6.20. According to them, changes in intrinsic value of hedging option contracts are recognised in the equity of the Company, while changes in their fair value are recognised in the profit and loss account. When the hedged sales revenue is realised, changes in fair value of hedging instruments are recognised in the current financial result.

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

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

Hedging instruments revaluation reserve

The hedging instruments revaluation reserve is presented in note 27.3. of the explanatory notes.

Fair value of foreign exchange contracts

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

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

Currency	Amount in currency	Type of transaction	Date of conclusion	Date of performance	Forward rate	Name of the Bank	Fair value
EUR	12 000	Put Option	08.2015	01-06.2018	4.2800	PKO BP S.A.	1 161
EUR	12 000	Call Option	08.2015	01-06.2018	4.6670	PKO BP S.A.	(18)
EUR	30 000	Put Option	10.2015	01-09.2018	4.3000	PKO BP S.A.	3 467
EUR	30 000	Call Option	10.2015	01-09.2018	4.6300	PKO BP S.A.	(254)
EUR	12 000	Put Option	11.2015	10.2018-11.2018	4.3000	PKO BP S.A.	1 427
EUR	12 000	Call Option	11.2015	10.2018-11.2018	4.7070	PKO BP S.A.	(211)
EUR	24 000	Put Option	04.2016	01-03.2019	4.3500-4.4000	PKO BP S.A.	3 946
EUR	24 000	Call Option	04.2016	01-03.2019	4.8500-4.9250	PKO BP S.A.	(482)
EUR	18 000	Put Option	08.2016	07-08.2019	4.4000	PKO BP S.A.	4 087
EUR	18 000	Call Option	08.2016	07-08.2019	4.8650	PKO BP S.A.	(875)
EUR	8 000	Put Option	10.2016	10.2019	4.4500	PKO BP S.A.	3 303
EUR	8 000	Call Option	10.2016	10.2019	4.8850	PKO BP S.A.	(720)
EUR	8 000	Put Option	11.2016	11.2019	4.5000	PKO BP S.A.	3 810
EUR	8 000	Call Option	11.2016	11.2019	5.1400	PKO BP S.A.	(505)
EUR	42 000	Put Option	07.2017	12.2019-05.2020	4.3500	PKO BP S.A.	5 914
EUR	42 000	Call Option	07.2017	12.2019-05.2020	4.7300	PKO BP S.A.	(3 368)
Total						**PKO BP S.A.**	**20 682**
EUR	12 000	Put Option	08.2015	01-06.2018	4.2800	mBank S.A.	1 152
EUR	12 000	Call Option	08.2015	01-06.2018	4.6400	mBank S.A.	(17)
EUR	25 500	Put Option	12.2015	08-11.2018	4.3500	mBank S.A.	3 998
EUR	25 500	Call Option	12.2015	08-11.2018	4.6700	mBank S.A.	(192)
EUR	5 000	Put Option	05.2016	01-04.2019	4.4500	mBank S.A.	1 123
EUR	5 000	Call Option	05.2016	01-04.2019	4.9250	mBank S.A.	(106)
EUR	7 000	Put Option	10.2016	09.2019	4.4000	mBank S.A.	2 469
EUR	7 000	Call Option	10.2016	09.2019	4.9075	mBank S.A.	(574)
EUR	37 000	Put Option	08.2017	01-06.2020	4.4000	mBank S.A.	6 034
EUR	37 000	Call Option	08.2017	01-06.2020	4.7110	mBank S.A.	(3 276)
EUR	32 000	Put Option	09.2017	06-09.2020	4.4500	mBank S.A.	7 112
EUR	32 000	Call Option	09.2017	06-09.2020	4.8165	mBank S.A.	(3 552)
Total						**mBank S.A.**	**14 171**
EUR	32 000	Put Option	01.2016	10.2017-12.2018	4.4500	ING Bank Śląski S.A.	7 979
EUR	32 000	Call Option	01.2016	10.2017-12.2018	4.7800	ING Bank Śląski S.A.	(282)

EUR	15 000	Put Option	04.2016	01-03.2019	4.4000	ING Bank Śląski S.A.	2 924
EUR	15 000	Call Option	04.2016	01-03.2019	4.8950	ING Bank Śląski S.A.	(269)
EUR	10 000	Put Option	05.2016	04.2019	4.4500	ING Bank Śląski S.A.	2 276
EUR	10 000	Call Option	05.2016	04.2019	4.9600	ING Bank Śląski S.A.	(200)
EUR	22 000	Put Option	06.2016	05-06.2019	4.4500	ING Bank Śląski S.A.	4 924
EUR	22 000	Call Option	06.2016	05-06.2019	4.9300	ING Bank Śląski S.A.	(562)
Total						**ING Bank Śląski S.A.**	**16 790**

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

35.3. Credit risk

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

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

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

The maximum credit risk exposure for trade receivables from other entities is limited to the amount of the deductible and own contribution specified in the terms of the trade receivables insurance policy. As at 31.12.2017, the estimated maximum credit exposure was PLN 3 064 thousand.

In the case of loans granted, the Company monitors the financial position of its debtors on an ongoing basis. The security for loans granted are blank promissory notes. The maximum credit risk exposure for loans granted is equal to the balance of loan receivables presented in note 25.

With respect to other financial assets of the Company, such as cash and cash equivalents, financial assets available for sale and derivatives with a positive fair value, the Company's credit risk arises as a result of the counterparty's failure to make the payment.

35.4. Liquidity risk

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

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

The Company's financial liabilities as at 31 December 2017 and as at 31 December 2016 by their maturity date based on contractual undiscounted payments are presented in the table below.

31 December 2017	<1 year	1–2 years	2-5 years	>5 years	Total
Bank loans	6 051	115 315	-	-	121 366
Finance lease	675	301	-	-	976
Trade and other liabilities	160 145	-	-	-	160 145
	166 871	**115 616**	**-**	**-**	**282 487**

31 December 2016	<1 year	1–2 years	2-5 years	>5 years	Total
Bank loans	6 729	5 603	147 205	-	159 537
Finance lease	1 076	610	232	-	1 918

Trade and other liabilities	153 426	-	-	-	153 426
	161 231	**6 445**	**147 205**	**-**	**314 881**

36. Capital management

The primary objective of the Company's capital management is to maintain a good credit rating and safe capital ratios that would support the operating activities of the Company and increase its value for the shareholders.

The Company manages its capital structure and makes adjustments to in light of changes in economic conditions. In order to maintain or adjust its capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. In the year ended 31 December 2017 and 31 December 2016, no changes were made in the objectives, policies and processes applicable in this area.

The Company monitors capital using the leverage ratio, which is calculated as the ratio of net debt to net debt plus total equity.

	31.12.2017	**31.12.2016**
Interest-bearing loans and borrowings	121 366	159 537
Finance lease	976	1 918
Trade and other liabilities, provisions, accruals	177 358	188 137
Cash and cash equivalents	(32 684)	(52 592)
Net debt	**267 016**	**297 000**
Share capital	23 931	23 901
Share premium	114 556	113 214
Other reserve capital	341 274	248 859
Revaluation reserve	48 029	(9 291)
Capital from merger	(1 073)	(1 073)
Incentive scheme	2 354	2 354
Retained earnings	72 246	114 941
Total equity	**601 317**	**492 905**
Equity and net debt	**868 333**	**789 905**
Leverage ration	**30.75%**	**37.60%**

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

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

On 10 June 2014, the Annual General Meeting of FABRYKI MEBLI "FORTE" SA approved the introduction of an incentive scheme for Members of the Management Board of the Company (the "Incentive Scheme").

The purpose of the Incentive Scheme is to strive to develop the Capital Group of the Company and its subsidiaries (the "Capital Group") by creating incentive mechanisms for persons responsible for management, which would refer to financial results of the Capital Group and an increase in the value of the Company's shares.

The issue price of the Company H series shares was determined by the resolution of the Supervisory Board of 27 October 2014 for the amount of 46.19. Each Warrant entitles to take up one series H share at an issue price.

The rights from Warrants may be exercised not earlier than one year after the formal decision to take them up and no later than on 30 November 2018.

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

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

36.2. Entity with significant influence over the Company

Information about entities holding more than 5% of the share capital of the entity is presented in note 27.1.

36.3. Terms and conditions of transactions with related entities

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

36.4. Remuneration of senior management of the Company

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

	Period of 12 months ended	
	31.12.2017	**31.12.2016**
Remuneration for Management Board, incl.:	**11 350**	**13 748**
in the Issuer's enterprise	**10 599**	**12 960**
Maciej Formanowicz	4 157	5 416
Gert Coopmann	2 620	2 956
Klaus Dieter Dahlem	1 642	2 008
Maria Florczuk	992	1 152
Mariusz Gazda	1 188	1 428
for performing functions in governing bodies of subsidiaries	**751**	**788**
Maciej Formanowicz	520	547
Gert Coopmann	231	241

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

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

	Year ended	
	31.12.2017	**31.12.2016**

Short-term employee benefits (salaries and overheads)	9 761	8 507
Jubilee awards	-	-
Post-employment benefits	37	79
Employment termination benefits	14	-
Share-based employee benefits	-	-
Total remuneration paid to key management personnel (except for members of the Management Board and the Supervisory Board)	**9 812**	**8 586**

36.5. Participation of senior management in employee shares schemes

No employee shares schemes were in operation in the reporting period

37. Employment structure

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

	2017	2016
Management Board of the Company	5	5
Administration	196	206
Sales Department	390	480
Production Division	2 403	2 251
Other	160	147
Total	**3 154**	**3 089**

38. Post balance sheet events

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

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

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

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

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

On 28 February 2018, the Company agreed to establish a joint contractual mortgage up to PLN 174,600 thousand in favour of ING Bank Śląski SA to secure the bank's claims against FORTE BRAND Sp. z o.o. under a loan agreement of 16 December 2016.

On 15 March 2018, the Company made an annex with PKO Bank Polski S.A. to the loan agreement of 14 February 2000, as amended, under which the maximum acceptable debt ratios were increased.

Signature of the person in charge of bookkeeping

Anna Wilczyńska

....

Signatures of all Members of the Management Board:

President of the Management Board	**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, 5 April 2018

FABRYKI MEBLI „FORTE" S.A.

Report of the Management Board on the operations of Fabryki Mebli „FORTE" S.A. for the period ended on 31th December 2017

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

Ostrów Mazowiecka, 5th April 2018

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I CURRENT FINANCIAL AND OPERATIONAL POSITION

I. CURRENT FINANCIAL AND OPERATIONAL POSITION

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

1. Basic information on the Company

1.1. Information on the 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. Initially, i.e. from 17 June 1992, the Company conducted activities under the name "FORTE" Sp. z o.o. On 25 November 1993, pursuant to a notarial deed, "FORTE" Sp. z o.o. was merged with FABRYKI MEBLI "FORTE" Sp. z o.o. Prior to its transformation into a joint stock company, the Company conducted activities under the name FABRYKI MEBLI "FORTE" Sp. z o. o.

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

The Company was assigned REGON statistical number: 550398784.

The duration of the Company is indefinite.

Main activities of the Company include:

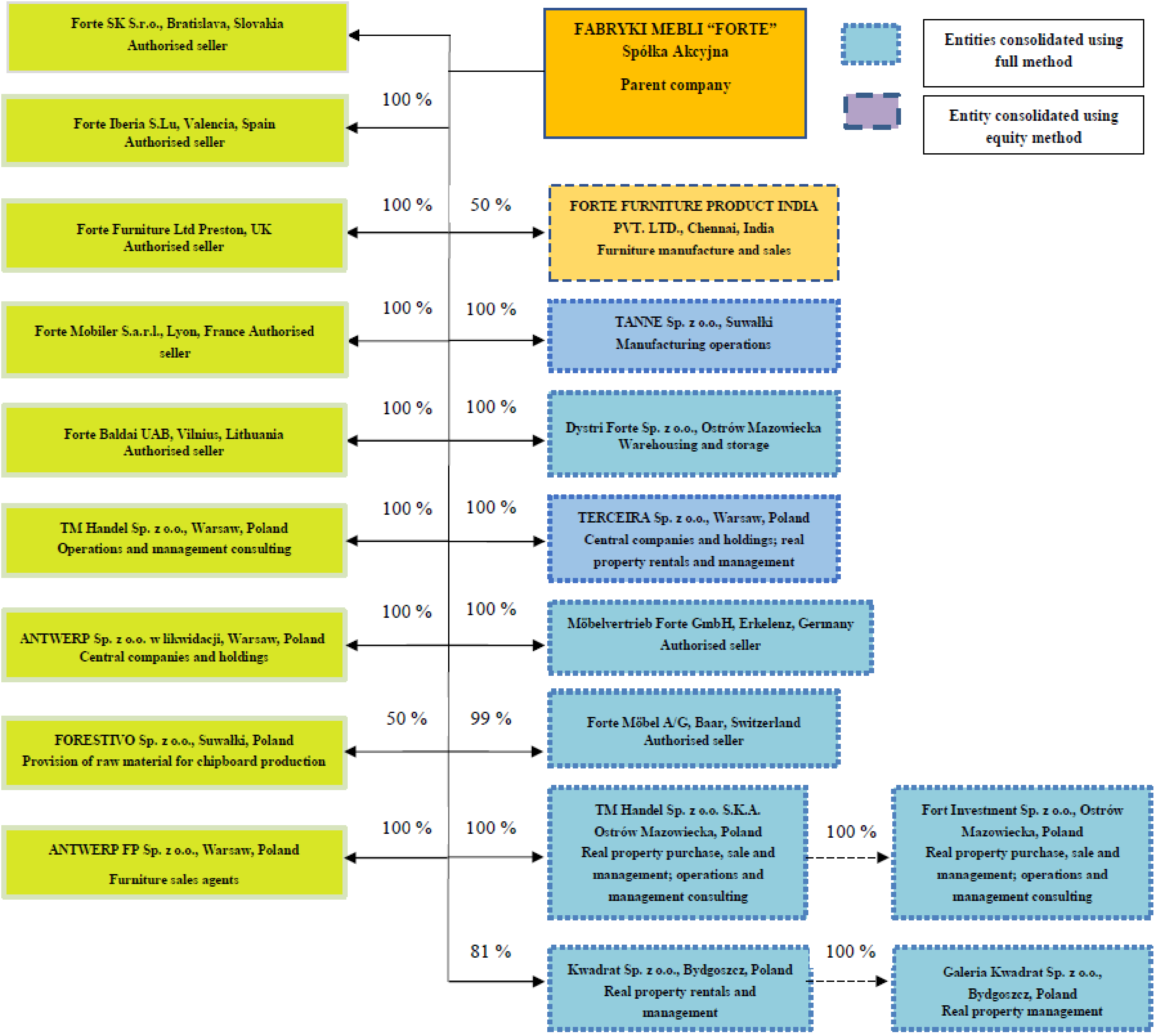
- production of furniture,
- provision of services in the scope of marketing, promotion, organisation of exhibitions or conferences,
- conducting trading activities domestically and abroad.

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

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

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

The Company is a Parent Company and forms the Capital Group together with other entities. As at 31 December 2017, the Capital Group comprised the following entities:



1.2. Management Board

Composition of the Management Board as at 31 December 2017

- Maciej Formanowicz – President of the Management Board
- Mariusz Gazda – 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

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

1.3. Supervisory Board

Composition of the Supervisory Board as at 31 December 2017

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

Changes in the composition of the Supervisory Board

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

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

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

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

FORTE received as many as three Gold Medals of the Fair - prizes awarded for outstanding and above-average products. In the "Premieres" category, comprising novelties, prototypes developed especially for the fair, two FORTE collections: Bianko and Farra received medals, while in the "Confirmed quality" category comprising furniture which is already available in retail chains, the Canne collection was awarded a medal. In addition, the FORTE stand ranked first in the 42nd edition of the StandOUT competition awarding best trade fair stands.

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

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

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

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

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

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

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

- **11 - 12 November 2017 –** The ALLIANCE group fair in Rheinbach, Germany
  The ALLIANCE fair is a closed trade fair and only selected and invited suppliers exhibit on them.

FORTE as one of the leading suppliers presented at its stand a furniture collection of nearly 200 m2, which was previously carefully developed and discussed with customers. This fair is the final stage of product development for ALLIANCE, where final purchase decisions are made. The fair was very successful, which translated into production implementations.

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

2. Information on basic products, goods and services

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

Assortment	2017		2016 adjusted		Change during the period	
	Value	Share	Value	Share	2017/2016	%
Furniture	1 072 816	92.5%	1 061 869	96,1%	10 947	1.0%
Goods	7 878	0.7%	8 945	0.8%	-1 067	-11.9%
Materials	70 739	6.1%	12 095	1.1%	58 644	484.9%
Services	8 692	0.7%	21 760	2.0%	-13 068	-60.1%
Total	**1 160 125**	**100%**	**1 104 669**	**100.0%**	**55 456**	**5.0%**

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

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

A significant increase in the share of revenue from sales of materials in 2017 results from the sale of raw materials to the subsidiary TANNE Sp. z o.o. in connection with the launch of the board laminating by the subsidiary at the end of Q2 2017.

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

In 2017, FORTE export sales totalled PLN 935 261 thousand and accounted for 80.6 % of total sales (in 2016 – PLN 923 261 thousand – 83.6%). The main export markets include: Germany, France and Spain, whose total turnover accounts for 60% of total sales. Sales in the Polish market, amounting to PLN 224 864 thousand, increased from 16.4% to 19.4%, mainly due to the sale of raw materials within the FORTE Group companies. Sales to the remaining more than 40 countries, accounting for 20.6% of total sales, reflect the implemented strategy of increasing the share in the global market and diversifying the commercial risk.

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

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

In 2017, purchases of materials, goods and services from domestic suppliers accounted for 86.4% of the Company's total purchases.

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

Import purchases in 2017 amounted to 13.6% of total purchases. The main direction of the Company's imports was Germany – 45.3%, Austria - 12.3% Lithuania – 11.8% of total import purchases.

5. Information on contracts relevant for the Issuer's activity

Insurance contracts entered into by the Company in 2017:

- in co-insurance with Genarali T.U. S.A, TUiR "WARTA" S.A., Gothaer Towarzystwo Ubezpieczeń S.A., and InterRisk Towarzystwo Ubezpieczeń S.A Vienna Insurance Group: insurance period 25.09.2017-24.09.2018
  - property insurance against random events – sum insured PLN 566 602 thousand
  - loss of profit insurance – sum insured PLN 298 383 thousand
  - electronic equipment insurance against all risks – sum insured PLN 5 948 thousand
  - business liability insurance – sum insured PLN 40 000 thousand
  - cargo in transport insurance – sum insured PLN 720 091 thousand
  - insurance of machinery and equipment against all risks – sum insured PLN 8 259 thousand
    - with AIG Europe Limited Sp. z o.o.: insurance period 01.04.2017 – 31.03.2018
  - third party liability insurance for Members of the Issuer's Bodies – sum insured EUR 25 000 thousand
- with Towarzystwo Ubezpieczeń Euler Hermes S.A.: insurance period 01.12.2017 – 30.11.2018
  - trade credit risk insurance with the option of debt collection – the maximum sum insured is 70 times the premium paid for the given insurance year, not less than 70 times the minimum premium amounting to PLN 271 thousand

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

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

Detailed information on transactions concluded with related entities is included in note 33 of the separate financial statements.

7. Information on loans and borrowings

Short-term	Nominal interest rate %	Repayment date	31.12.2017	31.12.2016
PKO BP S.A. – investment loan of EUR 3 500 thousand – short-term part	1M EURIBOR	by 22.12.2018	3 744	4 075
mBank S.A. – investment loan of EUR 2 400 thousand – short-term part	1M EURIBOR	by 31.12.2018	2 307	2 654
Total short-term			**6 051**	**6 729**

Long-term	Nominal interest rate %	Repayment date	31.12.2017	31.12.2016
PKO BP S.A.– revolving loan of PLN 100 000 thousand – long-term part	depending on the currency used 1M WIBOR or 1M EURIBOR	by 09.06.2019	44 764	61 936
ING Bank Śląski S.A. – revolving loan of PLN 100 000 thousand – long-term part	depending on the currency used 1M WIBOR or 1M EURIBOR or 1M LIBOR	by 30.06.2019	54 717	79 736
mBank S.A. – revolving loan of EUR 5 000 thousand – long-term part	depending on the currency used O/N WIBOR or O/N EURIBOR or O/N LIBOR	by 12.12.2019	15 834	5 533
PKO BP S.A. – investment loan of EUR 3 500 thousand – long-term part	1M EURIBOR	by 22.12.2018	-	2 447

mBank S.A. – investment loan of EUR 2 400 thousand – long-term part	1M EURIBOR	by 31.12.2018	-	3 156
Total long-term			**115 315**	**152 808**

Collaterals for bank loans	As at 31 December 2017
PKO BP S.A. – investment loan of EUR 3 500 thousand	1. Registered pledge on purchased movable property of not less than EUR 5 130 thousand 2. Assignment of rights from insurance policy 3. Blank promissory note with a promissory note declaration
mBank S.A. – investment loan of EUR 2 400 thousand	1. Registered pledge on purchased machinery and equipment up to the maximum collateral amount of EUR 3 600 thousand 2. Assignment of rights from insurance policy
PKO BP S.A. – revolving loan of PLN 100 000 thousand	1. Joint contractual capped mortgage up to PLN 120 000 thousand established on the perpetual usufruct right to developed properties and buildings located thereon that constitute objects of property separated from land, located in Hajnówka at ul. 3-go Maja and Ostrów Mazowiecka at ul. Biała 2. Blanc promissory note with a promissory note declaration 3. Assignment of rights from insurance policy 4. Registered pledge on inventories of items specified as to their kind, located in the Branch in Hajnówka
ING Bank Śląski S.A. – revolving loan of PLN 100 000 thousand	1. Registered pledge on movable property of the factory in Suwałki and Ostrów Mazowiecka up to the maximum collateral amount of PLN 120 000 thousand 2. Joint capped mortgage up to PLN 54 000 thousand established on the perpetual usufruct of land and the ownership right to buildings of the factory in Suwałki, along with the assignment of rights from insurance policy 3. Registered pledge on inventories with a minimum value of PLN 65 000 in the factory in Suwałki and Ostrów Mazowiecka up to the maximum collateral amount of PLN 120 000 4. Assignment of rights from insurance policy
mBank S.A. – revolving loan of EUR 5 000 thousand	1. Blank promissory note with a promissory note declaration 2. Registered pledge on fixed assets up to the maximum collateral amount of EUR 6 000 thousand

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

8. Information on loans granted in the financial year.

Loans and borrowings granted to related entities

In the reporting period ended 31 December 2017, the Company entered into the following agreements and annexes to loan agreements with related companies:
- on 30 March 2017, an annex to the loan agreement with the subsidiary FORT INVESTMENT Sp. z o.o. , according to which the loan will be repaid in 8 equal instalments from 31 March 2018;
- on 30 May 2017, an annex to the loan agreement with the subsidiary MV FORTE GmbH, pursuant to which the loan was extended until 30.06.2017 and the repayment period determined - in 12 instalments by 31 December 2020;
- on 29 June 2017, an annex to the loan agreement with the subsidiary DYSTRI-FORTE Sp. z o.o., pursuant to which the loan amount was increased to EUR 700 thousand. The loan may be used until 31 March 2018. A detailed repayment schedule will be agreed between the Companies after the loan is terminated and the repayment will start from 30.09.2018;

- on 30 June 2017, an annex to the loan agreement with the subsidiary TM- HANDEL Sp. z o.o. SKA, pursuant to which the loan amount was increased to PLN 20 000 and the repayment date was set to 30 June 2018;
- on 7 September 2017, a loan agreement with the subsidiary Terceira Sp. z o.o. in the amount of PLN 500 thousand in connection with the modernisation of the facility at ul. Robotnicza in Wroclaw with repayment date by December 2020;
- on 18 September 2017, a loan agreement with the subsidiary Terceira Sp. z o.o. in the amount of PLN 3 000 thousand. The last drawdown may take place until 31 December 2018, after that date the amounts and dates of instalments to be repaid will be determined;
- on 12 October 2017, a loan agreement with the subsidiary Forte Furniture Products India Ltd in the equivalent of USD 2 000 thousand with a repayment date of at least 5 years, not later than March 2025, interest payable quarterly starting from December 2017.

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

Related entity	Loan amount in currency in '000	Loan currency	Repayment date	Loan balance as at 31.12.2017 in PLN '000	Interest due as at 31.12.2017
KWADRAT Sp. z o. o.	439	EUR	July 2021	1 358	4
GALERIA KWADRAT Sp. z o.o.	1 254	PLN	June 2023	1 020	6
FORT INVESTMENT Sp. z o.o.	5 000	PLN	December 2019	660	4
DYSTRI-FORTE Sp. z o.o.	700	EUR	-	2 920	8
FORTE MOBILIER S.a.r.l.	40	EUR	December 2019	125	-
TANNE Sp. z o.o.		PLN	June 2023	-	9
TANNE Sp. z o.o.	20 000	EUR	June 2023	55 056	145
TM- HANDEL Sp. z o.. SKA	20	PLN	June 2018	20	-
MV FORTE GmbH	3 400	EUR	March 2020	14 181	36
TERCEIRA Sp. z o.o.	3 000	PLN	-	1 000	7
TERCEIRA Sp. z o.o.	500	PLN	December 2020	500	2
FORTE FURNITURE PRODUCTS INDIA Ltd	1 642	EUR	March 2025	6 850	7
Total:				**83 690**	**228**
Including:					
Short-term part:					
KWADRAT Sp. z o. o.				340	4
GALERIA KWADRAT Sp. z o.o.				170	6
FORT INVESTMENT Sp. z o.o.				330	4
DYSTRI-FORTE Sp. z o.o.				947	8
FORTE MOBILIER S.a.r.l.				62	-
TANNE Sp. z o.o.				-	9
TANNE Sp. z o.o.				5 506	145
TM- HANDEL Sp. z o.. SKA				20	-
MV FORTE GmbH				4 727	36
TERCEIRA Sp. z o.o.				-	7
TERCEIRA Sp. z o.o.				-	2
FORTE FURNITURE PRODUCTS INDIA Ltd				-	7
Total:				**12 102**	**228**
Long-term part:					
KWADRAT Sp. z o. o.				1 018	
GALERIA KWADRAT Sp. z o.o.				850	
FORT INVESTMENT Sp. z o.o.				330	
DYSTRI-FORTE Sp. z o.o.				1 973	
FORTE MOBILIER S.a.r.l.				63	
TANNE Sp. z o.o.				49 550	
TANNE Sp. z o.o.				-	
TM- HANDEL Sp. z o.. SKA				9 454	
MV FORTE GmbH				1 000	

TERCEIRA Sp. z o.o.	500
FORTE FURNITURE PRODUCTS INDIA Ltd	6 850
Total:	**71 588**

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

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

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

- On 28 June 2016, the Company provided a surety and agreed to pay all monetary liabilities of its subsidiary DYSTRI-FORTE Sp. z o.o. with its registered office in Warsaw, ul. Nowogrodzka 50 lok. 515, arising from the loan agreement of 14 December 2015 made by DYSTRI-FORTE Sp. z o.o. and ING Bank Śląski SA. The Company agreed to satisfy any and all liabilities of the Borrower, covering, in particular, full repayment of the principal amount of the loan, interest, commissions, fees and other costs, up to the amount of EUR 8 700 thousand by 29 October 2024. As at 31 December 2017, the loan balance amounts to PLN 22 842 thousand (as at 31 December 2016: PLN 21 951 thousand).
- The Company provided the following sureties for investment liabilities of the subsidiary TANNE Sp. z o. o.:
    - SIEMPELKAMP Maschinen- und Anlagenbau GmbH arising from the agreement for design, delivery, installation and launching part of the production line to manufacture chipboard. Total net value of the agreement amounts to EUR 23 650 thousand. Investment project completion is planned for July 2018. The balance of outstanding liabilities at the end of the reporting period is EUR 4 363 thousand;
    - to Büttner Energie- und Trocknungstechnik GmbH arising from the agreement for design, delivery, installation and launching part of the production line to manufacture chipboard. Total net value of the agreement amounts to EUR 15 000 thousand. Investment project completion is planned for March 2018. The balance of outstanding liabilities at the end of the reporting period is EUR 2 767 thousand;
    - to PAL SRL arising from the agreement for design, delivery, installation and launching part of the production line to manufacture chipboard. Total net value of the investment amounts to EUR 22 947 thousand. Investment project completion is planned for May 2018. The balance of outstanding liabilities at the end of the reporting period is EUR 8 031 thousand;
    - to EWK Umwelttechnik GmbH arising from the agreement for comprehensive implementation of an investment task in the form of designing and installing the air cleaning system. Total net value of the agreement amounts to EUR 4 700 thousand. The liability expires at 31.12.2019. The balance of outstanding liabilities at the end of the reporting period is EUR 2 350 thousand.
    - to H.K. POM arising from the agreement for comprehensive implementation of an investment task in the form of developing supports on the wood storage yard. Total net value of the agreement amounts to PLN 366 thousand. The liability expires at 31.03.2018. The balance of outstanding liabilities for the end of the reporting period is PLN 146 thousand.
- Collaterals for loan liabilities of the subsidiary TANNE Sp. z o.o.:
    - surety provided by the Company up to the amount of EUR 105 000 thousand for TANNE's liabilities to PKO BP arising from the Loan Agreement,
    - surety provided by the Company up to the amount of EUR 105 000 thousand for TANNE's liabilities to BGK arising from the Loan Agreement,
    - surety provided by the Company up to the amount of EUR 18 564 thousand for TANNE's liabilities to PKO BP arising from the Hedging Agreement,
    - surety provided by the Company up to the amount of EUR 21 750 thousand for TANNE's liabilities to BGK arising from the Hedging Agreement,
    - Guarantee Agreement signed by the Company,
    - Agreement on subordination of claims of the Company against TANNE to claims of PKO BP and BGK arising from the Loan Agreement and Hedging Agreements.

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

The Company did not publish financial forecasts for 2017.

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

Net working capital	2017	2016 adjusted
Current assets	382 736	374 778
Short-term liabilities	(169 593)	(178 730)
Net working capital	213 143	196 048
Net working capital ratio (net working capital/total assets)	23.7%	23.3%

Debt analysis	2017	2016 adjusted
Total liabilities	299 700	349 592
Total debt ratio (total liabilities/total equity and liabilities)	33.3%	41.5%
Credit rating ((net profit+depreciation)/total liabilities)	25.7%	32.1%
Debt equity ratio (total liabilities/equity)	49.8%	70.9%

As at 31 December 2017, long-term liabilities of Fabryki Mebli „FORTE" S.A. amounted to PLN 130 107 thousand and consisted primarily of liabilities under loans and borrowings (PLN 115 315 thousand), accounting for 88.6% of total long-term liabilities.

Short-term liabilities as at 31 December 2017 amounted to PLN 169 593 thousand and included mainly trade liabilities and other liabilities (PLN 160 145 thousand), accounting for 94.4% of total short-term liabilities.

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

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

The investment plan of Fabryki Mebli Forte S.A. for 2018 amounts to approx. PLN 200 000 thousand and covers in particular expenses related to the construction of the fifth furniture factory in the amount of approx. PLN 160 000 thousand and the purchase of modern machinery and equipment for the existing furniture factories in the amount of approx. PLN 40 000 thousand, significant part of which will be used for the automation of processes.

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

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

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

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

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

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

13.1. Interest rate risk

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

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

Interest rate risk – sensitivity analysis

The sensitivity of gross financial result to reasonably possible changes in interest rates is presented in note 35.1 of explanatory notes to the separate financial statements.

The interest rate on variable rate financial instruments is updated in periods of less than one year. The interest on financial instruments with a fixed interest rate is fixed throughout the period until the maturity / due date of these instruments. Other financial instruments of the Company, which are not included in the above tables, do not bear interest and are therefore not subject to interest rate risk.

13.2. Currency risk

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

The sensitivity of gross financial result to reasonably possible currency fluctuations is presented in note 35.2 of explanatory notes to the separate financial statements.

Currency risk hedging

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

Impact of derivatives on the statements

As at 31 December 2017, the fair value of open positions in derivatives amounted to PLN 51 643 thousand. PLN 59 295 thousand was recognised in the derivative instruments revaluation reserve as intrinsic value, while the amount PLN (7 652) thousand was recognised in the profit and loss account as time value.

In the reporting period ended 31 December 2017, the result on derivatives amounted to PLN 2 262 thousand and related to the implementation of expiring option strategies qualified for hedge accounting in the amount of PLN 2 725 thousand and PLN (463) thousand recognised under loss on financial derivatives as a result of reversal of the valuation from the previous year in the amount of PLN 7 189 thousand and current valuation of PLN (7 652) thousand.

Impact of derivatives on the result of the period

	01.01-31.12.2017	01.01-31.12.2016
Impact on sales revenue	2 725	131
Impact on financial revenue/costs		
- due to the valuation of derivatives in the period	*(463)*	*(7 189)*
Impact of derivatives on the result of the period, in total:	**2 262**	**(7 058)**

Hedge accounting

A summary of more important hedge accounting policies is presented in note 6.20. According to them, changes in fair value of hedging instruments are recognised in the effective part in equity of the Company, and in the ineffective part – in the profit and loss account. When the hedged sales revenue is realised, changes in fair value of hedging instruments are recognised in the current financial result.

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

At the end of each month, the hedge effectiveness – retrospective effectiveness – is tested by comparing the cumulative change in fair value of the hedging instrument to the cumulative change in future cash flows estimated on the basis of currency market data as of the valuation date.

The financial instruments revaluation reserve is presented in note 27.3 of explanatory notes to the separate financial statements.

Fair value of foreign exchange contracts

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

Aggregate data on fair values and settlement dates, as well as aggregate information on the amount (volume) being the basis for future payments and the price of the implementation of effective forward contracts are presented in note 35.2 of the separate financial statements. The dates of settlements are convergent with the dates in which the amounts charged to the revaluation reserve in respect of these transactions will be recognised in the profit and loss account.

13.3. Credit risk

Credit risk is related to the creditworthiness and solvency of customers with whom the Company concludes sales transactions.
The Company has a procedure for awarding a trade credit limit to the counterparty and specifying the form of its collateral. All customers who wish to use trade credits are subject to initial verification procedures.
Basically, all receivables, except for receivables from related entities, are insured or secured with bank guarantees as part of the so-called central payment processing system. In addition, counterparty receivables are regularly monitored by sales and financial services. In the event of overdue receivables, sales are suspended and debt collection is started.
The maximum credit risk exposure for trade receivables from other entities is limited to the amount of the deductible and own contribution specified in the terms of the receivables insurance policy. As at 31.12.2017, the estimated maximum credit exposure was PLN 3 064 thousand.
In the case of loans granted, the Company monitors the financial position of its debtors on an ongoing basis. Loans granted are secured with blank promissory notes. The maximum credit risk exposure in respect of loans granted is equal to the balance of loan receivables presented in notes 21 and 35 of the separate financial statements.

With respect to other financial assets of the Company, such as cash and cash equivalents, financial assets available for sale and derivatives with a positive fair value, the Company's credit risk arises as a result of the counterparty's failure to make the payment.

13.4. Liquidity risk

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

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

Detailed information on liquidity risk is presented in point 35.4. of explanatory notes to the separate financial statements.

14. Comments on key financial data of the Company

Item	2017	2016 adjusted	% change
Sales revenue	1 160 125	1 104 669	5.0%
Cost of sales	(769 829)	(676 505)	13.8%
Gross profit on sales	390 296	428 164	-8.8%
Gross margin on sales %	33.6%	38.8%	
Selling costs	(271 639)	(263 892)	2.9%
G&A costs	(47 202)	(47 456)	-0.5%
Operating profit (EBIT)	65 055	111 348	-41.6%
EBITDA	87 686	132 130	-33.6%
Gross profit	66 244	111 439	-40.6%
Net profit	54 405	91 372	-40.5%
Net profit margin %	4.7%	8.3%	

Return on equity (ROE)	9.0%	18.5%
Return on assets (ROA)	6.0%	10.8%

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

In 2017, **sales revenue** amounted to PLN 1 160 125 thousand and was higher by 5% (PLN 55 456 thousand in terms of value) as compared to the previous year. Lack of high dynamics in comparison to previous years is a result of two factors – in the 1st half of the year, we could observe our major customers withholding their orders due to the ongoing negotiations of trade agreements for the next years. In the 2nd half of the year, an increased number of orders from our customers resulting from the completed negotiations and a very wide product offer (between March and September, we increased our offer from 3,300 to 4,300 products) revealed inefficiency of our internal processes and insufficient production capacity. As a result, we were not able to complete some orders.

Gross margin on sales stood at a level of 33.6%, which is 5.2 percentage points lower than in the previous year. The main reasons for this drop in profitability are the lower EUR exchange rate, which negatively affected the profitability of export revenues and an increase in the cost of chipboard (basic raw material for chipboard production) in the second half of the year by about 20% against 2016. In addition, after launching in July 2017 the board veneering process at the new TANNE factory, due to the transfer pricing policy, the board purchased from a subsidiary was charged with additional margin, which lowered the Company's profitability presented in the separate financial statements.

Selling costs – the selling costs to revenue ratio stood at 23.4%, compared to 23.9% in the corresponding period last year. In terms of value, the selling costs increased by PLN 7 747 thousand.

G&A costs – the G&A costs to revenue ratio stood at 4.1% against 4.3% in 2016.

Operating profit totalled PLN 65 055 thousand (5.6% of revenue), compared to PLN 111 348 thousand (10.1% of revenue) in 2016.

Net profit in the reporting period amounted to PLN 54 405 thousand (4.7% of revenue), compared to PLN 91 372 thousand in the corresponding period (8.3% of revenue).

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

There were no unusual events other than those presented in section 14 of this report.

16. Description of external and internal factors significant for the development of the Company, including development perspectives

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

17. Changes in the basic principles of managing the Issuer's enterprise and its capital group

Did not occur.

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

The Company concluded with its managers:

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

19. Remuneration, bonuses or benefits, including those under incentive or bonus schemes based on the

Issuer's equity

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

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

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

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

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

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

Managing and supervising persons of the Issuer		Number of shares with a nominal value of PLN 1 each
Gert Coopmann	Member of the Management Board	79 685

Mariusz Gazda	Member of the Management Board	4 700
Klaus Dieter Dahlem	Member of the Management Board	34 170
Zbigniew Sebastian	Chairman of the Supervisory Board	300

21. Shares of Fabryki Mebli „Forte" S.A.

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

Key data on FORTE shares.

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

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

The Company has no knowledge of such agreements.

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

Did not occur.

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

Did not occur.

25. Information on the agreement with an entity authorised to audit financial statements

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

On 7 August 2017:

- for the review of the interim separate financial statements of the Parent Company and the consolidated financial statements of the Capital Group prepared as at 30 June 2017. For the performance of the above-mentioned activities, the parties agreed the remuneration of PLN 36 thousand net.
- for the audit of the separate financial statements of the Parent Company and the consolidated financial statements of the Capital Group prepared as at 31 December 2017. For the performance of the above-mentioned activities, the parties agreed the remuneration of PLN 61 thousand net.

26. Characteristics of assets and liabilities

Liquidity and efficiency analysis	2017	2016
Current ratio (current assets/short-term liabilities)	2.3	2.1
Quick ratio (current assets – inventory/short-term liabilities)	1.4	1.3
Receivable turnover in days (average trade receivables*365/sales	44	50

revenue)		
Inventory turnover in days (average inventory*365/cost of sales)	69	75
Liability turnover in days (average trade liabilities*365/cost of sales)	40	37
Current asset turnover in days (average current assets*365/sales revenue)	119	126

Characteristics of balance sheet items	2017		2016 adjusted		% change
	PLN '000	% of balance sheet total	PLN '000	% of balance sheet total	2017/2016
Non-current assets	518 281	58%	467 719	56%	11%
Current assets	382 736	42%	374 778	45%	2%
Total assets	**901 017**	**100%**	**841 140**	**100%**	**7%**
Equity	601 317	67%	492 905	59%	22%
Long-term liabilities and provisions	130 107	14%	170 862	20%	-24%
Short-term liabilities and provisions	169 593	19%	178 730	22%	21%
Total liabilities	**901 017**	**100%**	**841 140**	**100%**	**7%**

Non-current assets rose by PLN 50 562 thousand, mainly as a result of the valuation of a long-term part of derivatives in the amount of PLN 33 433 thousand, loans granted to subsidiaries in the amount of PLN 14 042 thousand and the contribution made to an Indian company FORTE FURNITURE PRODUCTS INDIA PVT. LTD. amounting to PLN 8 580 thousand.

In **current assets** a decrease was recorded for trade and other receivables (PLN 9 349 thousand) and for cash (PLN 19 908 thousand). The most significant increase in current assets was recorded for receivables from derivatives (PLN 18 210 thousand) as a result of the valuation of a short-term part of option strategies, for loans granted (PLN 9 391 thousand) and for income tax receivables (PLN 6 398 thousand).

On the **liabilities** side, the most significant change relates to an increase in the reserve from the valuation of derivatives qualified for hedge accounting (PLN 57 320 thousand) and the related deferred tax liability (PLN 11 195 thousand). Bank loan liabilities decreased by PLN 38 171 thousand.

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

In 2017, the most important events included:

- increase in prices of basic raw material - chipboard, which had a negative impact on the results of H2 2017 and first months of 2018.
- maintaining by the Company its position on the list of an elite group of 25 companies of the Warsaw Stock Exchange listed in the Respect Index, i.e. companies managed in a responsible and sustainable manner,
- following the company's conscious policy focused on employees' development - continuation of the "Forte Academy".

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

On 18 January 2017, the Parent Company entered into a joint venture agreement with INDIAN FURNITURE PRODUCTS LIMITED ('IFPL') based in Chennai, India, an entity of the ADVENTZ Capital Group, concerning the production and sale of furniture in the Indian market. Part of the joint venture agreement was establishing an entity operating under the name

FORTE FURNITURE PRODUCTS INDIA PVT. LTD ('FFPI') based in Chennai, India, in which each of the shareholders, i.e. FORTE and IFPL holds a 50% stake. The cash contribution made to the share capital of FFPI by each shareholder amounted to the equivalent of approx. EUR 2 million. The core activities of FFPI include the production and sale of furniture. FFPI's operations are based on the existing production facilities and a sales network in India, which were previously owned by IFPL, and the know-how, design, product development and production technology delivered by FORTE. FFPI started its operating activities in April 2017.
On 30.06.2017, the company was included in consolidation using the equity method. The share of the Parent Company in the loss generated by the Company as at 31 December 2017 amounted to PLN (-) 5 365 thousand. In the opinion of the Management Board, the Indian company should reach a positive level of profitability around mid-2018.

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

- On 28 June 2016, the Company provided a surety and agreed to pay all cash liabilities of its subsidiary DYSTRI-FORTE Sp. z o.o. with its registered office in Warsaw, ul. Nowogrodzka 50 lok. 515, arising from the loan agreement of 14 December 2015 concluded between DYSTRI-FORTE Sp. z o.o. and ING Bank Śląski SA. The Company agreed to satisfy any and all liabilities of the Borrower, covering, in particular, full repayment of the principal amount of the loan, interest, commissions, fees and other costs, up to the amount of EUR 8 700 000 by 29 October 2024. As at 31 December 2017, the loan balance amounts to PLN 22 842 thousand (as at 31 December 2016: PLN 21 951 thousand).
- The Company provided the following collateral securities on investment liabilities of its subsidiary TANNE Sp. z o. o.:
  - to SIEMPELKAMP Maschinen- und Anlagenbau GmbH arising from the agreement for design, delivery, installation and launching part of the production line to manufacture chipboard. The total net value of the agreement amounts to EUR 23 650 thousand. Investment project completion is planned for July 2018. The balance of outstanding liabilities for the end of the reporting period is EUR 4 363 thousand.
  - to Büttner Energie- und Trocknungstechnik GmbH arising from the agreement for design, delivery, installation and launching part of the production line to manufacture chipboard. The total net value of the agreement amounts to EUR 15 000 thousand. Investment project completion is planned for March 2018. The balance of outstanding liabilities for the end of the reporting period is EUR 2 767 thousand.
  - to PAL SRL arising from the agreement for design, delivery, installation and launching part of the production line to manufacture chipboard. The total net value of the investment amounts to EUR 22 947 thousand. Investment project completion is planned for May 2018. The balance of outstanding liabilities for the end of the reporting period is EUR 8 031 thousand.
  - to EWK Umwelttechnik GmbH arising from the agreement for comprehensive implementation of an investment task in the form of designing and installing the air cleaning system. The total net value of the agreement amounts to EUR 4 700 thousand. The liability expires at 31.12.2019. The balance of outstanding liabilities for the end of the reporting period is EUR 2 350 thousand.
  - to H.K. POM arising from the agreement for comprehensive implementation of an investment task in the form of developing supports on the wood storage yard. The total net value of the agreement amounts to PLN 366 thousand. The liability expires at 31.03.2018. The balance of outstanding liabilities for the end of the reporting period is PLN 146 thousand.
- Collateral securities on credit facilities of the subsidiary TANNE Sp. z o.o.:
  - surety provided by the Company up to the amount of EUR 105 000 thousand for TANNE's liabilities to PKO BP arising from the Loan Agreement,
  - surety provided by the Company up to the amount of EUR 105 000 thousand for TANNE's liabilities to BGK arising from the Loan Agreement,
  - surety provided by the Parent Company up to the amount of EUR 18 564 thousand for TANNE's liabilities to PKO BP arising from the Hedging Agreement,
  - surety provided by the Company up to the amount of EUR 21 750 thousand for TANNE's liabilities to BGK arising from the Hedging Agreement,
  - Guarantee Agreement signed by the Company,
  - agreement subordinating claims of the Parent Company against TANNE to claims of PKO BP and BGK arising from the Loan Agreement and Hedging Agreements,
  - establishing by the Company, as security for the Bank's claims, limited property rights in the form of financial pledges and registered pledges on TANNE shares held by the Company,
  - declaration in favour of PKO BP on submission to enforcement under Art. 777 § 1 item 5) of the Code of Civil Procedure, with respect to all of the Company's assets up to amount of EUR 105 000 thousand, in connection with the guarantee in respect of the Loan Agreement,

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

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

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

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

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

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

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

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

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

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

President of the Management Board
Maciej Formanowicz

....

Member of the Management Board
Gert Coopmann

....

Member of the Management Board
Klaus Dieter Dahlem

....

Member of the Management Board
Maria Florczuk

....

Member of the Management Board
Mariusz Gazda

....

Ostrów Mazowiecka, 5 April 2018

II CORPORATE GOVERNANCE

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

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

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

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

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

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

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

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

Part IV
Recommendation IV R 2.

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

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

Detailed principle IV. Z. 2.

„If justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings".

The Company does not comply with this principle. In the opinion of the Management Board, the current concentrated shareholding structure of the Company does not justify bearing additional significant costs associated with the organisation of broadcasts. The rules of participation in general meetings, which are currently in use, are compliant with the applicable regulations of the Commercial Companies Code, the Company's Articles of Association and other laws. The proceedings of general meetings are organised in a way that the interests of all shareholders are adequately protected. The Company will consider the possibility and desirability of complying with the above principle in the future.

Part V

Detailed principle V. Z. 6.

„In its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may arise in the company, as well as the rules of conduct where a conflict of interest has arisen or may arise. The company's internal regulations should among others provide for ways to prevent, identify and resolve conflicts of interest, as well as rules of excluding members of the management board or the supervisory board from participation in reviewing matters subject to a conflict of interest which has arisen or may arise."

Currently, the Company partly complies with this principle. The Company's internal regulations (Regulations of the Management Board, Regulations of the Supervisory Board) provide for the rules of conduct in the event of a conflict of interest, however, they are not described in such detail as in the above principle.

Part IV
Detailed principle VI. Z. 4.

"In this activity report, the company should report on the remuneration policy including at least the following:
1) general information about the company's remuneration system;
2) information about the conditions and amounts of remuneration of each management board member broken down by fixed and variable remuneration components, including the key parameters of setting the variable remuneration components and the terms of payment of severance allowances and other amounts due on termination of employment, contract or other similar legal relationship, separately for the company and each member of its group;
3) information about non-financial remuneration components due to each management board member and key manager;
4) significant amendments of the remuneration policy in the last financial year or information about their absence;
5) assessment of the implementation of the remuneration policy in terms of achievement of its goals, in particular long-term shareholder value creation and the company's stability"

The Company has adopted remuneration regulations defining the principles of remuneration and granting cash benefits to FORTE employees. In accordance with the applicable laws and the Company's Articles of Association, the principles of granting remuneration and the amount of remuneration for members of the Supervisory Board are determined by the General Meeting, while the amount of remuneration for the Management Board is determined by the Supervisory Board.
The remuneration of members of the Company's governing bodies and other benefits granted to these persons in the financial year are presented in the annual financial statements of the Company.

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

The Management Board is responsible for keeping the Company's accounts in accordance with the International Financial Reporting Standards (IFRS) approved by the International Accounting Standards Board and for the internal control system and its effectiveness in the process of preparing financial statements.
Substantive supervision over the process of preparing financial statements and periodic reports of the Company is provided by the Member of the Management Board responsible for financial matters. Both separate and consolidated statements are prepared by employees of the Financial Department under the supervision of the Chief Accountant and the Member of the Management Board responsible for the Company's finance. The financial statements are then verified by an independent auditor - a statutory auditor appointed by the Company's Supervisory Board.

In order to ensure reliability and correctness of the process of preparing financial statements, a number of control mechanisms have been developed and implemented, which are an integral part of the reporting system. These mechanisms provide, in particular, for permanent verification of reporting data with accounting records, analytical data and other documents forming the basis for preparing financial statements as well as with all applicable laws related to accounting and preparing financial statements.
The process of preparing financial data for reporting purposes is automated, subject to formalised operating and acceptance procedures.
The Company has appropriate procedures for preparing financial statements to ensure the completeness and correctness of accounting for all business transactions. These procedures include in particular:
- proper internal communication with respect to planning the process of preparing financial statements,
- detailed planning of all activities related to the preparation of financial statements and producing a detailed schedule of activities along with assigning the responsibility for particular tasks to particular employees.

Monitoring the completeness of economic events is additionally supported by the V-desk electronic document circulation system. In particular, all invoices received by the Company, employee business trips, all contracts made by the Issuer are registered in this system. Authorised employees of the Company are granted access within their competencies to the electronic circulation of documents.
The V-desk system provides for registration, content description, assignment and acceptance of invoices - in line with the powers granted by the Board.
Accepted invoices are imported into the SAP R3 operating system after prior verification of the correctness of accounting descriptions made by employees of the Accounting Department.
FABRYKI MEBLI „FORTE"S.A. maintains its accounting books in the integrated SAP R/3 system, in accordance with the Company's accounting policy approved by the Management Board, based on International Accounting Standards.
The structure of the system provides for a transparent division of competences, coherence of accounting records and control between the general leger and subledgers. High flexibility of the system allows for its ongoing adaptation to changing accounting principles or other legal regulations.
The company has adopted an investment policy whose main purpose is to enable full supervision over each stage of investment planning and implementation. An ongoing analysis of investment processes provides for reliable financial,

material and substantive information about an investment. It allows us to immediately identify any errors, deviations or irregularities detected while implementing individual investment stages. As a result, it is possible to make necessary corrections to investment processes on an ongoing basis, in particular to perform correct and reliable calculations.
The Company manages risk in relation to the process of preparing financial statements, also by ongoing monitoring of changes in external laws and regulations concerning reporting requirements and by preparing for their implementation well ahead of time.
A certified auditor is appointed by the Supervisory Board upon recommendation of the Management Board. Annual and semi-annual financial statements are subject to independent audit and review by the Company's auditor. The results of the audit are presented by the auditor to the management of the Company at the summary meetings.

4. Indication of significant direct and indirect shareholdings

According to the information available to the Company, the shareholding structure is as follows:

No.	Shareholder	Number of shares and votes held	% stake in share capital	% share in total number of votes
1.	MaForm SARL	7 763 889	32.44%	32.44%
2.	Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	2 300 000	9.61%	9.61%
3.	Skarbiec Towarzystwo Funduszy Inwestycyjnych S.A.*	2 149 448	8.98%	8.98%
4.	ING Otwarty Fundusz Emerytalny	1 200 000	5.01%	5.01%

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

5. Indication of holders of any securities with special control rights and a description of those rights

The Company has not issued securities granting special control rights.

6. Indication of any restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or systems whereby, with the company's cooperation, the financial rights attaching to securities are separated from the holding of securities

In the Company, there are no restrictions on voting rights.

7. Indication of any restrictions on the transfer of securities of the Issuer

There are no restrictions on the transfer of securities of the Company.

8. Description of rules regarding appointment or dismissal of managing persons and their powers, in particular the right to decide on the issue or redemption of shares

In accordance with the Company's Articles of Association, the Management Board consists of one to seven members appointed for a joint term of office. The number of Management Board Members is determined by the Supervisory Board, which elects the President of the Management Board and other Members of the Management Board. The Management Board is appointed for a joint five-year term. Pursuant to the Commercial Companies Code, Members of the Management Board may be dismissed by the Supervisory Board at any time. The Supervisory Board determines the terms and conditions for remunerating Members of the Management Board, including the provisions of contracts and appointment letters binding Members of the Management Board with the Company. In accordance with the Company's Articles of Association, the Management Board manages the Company's affairs and represents it. The work of the Management Board is managed by the President of the Management Board. The scope of activities of the Management Board includes all matters related to managing the Company's affairs which are not reserved for other governing bodies of Company. The powers of the Management Board regarding the right to decide on redemption of shares do not deviate from the regulations contained in the Commercial Companies Code.

9. Description of the rules for amending the Articles of Association of the Issuer

The Company's Articles of Association are amended in accordance with mandatory provisions of the Commercial Companies Code, i.e. Art. 430 et seq., by way of a resolution of the General Meeting of the Company.
The General Meeting of the Company may authorise the Supervisory Board to agree upon the uniform text of the amended Articles of Association.
The Management Board, acting in accordance with the Minister of Finance Regulation of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognising as equivalent information required by

the laws of a non-member state (Journal of Laws Dz.U. 2014, item 133 as amended)) notifies the shareholders of intended amendments to the Articles of Association and of a uniform text of the Articles of Association taking account of the amendments introduced thereto, by way of publishing current reports and the uniform text of the Articles of Association on the Company's website.

10. Rules of procedure of the General Meeting and fundamental powers thereof as well as rights of shareholders and the manner of exercising such rights, in particular rules arising from the regulations of the general meeting, if such rules have been adopted, unless such information is directly determined by applicable laws

The rules of procedure of the General Meeting of FABRYKI MEBLI "FORTE" SA, its powers and the rights of shareholders and the manner of exercising such rights are specified in the following documents:
1. Commercial Companies Code,
2. Company's Articles of Association,
3. Regulations of General Meetings.
The schedule of work on organising General Meetings is planned in such a way as to ensure that the obligations towards shareholders are properly met and to enable them to exercise their rights.
The General Meeting was convened on 12 April 2017 by the Management Board by way of an announcement made on the Company's website at least 26 days prior to the date of the General Meeting and in a manner specified for providing current and periodic information in accordance with the provisions on public offering and conditions governing the introduction of financial instruments to organized trading and on public companies. Resolutions adopted by the General Meeting were published on the Company's website.
Resolutions of the General Meeting are adopted by a simple majority of votes cast, unless otherwise provided for in the applicable laws or the Company's Articles of Association. Votes in favour or against a resolution are considered as votes cast.
The following matters have been reserved in the Articles of Association for the exclusive decision of the General Meeting:
- terms and manner of redeeming shares of the Company,
- terms of issuing utility certificates in exchange for redeemed shares,
- creating reserve capital and earmarked funds,
- allocating reserve capital,
- allocating pure profit earned by the Company.

A resolution of the General Meeting is not required for the purchase and sale of real property, perpetual usufruct or a share in real property, sale and transfer of rights to use or encumber real property, establishment of limited property rights on the Company's assets (decisions on such matters are reserved for the Company's Supervisory Board).
Representatives of the media may be present during the General Meetings.
Participants of the Annual General Meeting of the Company always include: Members of the Management Board and the Supervisory Board and the Company's certified auditor.
In 2017, the Annual General Meeting was held in compliance with the provisions of the Commercial Companies Code and the Company's Regulations of General Meetings. Members of the Management Board, the Supervisory Board and the certified auditor of the Company present during the Meeting were ready to provide explanations and to respond to shareholders' questions within the limits of their competence and in accordance with the applicable laws.

Shareholders may participate in the General Meeting and exercise their voting rights in person or by proxy.

11. The Issuer's management, supervisory or administrative bodies and their committees, their composition and changes thereto in the last financial year and their rules of procedure

SUPERVISORY BOARD

The Supervisory Board operates in accordance with the provisions of the Commercial Companies Code, the Company's Articles of Association and the Regulations of the Supervisory Board of FABRYKI MEBLI "FORTE" S.A. based in Ostrów Mazowiecka. The Supervisory Board consists of five to seven members. The General Meeting determines the number of members of the Supervisory Board and appoints the Chairman of the Supervisory Board. The Board appoints from among themselves a Vice-Chairman and, if needed, a Secretary. If the composition of the Supervisory Board falls below the minimum number specified in the Commercial Companies Code, the General Meeting supplements /appoints/ the Supervisory Board for the remainder of the term of office.
The term of office of the Supervisory Board is four years. The Annual General Meeting of FABRYKI MEBLI "FORTE" SA held on 10 June 2014 appointed five members to the Company's Supervisory Board for the current term of office.
At the end of 2017, the Supervisory Board of FABRYKI MEBLI "FORTE" S.A. was composed of:
Zbigniew Sebastian – Chairman,
Bernard Woźniak – Vice-Chairman,
Tomasz Domagalski – Member,
Stanisław Krauz – Member,
Jerzy Smardzewski – Member.
Changes in the composition of the Company's Supervisory Board throughout 2017 were as follows:
- On 12 April 2017, Mr Stefan Golonka resigned from his position as a Member of the Supervisory Board, with effect from the day of the Annual General Meeting of FABRYKI MEBLI "FORTE" S.A. approving the financial statements and the Management Board's report on the operation of the Company in the financial year 2016, i.e. on 17 May 2017.
- On 17 May 2017, Mr Bernard Woźniak was appointed to the Supervisory Board.

The responsibilities of the Supervisory Board include, in particular, adopting resolutions with respect to:

a. purchasing and selling real property, perpetual usufruct or a share in real property, selling and transferring rights to use real property, encumbering real property, or establishing limited property rights on the Company's assets,
b. taking out loans exceeding the Company's financial plan,
c. granting sureties to a total amount exceeding the equivalent of EUR 150,000,
d. taking over the obligations of third parties,
e. accepting and establishing pledges and other collaterals, except for a pledge and collaterals related to the ordinary business of the Company in a total amount not exceeding the equivalent of EUR 150,000,
f. concluding, terminating and amending lease agreements and other agreements of this kind, if they are concluded for a period longer than 3 years and when the annual lease rent paid by the Company exceeds the equivalent of EUR 150,000,
g. leasing the enterprise or part thereof,
h. purchasing and selling establishments and branches of the Company,
i. selling the Company's enterprise or part thereof,
j. approving employee participation in profits and granting special pension rights,
k. establishing an annual plan for the enterprise /in particular investment and financial plans/, as well as strategic plans,
l. granting borrowings outside the ordinary course of trade to a total amount exceeding the equivalent of EUR 50,000.

Meetings of the Supervisory Board are held as needed, however, not less than three times in a financial year.
Members of the Supervisory Board may cast their vote in writing through another Member of the Supervisory Board. The Supervisory Board may also adopt resolutions in writing or using means of direct remote communication. A resolution is valid if all Members of the Board have been notified of the content of the draft resolution.

With regard to Art. 128 of the Act of 11 May 2017 on statutory auditors, auditing firms and supervision of the public market (Journal of Laws Dz.U. 2017. 1089), the Supervisory Board of the Company decided to appoint an Audit Committee from among its members, which includes:
Bernard Woźniak – Chairman of the Audit Committee,
Zbigniew Sebastian – Member,
Jerzy Smardzewski – Member.
The basic tasks of the Audit Committee include monitoring, advising and supporting the Supervisory Board in the performance of its statutory control and supervisory functions, in particular with respect to:

a. monitoring the financial reporting process of the Company and the Capital Group of FABRYKI MEBLI "FORTE" S.A. (hereinafter: FORTE Capital Group),
b. monitoring the effectiveness of internal control systems and risk management systems as well as internal audit, including internal reporting,
c. monitoring the performance of financial audit activities, in particular, the audit carried out by an auditing firm,
d. controlling and monitoring the independence of the statutory auditor and the auditing firm,
e. assessing the independence of the auditor and consenting to providing permitted non-audit services to the Company,
f. developing the policy of selecting an auditing firm to conduct the audit,
g. developing the policy of providing permitted non-audit services by the auditing firm conducting the audit, by entities related to this firm and by a member of the auditing firm's group;
h. developing the procedure for selecting an auditing firm,
i. presenting recommendations regarding the selection of an entity conducting the audit of the financial statements as well as the change thereof, evaluation of its work, in particular in terms of its independence,
j. submitting recommendations aimed at ensuring the reliability of the financial reporting process in the Company and/or the FORTE Capital Group.

No other committees have been appointed in the Company.

<u>MANAGEMENT BOARD</u>

The Management Board operates in accordance with the provisions of the Commercial Companies Code, the Company's Articles of Association and the Regulations of the Management Board of FABRYKI MEBLI "FORTE" S.A. based in Ostrów Mazowiecka. The Management Board consists of one to seven members appointed for a joint term of office. The Management Board of FABRYKI MEBLI "FORTE" S.A. was appointed for a new five-year term, for the years 2014-2019. In the period from 1 January to 31 December 2017, the Management Board was composed of:
Maciej Formanowicz – President of the Management Board,
Gert Coopmann – Member of the Management Board,
Klaus Dieter Dahlem – Member of the Management Board,
Maria Małgorzata Florczuk – Member of the Management Board,
Mariusz Jacek Gazda – Member of the Management Board.
In accordance with the Company's Articles of Association, the Management Board manages the Company's affairs and represents it. The work of the Management Board is managed by the President of the Board. The responsibilities of the Management Board include all matters related to the management of the Company's affairs which are not reserved for other governing bodies of the Company. Resolutions of the Management Board are adopted by a simple majority of votes cast. In the event of an equal number of votes, the President of the Management Board has a casting vote.
The following persons are authorised to make declarations of will and incur obligations on behalf of the Company: President of the Management Board acting alone, two Members of the Management Board acting jointly, one of the Members of the Management Board acting jointly with a proxy.

12. Description of diversity policy applied to the Issuer's administrative, management and supervisory bodies with regard to aspects such as age, gender or educational and professional backgrounds, the objectives of this policy, its implementation and results in the reporting period

On 16 March 2016, the Management Board adopted a resolution regarding the adoption of the Diversity Policy in FABRYKI MEBLI "FORTE" S.A. (hereinafter: Diversity Policy). The Diversity Policy defines the Company's strategy in the area of diversity management in relation to the Company's business activities and its employment policy. It is a commitment of the Company to apply universal principles of respect and tolerance for others and to effectively use the potential of each employee. Diversity Policy is to ensure the elimination of all forms of discrimination, whether on the grounds of age, gender, nationality, ethnic origin, political beliefs, health, disability, religion, lifestyle, sexual orientation or any other criterion or attitude prohibited by law.
The aim of the adopted Diversity Policy is to build the awareness and organisational culture of the Company open to diversity, which contributes to the success of the organisation, leads to increased work efficiency, counteracts any form of discrimination and mobbing, and improves the results achieved by the Company.

The Diversity Policy implemented in the Company covers the following areas of its activity:

1. diversity management in the workplace – diversification of employees in terms of sex, gender, education, competence, cultural and national origin,
2. education, training and personal development – every employee, regardless of their position, age or gender, has equal access to education and development of their competences and skills within the position held,
3. breaking down barriers in the workplace – we have a diversified environment of employees in terms of their country of origin, we conduct extensive cooperation with foreign partners,
4. efforts to prevent discrimination and mobbing in the workplace – in accordance with the adopted recruitment procedure, the key criterion in the recruitment process is the candidate's experience, skills and knowledge,
5. intergenerational dialogue,
6. creating the right atmosphere at the workplace,
7. monitoring and controlling the application of the adopted Diversity Policy.

The Management Board assumes that the implementation and monitoring of the application of the Diversity Policy can bring measurable benefits to the Company in the long term. The implementation of the Diversity Policy is constantly and continuously monitored by the Management Board.

President of the Management Board **Maciej Formanowicz**	**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**	
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Ostrów Mazowiecka, 5 April 2018