FABRYKI MEBLI „FORTE" S.A.

Separate financial statements for the period ended 31 december 2015

Statements prepared in accordance with the International financial reporting standards

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

Ostrów Mazowiecka, 20 March 2017

FABRYKI MEBLI FORTE S.A.
ul. Biała 1
07-300 Ostrów Mazowiecka

Independent Auditor’s Opinion
on the financial statements
for the period from 1 January to 31 December 2016

INDEPENDENT AUDITOR'S OPINION

for the General Meeting and Supervisory Board of Fabryki Mebli Forte S.A.

Report on the Audit of the Financial Statements

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

– the statement of financial position prepared as at 31 December 2016,

– the profit and loss account for the period from 1 January to 31 December 2016,

– the statement of comprehensive income for the period from 1 January to 31 December 2016,

– the statement of changes in equity for the period from 1 January to 31 December 2016,

– the statement of cash flows for the period from 1 January to 31 December 2016,

– additional information on accounting methods and other explanations.

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

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

In accordance with 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 is to express an opinion on the financial statements based on our audit.

We performed the audit in accordance with the provisions of Chapter 7 of the Accounting Act, and in accordance with the International Standards on Auditing adopted as National Standards on Auditing in Resolution No. 2783/52/2015 passed by the National Council of Certified Auditors on 10 February 2015, with subsequent amendments. These standards require us to comply with ethical requirements and to plan and perform the audit in a manner that allows us to obtain sufficient assurance that the financial statements are free of material misstatements.

The audit consisted of performing procedures aimed at obtaining audit evidence on the amounts and information disclosed in the 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 Company'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.

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

Opinion

In our opinion, the audited financial statements:

a) give a true and fair view of the Company's financial position as at 31 December 2016, as well as of its financial result and cash flows for the period from 1 January to 31 December 2016, in accordance with International Accounting Standards, International Financial Reporting Standards and the related interpretations announced in the form of European Commission regulations, as well as the adopted accounting methods (policies),

b) have been prepared on the basis of properly kept books of account, and

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 submitted by the issuers of securities and on the conditions for recognizing as equally valid the information required by the regulations of a state that is not a member state (2016 Journal of Laws, item 860), as well as with other applicable laws and regulations and with the Company's Statute.

Report on Other Legal and Regulatory Requirements

Opinion on Directors' Report on the Company's Activities

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

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

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

In our opinion, the information contained in the Directors' Report on the Company's activities complies with the provisions of Article 49 of the Accounting Act and with the requirements of the Minister's of Finance Decree of 19 February 2009 on the current and periodic information submitted by the issuers of securities and on the conditions for recognizing as equally valid the information required by the regulations of a state that is not a member state (2016 Journal of Laws, item 860), and is consistent with the information presented in the accompanying 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.

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

Warszawa, 20 March 2017

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

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

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

I. GENERAL INFORMATION

1. Information about the Company

The Company does business as Fabryki Mebli FORTE Spółka Akcyjna [joint-stock company].

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

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

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

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

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

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

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

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

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

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

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

The function of entity manager is exercised by the Management Board.

As at 31 December 2016 the Company's Management Board comprised:
- Maciej Formanowicz - President of the Management Board
- Klaus Dieter Dahlem - Member of the Management Board
- Gert Coopmann - Member of the Management Board
- Mariusz Jacek Gazda - Member of the Management Board
- Maria Małgorzata Florczuk - Member of the Management Board

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

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

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

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

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

We hereby declare that BDO Sp. z o.o., its management, the certified auditor and team performing the audit of the financial statements meet the conditions required to issue an objective and independent opinion on the audited financial statements – as provided for in Article 56 par. 3 and 4 of the Act on certified auditors and their self-government, entities authorized to audit financial statements and on public supervision (2016 Journal of Laws, No. 1000 with subsequent amendments).

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

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

3. Information about the financial statements for the previous financial year

The books of account were opened based on the financial statements prepared for the period from 1 January to 31 December 2015, which had been audited by BDO Sp. z o.o. and given an unqualified opinion.

The Company's financial statements for the period from 1 January to 31 December 2015 were approved in Resolution No. 4/2016 passed by the General Shareholders Meeting of 17 May 2016.

In its Resolution No. 6/2016 the General Meeting selected to distribute the Company's net profit for the period from 1 January to 31 December 2015, amounting to 77 936 223,92 zł, in the following manner:

- 23 901 084,00 zł for the payment of a dividend,
- 54 035 139,92 zł to the reserve capital.

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

II. FINANCIAL ANALYSIS

Presented below are selected balance sheet and profit and loss account items, as well as key financial ratios, compared to analogical amounts for the previous years.

1. Main balance sheet and profit and loss account items (in '000 zł)

	31.12.2016	% of balance sheet total	31.12.2015	% of balance sheet total	31.12.2014	% of balance sheet total
Non-current assets	466 362	55,4	293 050	43,0	272 857	43,8
Current assets	374 778	44,6	388 344	57,0	349 767	56,2
Total assets	**841 140**	**100,0**	**681 394**	**100,0**	**622 624**	**100,0**
Equity	498 691	59,3	438 030	64,3	405 015	65,0
Liabilities	342 449	40,7	243 364	35,7	217 609	35,0
Total liabilities and equity	**841 140**	**100,0**	**681 394**	**100,0**	**622 624**	**100,0**

Item	2016	% of revenue	2015	% of revenue	2014	% of revenue
Sales revenue	1 104 556	100,0	954 706	100,0	821 631	100,0
Cost of finished products, goods for resale and raw materials sold	676 505	61,2	608 191	63,7	522 970	63,7
Gross sales profit/loss	**428 051**	**38,8**	**346 515**	**36,3**	**298 661**	**36,3**
Sales costs	263 892	23,9	217 528	22,8	175 424	21,4
General administrative costs	47 456	4,3	35 756	3,7	33 751	4,1
Sales profit/loss	**116 703**	**10,6**	**93 231**	**9,8**	**89 486**	**10,9**
Profit/loss on other operating activities	(5 468)	(0,5)	(10 829)	(1,1)	(3 465)	(0,4)
Profit/loss on financial activities	7 393	0,7	6 206	0,7	6 016	0,7
Gross profit/loss	**118 628**	**10,7**	**88 608**	**9,3**	**92 037**	**11,2**
Income tax	21 433	1,9	10 672	1,1	17 425	2,1
Net profit/loss	**97 195**	**8,8**	**77 936**	**8,2**	**74 612**	**9,1**

2. Key financial ratios

	2016	2015	2014
Profitability ratios			
Gross sales profitability	10,6%	9,8%	10,9%
Net sales profitability	8,8%	8,2%	9,1%
Return on assets	11,6%	11,4%	12,0%
Return on equity	19,5%	17,8%	18,4%
Liquidity ratios			
Current ratio	2,0	1,7	3,1
Quick ratio	1,2	1,1	1,8
Operating ratios			
Receivable days	50	51	44
Inventory days	75	85	90
Debt ratios			
Payable days	37	31	29
Debt rate	0,41	0,36	0,35

3. Remarks

- Non-current assets account for 55,4% of the Company's total assets at the end of the audited period, after having increased from 43,0% at the end of 2015.
- The value of current assets has gone down by 3,5% compared to the year before, with their percentage share falling from 57% of total assets in 2015 to 44,6% in the audited period.
- Although the Company's equity went up by 13,8% in the audited period, it accounted for 59,3% of total assets and liabilities at the end of 2016 compared to 64,3% last year.
- Sales revenue and the cost of goods sold went up by 15,7% and 11,2%, respectively, compared to the year 2015, causing the gross sales profit to reach the amount 428 051 thousand zł – an increase by 23,5% from the previous year.
- As the results on other operating activities and financial activities increased, the Company's net profit for the year grew by 24,7% compared to the year 2015.
- Net sales profitability increased from 8,2% last year to 8,8% in the audited period.
- The return on assets ratio grew from 11,4% last year to 11,6% in the audited period.
- The liquidity ratios have improved: the current has grown from 1,7 to 2,0; the quick from 1,1 to 1,2.
- The inventory days ratio has improved from 85 to 75 days.
- The payable days ratio amounts to 37 days, which constitutes a deterioration by 6 days from the previous year.
- The receivable days ratio has improved by 1 day from the year 2015 and amounts to 50 days.

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

III. DETAILED INFORMATION

1. Assessment of the Company's accounting and internal control systems

The Company has documentation describing its accounting methods, as set forth in Article 10 of the Accounting Act.

The Company's books of account are kept at its registered office. The Company's accounting records are computerized using the SAP system.

During our audit of the financial statements we performed a random check of the operation of the Company's accounting system. It was not an objective of the audit to express a comprehensive opinion on the operation of this system.

In the course of our audit we found no misstatements in the books of account, which could have a significant effect on the audited financial statements. Our audit has shown that:

- the accounting methods (policies) are valid and applied continuously, and that the books of account were opened correctly,
- economic transactions are documented accurately, completely and clearly, and correctly classified for entry in the books of account,
- the methods used to secure access to data and the data processing system are appropriate,
- accounting entries are complete and accurate, made continuously and are consistent with the corresponding source documents and financial statements,
- accounting documents, books of account and financial statements are properly protected.

The Company's inventory count of its assets and liabilities, conducted in accordance with the scope, due date and frequency requirements of the Accounting Act, was performed correctly, and the resulting differences have been settled in the books of account of the audited period.

2. Information about selected significant financial statements items

The most significant financial statements items have been described in the notes to the financial statements and in the Directors' Report on the Company's activities.

3. Additional information

The information presented in the introduction and notes to the financial statements has been prepared completely and correctly.

4. Management's Declaration

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

Warszawa, 20 March 2017

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

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

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

Ostrów Mazowiecka, 22.05.2017 r.

Ladies and Gentlemen, Dear Shareholders,

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

It is my pleasure to inform you that another year in a row FORTE may announce strong financial results, confirming the effectiveness of the adopted development strategy. For the first time ever, we have recorded more than one billion PLN in turnover and 97 million in net profit.

Last year, we focused, as planned, on implementing the adopted development strategy. The past year was marked by significant investment outlays related to the future development of the Company. Total investment expenses incurred by the Company amounted to PLN 39 million, whereas by the FORTE Group – to PLN 262 million, compared to PLN 68.3 million in 2015. The key investments made by the Group in 2016 include: expenditure incurred in connection with the construction of a chipboard factory in the Suwałki Special Economic Zone, the purchase of production lines and machinery to expand the production capacity in the existing plants of the Company, expenditure on the construction of an exhibition hall in Bad Salzuflen in Germany and the modernisation of our furniture showroom in Ostrów Mazowiecka. In accordance with the adopted schedule, the new chipboard plant will start production in 2018. The exhibition hall in Germany is scheduled to open in September 2017.

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

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

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

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

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

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

Maciej Formanowicz

President of the Management Board

Maciej Formanowicz

FABRYKI MEBLI „FORTE" S.A.

Separate financial statements for the period ended 31 december 2015

Statements prepared in accordance with the International financial reporting standards

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

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Selected financial data

	In thous. PLN		In thous. EUR	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Net revenues from sales of products, goods and materials	1 104 556	954 706	252 430	228 137
Profit (loss) on operational activity	111 235	82 402	25 421	19 691
Pre-tax profit (loss)	118 628	88 608	27 111	21 174
Period profit (loss)	97 195	77 936	22 212	18 624
Net comprehensive profit for the period	84 562	78 799	19 325	18 830
Net cash flow from operating activities	164 546	73 448	37 604	17 551
Net cash flow from investment activities	(171 311)	(43 977)	(39 151)	(10 509)
Net cash flow from financial activities	13 475	(31 701)	3 080	(7 575)
(Decrease)/Increase of net monetary means	6 710	(2 230)	1 533	(533)
Number of shares (in items)	23 901 084	23 901 084	23 901 084	23 901 084
Declared or paid dividend per one share (in PLN /EUR)	1,00	2,00	0,23	0,48
Profit (loss) per ordinary share (in PLN/ EUR)	4,07	3,26	0,93	0,78
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Total assets	841 140	681 394	190 131	159 895
Total liabilities	342 449	243 364	77 407	57 108
Long-term liabilities	156 946	20 563	35 476	4 825
Short-term liabilities	185 503	222 801	41 931	52 282
Own capitla	498 691	438 030	112 724	102 788
Company capital	23 901	23 901	5 403	5 609
Book value per share (in PLN /EUR)	20,86	18,33	4,72	4,30

Profit and loss account

		For the reporting period ended on	
		31 December 2016	31 December 2016
Continued activity	**Note**		
Revenue from sales of goods, products and materials	9.1.	1 082 796	945 906
Revenue from sales of services	9.1.	21 760	8 800
Sales revenue		**1 104 556**	**954 706**
Cost of sales of sold goods, products and materials	9.6.	(661 275)	(603 876)
Cost of sales of sold services	9.6.	(15 230)	(4 315)
Cost of sales		**(676 505)**	**(608 191)**
Gross profit from sales		**428 051**	**346 515**
Other operating revenue	9.2.	3 119	6 316
Costs of sales	9.6.	(263 892)	(217 528)
General management costs	9.6.	(47 456)	(35 756)
Other operating costs	9.3.	(8 587)	(17 145)
Profit (loss) on operating activities		**111 235**	**82 402**
Financial revenue	9.4.	11 303	6 411
Financial costs	9.5.	(4 023)	(2 460)
Profit (loss) on derivative financial instruments	36.2.	113	2 255
Profit (loss) before tax		**118 628**	**88 608**
Income tax	10.	(21 433)	(10 672)
Profit (loss) on continued operations of the period		**97 195**	**77 936**
Discontinued operations		-	-
Profit (loss) on discontinued operations of the period		-	-
Profit (loss) for the period		**97 195**	**77 936**
Profit (loss) per one share for the period (in zloty):	13.		
– basic		4,07	3,28
– diluted		4,07	3,28

 Principles of accounting policy and the enclosed explanatory notes constitute an integral part of the hereby financial report.

Statement of comprehensive income

	Note	For the ended reporting period 31 December 2016	 31 December 2015
Profit (loss) of the period		**97 195**	**77 936**
Other net comprehensive income, including:		**(12 633)**	**863**
Items which in the future will not be reclassified to the profit and loss account		**1 291**	**192**
Revaluation of employee benefit obligations	6	280	237
Deferred tax regarding employee benefits		(53)	(45)
Incentive scheme	37.1	1 064	-
Items which in the future may be reclassified to the profit and loss account		**(13 924)**	**671**
Hedge accounting		(17 189)	821
Income tax on other comprehensive income		3 265	(150)
Comprehensive income for the period		**84 562**	**78 799**

Statement of financial situation (balance sheet)

	Note	Status as at 31 December 2016	Status as at 31 December 2015
ASSETS			
Non-current assets		**466 362**	**293 050**
Tangible fixed assets	17.	246 297	227 921
Intangible assets	19.	968	1 124
Financial assets	18.	-	-
Financial assets	21.	215 459	64 005
Assets on account of deferred income tax	10.2.	3 638	-
Current assets		**374 778**	**388 344**
Inventory	22.	143 247	138 879
Trade and other receivables	23.	173 482	184 243
Services, as well as other liabilities payroll	25.,36.2.	-	5 673
Income tax receivables		-	-
Other Provisions	24.	2 497	2 859
Financial assets	26.	2 960	10 844
Cash and cash equivalents	27.	52 592	45 846
TOTAL ASSETS		**841 140**	**681 394**
LIABILITIES			
Total equity		**498 691**	**438 030**
Share capital	28.1.	23 901	23 901
Surplus of share sale above their nominal value		113 214	113 214
Revaluation reserve from hedging instruments	28.2.	(9 328)	4 596
Capital from merger		(1 073)	(1 073)
Incentive scheme	37.1.	2 354	1 290
Other reserve capital	28.2.	248 859	194 824
Retained earnings	28.3.	120 764	101 278
Long-term liabilities		**156 946**	**20 563**
Interest-bearing loans and borrowings	29.	152 808	11 094
Deferred income tax provision	10.2.	-	4 871
Provision for benefits after the employment period	16 130	3 283	3 330
Other Provisions	30.	13	37
Financial liabilities due to lease	15.	842	1 231
Other long-term liabilities		-	-
Short-term liabilities		**185 503**	**222 801**
Liabilities due to financial derivative instruments	31.	97 962	80 615
Current portion of interest-bearing loans and borrowings	29.	6 729	103 535
Income tax liabilities	31.	10 176	3 598
Payables and liabilities resulting from derivative financial instruments	32.	11 517	-
Provisions, deferred revenues and accruals	30.	58 043	34 054
Financial liabilities due to lease	15.	1 076	999
Total liabilities		**342 449**	**243 364**
TOTAL LIABILITIES		**841 140**	**681 394**

Cash flow statement

	For reporting period ending on	
	31 December 2016	**31 December 2015**
Cash flows from operating activities		
Profit (loss) of the period	**97 195**	**77 936**
Adjustments by:	**67 351**	**(4 488)**
Depreciation	20 782	19 282
Foreign exchange (gains)/losses	4 057	1 186
Net interest and dividends	(8 995)	(4 330)
(Profit)/loss on investment activities	236	(106)
Change in the valuation of derivative financial instruments	3 266	(151)
Change in receivables	10 780	(39 692)
Change in inventories	(4 368)	10 134
Change in liabilities, excluding loans and borrowings	17 953	17 709
Change in accruals and deferrals	20 389	6 359
Change in provisions	(4 925)	(6 115)
Income tax paid	(20 151)	(26 009)
Current tax recognised in the profit and loss account	26 730	16 938
Provision for retirement benefits	533	307
Valuation of the Incentive Scheme	1 064	-
Other adjustments	-	-
Net cash flows from operating activities	**164 546**	**73 448**
Cash flows from investment activities		
Sale of tangible fixed assets and intangible assets	233	1 296
Purchase of tangible fixed assets and intangible assets	(40 077)	(37 547)
Purchase of financial assets	(95 312)	(86)
Obtained dividends	10 290	5 418
Interest received	333	56
Granted loans	(94 542)	(13 134)
Repayment of borrowings granted	47 714	20
Other investment inflows	50	-
Other investment expenditure	-	-
Net cash flows from investing activities	**(171 311)**	**(43 977)**
Cash flows from operating activities		
Contributions to capital	-	1 718
Inflows from loans and borrowings taken out	100 030	33 603
Repayment of loans and borrowings	(60 492)	(16 639)
Paid dividends	(23 901)	(47 502)
Paid interest	(1 850)	(1 163)
Repayment of liabilities on account of leasing	(312)	(1 718)
Other financial inflows	-	-
Other financial outflows	-	-
Net cash from financial activity	**13 475**	**(31 701)**
Net increase (decrease) in cash and cash equivalents	**6 710**	**(2 230)**
Net foreign exchange differences	(37)	23
Opening balance of cash	**45 846**	**48 099**
Closing balance of cash, including:	**52 593**	**45 846**
of limited disposability	-	-

Statement of changes in equity

for the year ended 31 December 2016

	Share capital	Surplus of share sale above their nominal value	Retained earnings (losses) retained	Revaluation reserve from hedging instruments	Other reserve capital	Capital from merger	Incentive scheme	Total
As at 01 January 2016	**23 901**	**113 214**	**101 278**	**4 596**	**194 824**	**(1 073)**	**1 290**	**438 030**
Changes of the accepted principles of accounting policy	-	-	-	-	-	-	-	**-**
Error corrections	-	-	-	-	-	-	-	**-**
As of 1 January 2016 post corrections	**23 901**	**113 214**	**101 278**	**4 596**	**194 824**	**(1 073)**	**1 290**	**438 030**
Write-off of result from previous years on reserve capital	-	-	(54 035)	-	54 035	-	-	**-**
Dividend payment for 2015	-	-	(23 901)	-	-	-	-	**(23 901)**
Reserves for employee benefits	-	-	227	-	-	-	-	**227**
Current result	-	-	97 195	-		-		**97 195**
Hedge accounting	-	-	-	(13 924)	-	-	-	**(13 924)**
Valuation of incentive scheme	-	-	-	-	-	-	1 064	**1 064**
Total revenues for the period	**-**	**-**	**97 422**	**(13 924)**	**-**	**-**	**1 064**	**84 562**
As at 31 December 2016	**23 901**	**113 214**	**120 764**	**(9 328)**	**248 859**	**(1 073)**	**2 354**	**498 691**

Statement of changes in equity **for the year ended 31 December 2015**

	Share capital	Surplus of share sale above their nominal value	Retained earnings (losses) retained	Revaluation reserve from hedging instruments	Other reserve capitals	Capital from merger	Incentive scheme	Total
As at 01 January 2015	**23 751**	**111 646**	**97 762**	**3 925**	**167 714**	**(1 073)**	**1 290**	**405 015**
Changes of the accepted principles of accounting policy	-	-	-	-	-	-	-	**-**
Error corrections	-	-	-	-	-	-	-	**-**
As at 1 January 2015 post corrections	**23 751**	**111 646**	**97 762**	**3 925**	**167 714**	**(1 073)**	**1 290**	**405 015**
increase of company capital of Company	150	-	-	-	-	-	-	**150**
Write-off of result from previous years on reserve capital	-	-	(27 110)	-	27 110	-	-	**-**
settlement of incentive scheme SHARES OF G SERIES	-	1 568	-	-	-	-	-	**1 568**
Dividend payment for 2014	-	-	(47 502)	-	-	-	-	**(47 502)**
Reserves for employee benefits	-	-	192	-	-	-	-	**192**
Current result	-	-	77 936	-	-	-	-	**77 936**
Hedge accounting	-	-	-	671	-	-	-	**671**
Total revenues for the period	**-**	**-**	**78 128**	**671**	**-**	**-**	**-**	**78 799**
As at 31 December 2015	**23 901**	**113 214**	**101 278**	**4 596**	**194 824**	**(1 073)**	**1 290**	**438 030**

ACCOUNTING PRINCIPLES (POLICY) AND ADDITIONAL EXPLANATORY NOTES

1. General information

Financial report of Fabryki Mebli „FORTE" S.A. covers the year ended on 31 December 2016 and includes comparative data for the year ended on 31 December 2015.

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

The Parent Company is entered into the register of 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 XXI Economic Division), under KRS number 21840.

The Parent Company was assigned Statistical ID (REGON) 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, exhibitions, conferences,
- conducting trade activities domestically and abroad.

Composition of the Management Board of the Company

As at 31 December 2016, the Management Board of the Parent Company is composed of:

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

Changes in the composition of the Management Board of the Company

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

Identification and Approval of the financial statements

The Management Board elaborated the financial statements for the year ended on 31 December 2016 which were authorized for issue on 20 March 2017.

Group Investments

The Company has investments in the following subsidiaries:

Subsidiaries	Seat	Scope of activity	Percentage share of Company in capital 31/12/2016	31/12/2015
MV Forte GmbH	Erkelenz (Germany)	Dealership	100%	100%
Forte Möbel AG	Baar (Switzerland)	Dealership	99%	99%
Forte Baldai UAB	Wilno (Latvia)	Dealership	100%	100%

Forte SK S.r.o	Bratysława (Slovakia)	Dealership	100%	100%
Forte Furniture Ltd.	Preston (Great Britain)	Dealership	100%	100%
Forte Iberia S.l.u.	Walencja (Spain)	Dealership	100%	100%
Forte Mobilier S.a.r.l.	Lyon (France)	Dealership	100%	100%
Forte Mobila S.r.l.*****	Bacau (Romania)	Dealership	-	100%
Kwadrat Sp. z o.o.	Bydgoszcz	Real estate service and lease	81%	77,01%
**Galeria Kwadrat Sp. z o.o.*	*Bydgoszcz*	*Management of real property*	*81%*	*77,01%*
TM Handel Sp. z o.o.	Warsaw	advisory services regarding the conduct of business activity and the management	100%	100%
TM Handel Sp. z o.o. S.K.A.	Ostrów Mazowiecka	Purchase, sale and the management of real property, advisory services regarding the conduct of business activity and the management	100%	100%
***Fort Investment Sp. Z o.o.*	*Ostrów Mazowiecka*	*Purchase, sale and the management of real property, advisory services regarding the conduct of business activity and the management*	*100%*	*100%*
TANNE Sp. z o.o.	Warsaw	Production activity	100%	100%
DYSTRI-FORTE Sp. z o. o.	Warsaw	Storage and warehousing of goods	100%	100%
ANTWERP Sp. z o.o.	Warsaw	Activity of central enterprises and holdings	100%	100%
ANTWERP S spółka jawna****	Wrocław	Lease of intellectual property, real property management	-	100%
TERCEIRA Sp. z o.o.***	Warszawa	Lease of intellectual property, real property management	100%	100%
FORESTIVO Sp. z o.o.	Suwałki	Trade in raw materials for production of chip board	50%	-

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

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

*** company indirectly related-100% subsidiary of ANTWERP spółka jawna, from 26.07.2016 it is directly linked

**** company as of 29.07.2016 was deleted from register of entrepreneurs

***** company as of 05.02.2016 was liquidated.

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Important values based on professional judgment and estimations

2.1. Professional judgement

In the process of applying the accounting policies to the issues discussed below, management professional judgments had the greatest importance along with accounting estimations.

Classification of lease agreements

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

Depreciation rates

Depreciation rates are determined based on the anticipated economic useful lives of tangible fixed assets and intangible assets. The economic useful lives are reviewed annually by the Group based on current estimates.

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 Group carried out the analysis of the impairment of inventories These results of the analysis of impairment of inventories have been presented in note 22 to the consolidated financial statements.

Fair value of financial instruments

The fair value of financial instruments for which no active market exists is assessed by means of appropriate valuation methods. The Group applies professional judgement in selecting appropriate methods and assumptions. The methods used for measuring the fair value of financial instruments are presented in note 35.2

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 assets

The Group recognises a deferred tax asset on the basis of the assumption that taxable profit shall be achieved in future against which it can be utilised. The decrease in the tax results in the future could make this assumption unjustified.

3. Basis for preparation of the consolidated financial statements

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

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

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

For the full understanding of the financial situation and the results of operations of Fabryki Mebli „FORTE" S.A. as a Parent Company of Capital Group, the hereby report ought to be read jointly with the annual consolidated financial statements for the period ended on 31 December 2015.

These financial statements will be available on Company website www.forte.com.pl in accordance with the term compliant with one indicated within the current report concerning terms of submission of annual and consolidated financial statements for 2015.

Declaration of compliance

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

At the date of approval of these financial statements for issue, in light of the current process of IFRS endorsement in the EU and the nature of the Group's activities, there is no difference between the currently enacted IFRSs applied by the Group and the IFRSs endorsed by the European Union. IFRS cover standards and interpretations accepted by the International Accounting Standards Board ("IASB") and the International Financial Reporting Standards Interpretations Committee ("IFRIC").

Functional currency and presentation currency

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

4. Changes in accounting principles and error corrections.

Principles (policy) of accounting applied within the hereby financial statement for 2015 are compliant with those applied while elaborating the annual financial statements for 2014, with the exception of the following changes:

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

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

Key consequences of applying new regulations:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Amendments to IAS 1: Disclosure Initiative

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

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

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

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

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

Within the hereby financial report the Company decided about earlier application of published standards or interpretation prior to their entry date. The following standards and interpretations were issued by the Council of International Account Standards or Committee on Interpretation of International Financial Reporting, whilst they did not enter into force on the balance day:

- IFRS 9 Financial instruments

The new standard was published on 24 July 2014 and applies to annual periods beginning on 1 January 2018 or later. The purpose of the standard is to adjust the financial assets classification and introduce uniform principles of approach to impairment assessment concerning all financial instruments. The standard also introduces a new model of hedge accounting in order to harmonize the principles of covering within financial statements information about risk management.

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

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

- IFRS 14 Regulatory Deferral Accounts

The new standard was published on 30 January 2014 and applies to annual periods beginning on 1 January 2016 or later. The new standard is temporary, as a result of the IASB works being in progress on regulating the method of settlement of operations under conditions of price adjustment. Standard. The standard introduces the principles of reporting assets and liabilities arising in connection with transactions on adjusted prices in the case, when the entity makes the decision to switch to IFRS. The Group will apply the new standard no sooner than on the day established by the European Union as an entry date for this standard. 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. Application of the new standard will not have an impact on financial statements of the Company.

- IFRS 15 Revenue from Contracts with Customers

The new unified standard was published on 28 May 2014 and applies to annual periods beginning on 1 January 2018 (originally - 2017) or later, and its earlier application is permitted. The standard establishes a uniform framework of reporting revenue and contains the principles that will replace most detailed guidelines for presenting revenue, currently existing in IFRS, in particular, in IAS 18 Revenues, IAS 11 Construction Contracts, and the related interpretations. On 11 September 2015 the International Accounting Standards Board published a project of changes in the accepted standard postponing by a year the entry date of this standard. As at the day of preparation of the present financial statement, is not possible to make a credible estimation of the impact of application of the new standard. The Group has commenced an analysis of results of implementing the new standard.

- IFRS 16 Leasing

The new standard was published on 13 January 2016 and applies to annual periods beginning on 1 January 2019 or later and its earlier application is permitted (but under condition of simultaneous application of IFRS 15). The standard replaces the previous regulations on leasing (among others, IAS 17) and diametrically changes approach to leasing agreements of various types, demanding that leasing recipients to incorporate within asset and liability balances on account of concluded leasing agreements, regardless of their type. As at the day of preparation of the present financial statement, is not possible to make a credible estimation of the impact of application of the new standard.

- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception

Amendments to IFRS 10, IFRS 12 and IAS 28 were published on 18 December 2014 and apply to annual periods beginning on 1 January 2016 or later. Their objective is to particularise requirements regarding accounting for investment entities.

The Company assesses that application of the amended standards will have no effect on financial statement.

- Amendments to IFRS 10 and IAS 28: Sales or contributions of assets between an investor and its associate/joint venture

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

Company will apply changes in standards no sooner than on the day, set out by the European Union as an entry date for this standard. 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. As per the day of elaboration of this financial report it is not possible to reliably estimate the impact of applying the changed standards.

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

Amendments to IAS 12 were published on 19 January 2016 and apply to annual periods beginning on 1 January 2017 or later. Their objective is to particularise requirements regarding recognition of deferred tax assets concerning financial debt instruments measured at fair value.

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

- The amendments to IAS 7: "Disclosure Initiative"

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

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

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

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

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

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

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

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

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

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

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

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

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

- IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

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

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

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

The amendment to IAS 40 was published on 8 December 2016 and applies to annual periods starting on 1 January 2018 or thereafter. The amendment aims at clarification that transfer of real estate from or to investment real estates may only take place if a change in use of property has occurred. The Company will apply the amended standard as of 1 January 2018. The Company estimates that application of the amended standard will not have a significant influence on the Company's financial statements.

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

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

6. Significant accounting policies

6.1. Shares and stocks in subsidiaries, created and joint enterprises

Shares and stocks in subsidiaries, created and joint enterprises are indicated according to historical costs in accordance with IAS 27 adjusted with write-offs on account of loss of value, established in line with the principles defined in IAS 36.

6.2. Revenues

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

Sale of goods 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 subsidies

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

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

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 Parent Company outstanding in that period.

6.4. Leasing

The Group as a lessee

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

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

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

The Group as a lessor

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

6.5. Foreign currency translation

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

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

The following exchange rates were accepted for the purposes of the balance sheet valuation

	31 December 2016	31 December 2015
USD	4,1793	3,9011

EUR	4,4240	4,2615
CHF	4,1173	3,9394
GBP	5,1445	5,7862

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 finance costs are recognised as an expense in the period.

6.7. Retirement benefits

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

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

Benefit costs are divided into the following components:

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

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

Revaluations recognized 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 directors of the Parent Company at that date, based on the best available estimate of the number of equity instruments, will ultimately vest.

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

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

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

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

Value Added Tax

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

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

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

6.10. Tangible fixed assets

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

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

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

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

Type	Rok 2016	Rok 2015
Buildings and structures	25 – 50 lat	25 – 50 lat
Plant and machinery	5 – 50 lat	5 – 50 lat
Office equipment	3 – 10 lat	3 – 10 lat
Transport means	5 – 10 lat	5 – 10 lat
Computers	3 – 5 lat	3 – 5 lat
Leasehold improvements	5 – 10 lat	5 – 10 lat

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

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

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

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

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

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 depreciation and any revaluation impairment write-downs. Expenditures incurred for internally generated intangible assets, excluding capitalised development costs, are not capitalised and are charged against profits in the year in which they are incurred.

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

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

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

Costs of research and development

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

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

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

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

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

6.13. Impairment on non-financial non-current assets

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

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

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

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

Fixed assets (and disposal groups) classified as intended for sale are posted at the lower of the following values: balance sheet value or fair value less selling expenses.

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

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 Group has the positive intention and ability to hold until maturity. Financial assets held to maturity are measured at amortised cost using the effective interest rate. Financial assets held to maturity are classified as non-current assets if they are falling due within more than 12 months from the balance sheet date.

Financial assets at fair value through profit or loss,

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

When a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss. It does not apply to cases where the embedded derivative does not significantly modify the cash flows or where it is clear that separation of the embedded derivative is prohibited. Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: 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 balancing sheet date. Loans granted and receivables with maturities exceeding 12 months from the balance are calculated into 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 write-downs. Positive and negative differences between the fair value and acquisition cost, net of deferred tax, of financial assets available for sale (if a quoted market price determined on the market is available or if the fair value can be determined using other reliable method), are taken to the revaluation reserve. Any decreases in the value of financial assets available for sale resulting from impairment are recognised as financial costs in the profit and loss account.

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

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

6.17. Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

Financial assets carried at cost

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

Financial assets available for sale.

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

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

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

6.20. Hedge accounting

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

a/ forward contracts,

b/ symmetrical option strategies.

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

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

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

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

At the end of each month, measurement is performed of the effectiveness of hedging – retrospective efficiency – by comparing the cumulative change in fair value of the hedging instrument to the cumulative change in the value of the estimated future cash flows based on market data exchange on the valuation date.

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

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

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 write-downs on any doubtful receivables

Write-downs on 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, 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, any increase in the balance due to the passage of time is recognised as finance income.

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

6.23. Interest-bearing loans and borrowings

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

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

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

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

6.24. Liabilities due to financial derivative instruments

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

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

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

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

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

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

6.25. Provisions

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

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

7. Information on operating segments

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

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 Group's Parent Company are based on the geographical directions of sales. Basically, each line of sales has an attributed person, who is directly responsible for the execution of sales plans and financial results.

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

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:

	Revenues from sales of products, materials, goods and services	Sales revenue – % of share
Q1 2016	299 848	27,15%
Q2 2016	254 076	23,00%
Q3 2016	245 674	22,24%
Q4 2016	304 958	27,61%
total 2016	**1 104 556**	**100,00%**
Q1 2015	254 932	26,70%
Q2 2015	190 707	19,98%
Q3 2015	223 886	23,45%
Q4 2015	285 181	29,87%
total 2015	**954 706**	**100,00%**

9. Revenue and costs

9.1. Sales revenue and geographic structure

Sales revenue	**For the reporting period ended on**	
	31.12.2016	**31.12.2015**
Revenue from sales of products, goods and materials	**1 082 796**	**945 906**
- products	1 061 756	927 273
- goods	8 945	11 081
- materials	12 095	7 552

Revenue from sales of services	**21 760**	**8 800**
Net sales revenue, in total	**1 104 556**	**954 706**
Geographic structure:		
- domestic	181 295	161 221
- export	923 261	793 485
Net sales revenue, in total	**1 104 556**	**954 706**
- including from related entities	58 813	42 321

Information on key customers

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

9.2. Other operating revenue

Other operating revenue	**For the reporting period ended on**	
	31.12.2015	**31.12.2016**
Release of updating write-offs	39	249
Revaluation of investment real properties	-	1 422
Grants	28	117
Donations and compensations	2 616	4 232
Other	436	296
Total other operating revenue	**3 119**	**6 316**

9.3. Other operating costs

Other operating costs	**For the reporting period ended on**	
	31.12.2016	**31.12.2016**
Creation of revaluation write-downs	2 145	113
Liquidation and impairment write-downs on tangible fixed assets	69	176
Stocktaking surplus	4 092	5 944
Donations	740	321
Penalties and compensations	298	4 352
Costs of damage removal	-	2 231
Legal costs	71	40
Loss from the disposal of fixed assets	198	1 141
Costs of employee benefits	533	307
Scrapping of inventory	236	2 233
Other	205	287
Total other operating costs	**8 587**	**17 145**

In the reporting period ended on 31 December 2016, the Company reported a write-down charged to other operating expenses regarding the value of spare parts in the amount of 1 532 thousand PLN and allowances for receivables in the amount of 613 thousand PLN. The decision to create allowances is motivated by a permanent replacement of the machinery park for new equipment in all of the Company's plants, which results in the possibility of certain spare parts losing their suitability.

9.4. Financial revenue

Financial revenue	For the reporting period ended on	
	31.12.2016	31.12.2015
Dividends	10 290	5 418
Interest	1 013	993
Other	-	-

Total financial revenue	**11 303**	**6 411**

9.5. Financial costs

Financial costs	**For the reporting period ended on**	
	31.12.2016	**31.12.2015**
Interest on loans and leasing	1 603	1 113
Impairment of financial assets	-	-
Commission on loans	254	72
Exchange gains with respect to financial assets and liabilities	2 166	1 269
Other	-	6
Total financial costs	**4 023**	**2 460**

9.6. Costs by type

Costs by type	**For the reporting period ended on**	
	31.12.2016	**31.12.2015**
Depreciation	20 782	19 282
Consumption of materials and energy	494 375	456 083
External services	231 396	195 888
Taxes and fees	7 742	7 872
Payroll	138 341	124 334
Social insurance and other benefits	34 694	29 183
License fees	21 235	6 718
Other costs by type	8 925	8 719
	957 490	**848 079**
Change in product inventory and accruals	3 070	4 182
Own cost of reinvoiced services	13 880	-
Manufacturing cost of products for internal purposes	(3 416)	(4 671)
Costs of sales	(263 892)	(217 528)
General management costs	(47 456)	(35 756)
Manufacturing cost of sold products and services	**659 676**	**594 306**
Value of goods and materials sold	**16 829**	**13 885**
Cost of sales	**676 505**	**608 1**

9.7. Depreciation costs recognised in the profit and loss account

Depreciation costs in the profit and loss account	**For the reporting period ended on**	
	31.12.2016	**31.12.2015**
Depreciation costs recognised in the:		
Own cost of sales	16 302	15 197
Costs of sale	2 653	2 378
General administrative costs	1 827	1 707
	20 782	**19 282**

9.8. Costs of employee benefits

Costs of employee benefits	For the reporting period ended on	
	31.12.2016	31.12.2015
Costs of employee benefits recognised in the:		
Own cost of sales	112 307	96 849
Costs of sale	28 953	31 604
General administrative costs	31 775	25 064
	173 035	**153 7**

10. Income tax

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

	For the reporting period ended on	
	31.12.2016	31.12.2015
Current income tax		
Current charge due to income tax	27 041	16 944
Adjustments related to current income tax from previous years	(312)	(6)
Deferred income tax		
Relating to the origination and reversal of temporary differences	(5 296)	(6 266)
Depreciation costs recognised in the profit and loss account	**21 433**	**10 672**

10.1. Reconciliation of the effective tax rate

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for 12 months ended 31 December 2016 and 31 December 2015:

	For the reporting period ended on	
	31.12.2016	31.12.2015
Profit/(loss) before tax	**118 628**	**88 608**
Tax at the statutory rate applicable in Poland, i.e. 19% (2015: 19%)	22 539	16 836
Corrections concerning income tax from previous years	(312)	(6)
Unrecognized tax loss		-
Costs not constituting tax base	852	524
Unrecognized tax loss		-
Revenue not constituting tax base	(2 064)	(1 083)
Temporary differences from previous years	-	(5 599)
Other	418	-
Tax at the effective rate being 18.07 % (2015: 12.04%)	21 433	10 672
Income tax (charge) recognised in the consolidated profit and loss account	21 433	10 672
Income tax attributable to discontinued operations	-	-
	97 195	**77 36**

10.2. Deferred income tax

Deferred income tax results from the following items:

Deferred income tax	Balance Status as at	Profit and loss account For the reporting period ended on

Balance item	Title of a temporary difference	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Deferred tax provision					
Tangible fixed assets	Revaluation of fixed assets	12 223	11 289	934	(4 375)
Tangible fixed assets	Lands in perpetual usufruct	1 869	1 901	(32)	(236)
Tangible fixed assets	Investment relief	84	135	(51)	(46)
Tangible fixed assets	Revaluation w rite-off for fixed assets	-	(1)	1	-
trade receivables and payables and other	Exchange rate differences	(1 281)	(730)	(551)	(535)
Accruals	Accruals	(5 236)	(3 012)	(2 224)	(104)
trade receivables and other	Revaluation write downs	(291)	(430)	139	93
Trade receivables and other	Compensations	-	248	(248)	248
Trade and other receivables, financial assets	Calculated interest	49	5	44	-
Reserves, Trade and other receivables	Revenues on Incoterms DDP and DAP conditions	(1 080)	(862)	(218)	(82)
Accruals	Provisions for the cost of transportation	196	129	67	4
Reserves	Revaluation of inventories	(1 663)	(519)	(1 144)	57
Post-employment benefits reserve	Provisions for post-employment benefits	(282)	(180)	(102)	(58)
Provisions and accruals	Accrued bonuses	(5 228)	(2 828)	(2 400)	(1 138)
Trade and other liabilities	Remuneration and surcharges on remuneration	(798)	(763)	(35)	(99)
Trade and other receivables	Liabilities overdue above 30 days	-	(65)	65	(1)
Financial assets	write-down on shares in subsidiaries	(76)	(81)	5	(3)
Supply and services liabilities and other liabilities	Other	486	32	454	9
Deferred tax provision		**(1 028)**	**4 268**	**-**	**-**
Asset/ Derivative instrument revaluation recognized in the statement of comprehensive income		**(2 188)**	**1 078**	**-**	**-**
Provision for pension benefits -capital part recognized in the statement of comprehensive income		**(422)**	**(475)**	**-**	**-**
Asset/ Total deferred tax provision		**(3 638)**	**4 871**	**(5 296)**	**(6 266)**

Deferred tax in the amount of PLN 422 thousand concerning employee benefits and PLN 2188 thousand concerning hedge accounting is recognised directly in capitals.

11. Tax settlements

Current tax burden is calculated on the basis of the binding fiscal provisions. Tax burden is calculated on the basis of tax rates binding for a given financial year. The Company does not conduct activity in any Special Economic Zone which would diversify the principles of defining tax burdens in relation to the general provisions in this scope. Tax year as well as balance year overlap with calendar year.

12. Minimum lease payments, in total

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

The Group has netted the assets of the Fund with the liability to the Fund, as these are not separate assets of the Group. Therefore, the net receivables on account of the Fund as at 31 December 2016 are PLN 353 thousand (as at 31 December 2015– net receivables amounted to PLN 34 thousand).

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

	31.12.2016	31.12.2015
Assets contributed to the Fund	-	-
Loans granted to employees	1 612	1 729
Cash	1 656	1 525
Liabilities due to the Fund	(2 915)	(3 220)
Balance after offsetting	**353**	**34**
Write-downs on the Fund during the financial period	**4 003**	**3 294**

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 Parent Company by the weighted average number of ordinary shares outstanding during the period.

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

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

	For the reporting period ended on	
	31.12.2016	**31.12.2015**
Net profit (loss) from continued operations	97 195	77 936
Loss from discontinued operations	-	-
Net profit (loss)	97 195	77 936
Net profit (loss) attributed to normal shareholders, applied to calculate diluted earnings per share	97 195	77 936

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

Profit (loss) per share attributable to Shareholders of the : Parent Company in the period (in PLN)	**31.12.2016**	**31.12.2015**
-basic	4,07	3,28
-diluted	4,07	3,28

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

14. Dividend paid and proposed

As at the publication of this report, the Management Board of the Parent Company has not presented the details concerning the position of Management Board with regards to potential dividend payments za rok 2016.

By virtue of a resolution of the Annual General Meeting of the Parent Company 17 May 2016, the decision was made to distribute the Parent Company net profit for the financial year 2015 in the amount of PLN 77 936 thousand, allocating PLN

23 901 thousand to the payment of dividend and PLN 24 035 thousand to reserve capital. The amount of dividend per share amounted to PLN 1. The dividend record date was set for 25 May 2016. Dividend was paid on 13 June 2016.

15. Leasing

15.1. Financial lease and hire purchase commitments

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

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

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

As at 31 December 2016 and 31 December 2015, future minimum rentals payable under financial leases are as follows:

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

15.2. Liabilities on account of leasing agreements and lease agreements with purchase option

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

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

	Minimum payments	
	31.12.2016	**31.12.2015**
Within 1 year	203	326
In the period from 1 to 5 years	85	200
Over 5 years	-	-
Future minimum lease payments, in total	**288**	**526**

15.3. Operating lease receivables

As per 31 December 2016 the Company does not appear as leasing provider. Investment properties which the Company owns, which were the subject of long-term lease were in September 2015 submitted in kind to subsidiary ANTWERP Sp. z o.o. SKA. ., and subsequently in October 2015 to company Terceira Sp. z o.o.

	Status as at	
	31.12.2016	**31.12.2015**
Within 1 year	-	913
In the period from 1 to 5 years	-	2 078
Over 5 years	-	-
	-	**2 991**

16. Employee benefits

16.1. Pensions and other post-employment benefits

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

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

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

Provision for pensions and disablement benefits	Change of status 2016	2015
As at 1 January	3 452	3 382
	100	78
Interest costs	389	361
Costs of current employment	137	-
Costs of past employment and limitations of benefit programme	(94)	(132)
Benefits paid	-	(7)
Actuarial profit/(loss) from changes in demographic assumptions	(177)	(211)
Actuarial profit/(loss) from changes in economic assumptions	(102)	(19)
Actuarial profit/(loss) from differences between the assumptions and the implementation	-	-
Status as at 31 December	**3 705**	**3 452**
Of which:		
Long-term	3 283	3 330
short-term	422	122

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

Amounts recognized in the comprehensive income:

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

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

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

17. Tangible fixed assets

	Status as at 31.12.2016	31.12.2015
Land	13 716	12 850
Buildings and structures	91 702	84 204
Technical equipment and machines	124 358	112 594
Means of transport	7 019	6 874
Other tangible fixed assets	4 823	4 787
Fixed assets under construction	4 679	6 612
Total	**246 297**	**227 921**

	Land	Buildings and structures	Machinery and equipment	Means of transport	Other	Fixed assets under construction	Total
Net value as at 01 January 2015	**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
Including financial lease	-	-	-	*843*	-	-	*843*
Decreases including:	(171)	(108)	(556)	(755)	(98)	(37 950)	(39 638)
liquidation	*(171)*	*(108)*	*(395)*	*(219)*	*(98)*	-	*(991)*

sale	-	-	*(161)*	*(536)*	-	-	*(697)*
Elimination of redemption as a result of the sale of assets	-	45	475	646	96	-	1 262
Impairment write-off for loss of value incorporated in profit and loss account	-	-	-	-	-	-	-
Reversal of impairment write-off for loss of value incorporated in profit and loss account	-	-	3	-	-	-	3
Depreciation write-down for the period	-	(3 090)	(14 808)	(1 466)	(627)	-	(19 991)
Net value as per 31 December 2016	**13 716**	**91 702**	**124 358**	**7 019**	**4 823**	**4 679**	**246 297**
As at 01 January 2016							
Gross amount	12 850	107 793	227 027	15 445	7 694	6 612	377 421
Redemption and impairment write-off for loss of value	-	(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 amount	13 716	118 336	253 121	16 410	8 261	4 679	414 523
Redemption and impairment write-off for loss of value	-	(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**

	Land	Buildings and structures	Machinery and equipment	Means of transport	Other	Fixed assets under construction	Total
Net value as at 1 January 2015	**12 772**	**79 213**	**96 307**	**6 636**	**3 777**	**17 626**	**216 331**
Increase	1 363	11 193	32 614	1 600	1 451	34 057	82 278
Including financial lease	-	-	-	*134*	-	-	*134*
Other decreases	(1 285)	(7 606)	(5 705)	(628)	(59)	(45 071)	(60 354)
Elimination of redemption as a result of the sale of assets	-	-	*(3 918)*	*(17)*	-	-	*(3 935)*
Reversal of revaluation impairment write-down recognised in the profit and loss account	*(1 285)*	*(7 249)*	-	-	-	-	*(8 534)*
Reversal of revaluation impairment write-down recognised in the profit and loss account	-	*(357)*	*(1 787)*	*(611)*	*(59)*	-	*(2 814)*
Depreciation write-down for the period	-	4 284	3 354	596	18	-	8 252
Net value as at 1 January 2015	-	-	(1 100)	-	-	-	(1 100)
Increase	-	-	1 100	-	-	-	1 100
Including financial lease	-	(2 880)	(13 976)	(1 330)	(400)	-	(18 586)
Net value as at 31 December 2015	**12 850**	**84 204**	**112 594**	**6 874**	**4 787**	**6 612**	**227 921**
As at 1 January 2015							
Gross amount	12 772	104 206	200 118	14 473	6 302	17 626	355 497

Accumulated depreciation and revaluation impairment write-down	-	(24 993)	(103 811)	(7 837)	(2 525)	-	(139 166)
Net value	**12 772**	**79 213**	**96 307**	**6 636**	**3 777**	**17 626**	**216 331**
As at 31 December 2015							
Gross amount	12 850	107 793	227 027	15 445	7 694	6 612	377 421
Accumulated depreciation and revaluation impairment write-down	-	(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**

Fixed tangible assets in total which remain at disposal of the Company as at 31 December 2016 reached the value of PLN 246 297 thousand (as per 31 December 2015 PLN 227 921 thousand). As of 31 December 2016 the Company was not in possession of fixed tangible assets as designated for sales (as per 31 December 2015: none).

Impairment write-downs

Revaluation write-downs on fixed assets	2016	2015
Revaluation write-down as at 1 January	3	3
Creation	-	1 100
Release	3	(1 100)
Revaluation write-down as at 31 December	**-**	**3**

Assets pledged as security

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

Land and buildings with the balance sheet value of PLN 96 457 thousand (As at 31 December 2015: PLN 79 215 thousand) are covered by mortgages established to secure bank loans of the Group (note 30 –interest-bearing loans and borrowings)

Additionally, machinery and equipment with the balance sheet value of PLN 65 898 thousand are subject to registered pledge (as at 31 December 2015: PLN 46 749 thousand).

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

Capital commitments

As at 31 December 2016 net receivables of the Group amounted to 771 thousand. (As at 31 December 2015:

PLN 1 376 thousand). This amount concerns primarily the expenditures on tangible fixed assets under construction and the purchase of machinery and equipment.

Purchase and sale

In the 12-month period ended 31 December 2016, the Group purchased tangible fixed assets with a value of PLN 38 791 thousand (in the comparative period ended 31 December 2015: PLN 37 075 thousand) and sold tangible fixed assets with net value of: PLN 151 thousand (in the comparative period ended 31 December 2015: 2 287 thousand).

Among the most substantial investments one may note expenditures for purchase of the Schelling saw with discharging station, the IMA processing lines with loading, the Ligmatech packing line, the BST drills, and investments in modernisation of the furniture store in Ostrów Mazowiecka.

18. Investment properties

The Company was the owner of an investment property - a shopping centre in Wrocław, with area of about 7 000 m^2, to which rights were transferred in-kind in September 2015 to the subsidiary company ANTWERP Sp. z o.o. -XXXIV-S.K.A.

	Fair value change 2016	2015
Opening balance as at the beginning of the reporting period	-	29 857
Increase (later expenses)	-	1 422
- land purchase	-	*1 422*
- reclassification of fixed assets under construction	-	(31 279)
Closing balance as at the end of the reporting period	**-**	**-**

	For the reporting period ended on 31.12.2016	31.12.2015
Interest income from the rent of investment real property	-	1 254
Costs resulting from repair and maintenance, including:	-	70
costs that brought rental income during the period	-	*67*
costs that did not bring rental income during the period	-	*3*

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

Fair value hierarchy

Currently the Company does not own any investment properties.

19. Intangible assets

	Status as at 31.12.2016	31.12.2015
Patents and licenses	306	464
Other intangible assets	-	-
Completed development works	662	660
Investments in progress	-	-
Total	**968**	**1 124**

	Patents and licenses	Other	Completed development works	Investments in progress	Total
Net value as of 1 January 2016	**464**	**-**	**660**	**-**	**1 124**
Increase	-	-	680	-	680
Decrease of status, including:	-	-	(989)	-	(989)
contribution	-	-	-	-	-
liquidation	-	-	*(989)*	-	*(989)*
Depreciation write-down for the period	(158)	-	(633)	-	(791)
Elimination of redemption as a result of the sale	-	-	944	-	944
Net value as at 31 December 2016	**306**	**-**	**662**	**-**	**968**
As at 01 January 2016					
Gross amount	5 772	812	1 987	-	8 571
Redemption and impairment write-off on account of loss of value	(5 308)	(812)	(1 327)	-	(7 447)
Net value	**464**	**-**	**660**	**-**	**1 124**
As at 31 December 2016					
Gross amount	5 772	812	1 678	-	8 262
Redemption and impairment write-off on account of loss of value	(5 466)	(812)	(1 016)	-	(7 294)
Net value	**306**	**-**	**662**	**-**	**968**

	Patents and licenses	Other	Completed development works	Investments in progress	Total
Net value as at 1 January 2015	**447**	**15 272**	**840**	**-**	**16 559**
Increase	203	-	330	-	553
Decrease	-	(15 741)	-	-	(15 741)
Depreciation write-down for the period	-	*(15 272)*	-	-	*(15 272)*
Net value as at 31 December 2015	(186)	-	(510)	-	(696)
	-	469	-	-	469
As at 01 January 2015	**464**	**-**	**660**	**-**	**1 124**
Gross amount					
Accumulated depreciation and revaluation impairment write-down					
Net value	5 569	16 553	1 657	-	23 779
	(5 122)	(1 281)	(817)	-	(7 220)
As at 31 December 2015	**447**	**15 272**	**840**	**-**	**16 559**
Gross amount					
Accumulated depreciation and revaluation impairment write-down					
Net value	5 772	812	1 987	-	8 571
Net value as at 1 January 2015	(5 308)	(812)	(1 327)	-	(7 447)
Increase	**464**	**-**	**660**	**-**	**1 124**

Expenditure on research and development

In the reporting period ended 31 December 2016, the Group made expenditure on research and development recognised in the profit and loss account in the amount of PLN 1 461 thousand (in 2015: PLN 1418 thousand).

Description of securities established on intangible assets:

No securities are established on the intangible assets of the Group.

Intangible assets designated for sale

As per the balancing day there were no intangible assets designated for sale in the Company.

Intangible assets with indefinite useful life

As per 31 December 2016 the Company did not own any fixed assets classified as designated for sale.

20. Fixed assets designated for sale

As at 31 December 2016 the Company did not own any fixed assets classified as designated for sale

21. Long-term financial assets

	Status as at	
	31.12.2016	**31.12.2015**
Long-term financial assets		
Shares and interest in subsidiaries non-listed and not covered by consolidation	154 391	59 140
Other shares and interest	3	3
Other	-	-
	154 394	**59 143**
Other long-term financial assets		
Borrowings to related entities note 34.1	60 946	4 736
Long-term receivables	58	65
Other	61	61
	61 065	**4 862**

Total long-term financial assets	**215 459**	**64 005**

Shares and interest in subsidiaries excluded from consolidation are valuated at historical cost less the possible impairment write-downs

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

Company name	Type of relationship	Takeover date/significant influence	Value of shares at acquisition price	Revaluation adjustments	Carrying amount of shares
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 S.a.r.l.	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 subsidiary	15.03.2016	101	-	101
TOTAL			**154 790**	**(399)**	**154 391**

Shares and interest in subsidiaries not covered by consolidation as at 31 December 2015:

Company name	Type of relationship	Takeover date/significant influence	Value of shares at acquisition price	Revaluation adjustments	Carrying amount of 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	63	-	63
Forte Mobilier S.a.r.l.	Subsidiary	17.11.2005	399	(399)	-
Kwadrat Sp. z o.o.	Subsidiary	18.12.2008	5 514	-	5 514
Forte Mobila S.r.l.	Subsidiary	12.09.2008	12	(12)	-
TM Handel Sp. z o.o.	Subsidiary	12.05.2008	-	-	-
TM Handel Sp. z o.o. S.K.A.	Subsidiary	30.10.2012	50	-	50
TANNE Sp. z o.o.	Subsidiary	26.02.2015	5	-	5

DYSTRI-FORTE Sp. z o.o.	Subsidiary	13.02.2015	5	-	5
ANTWERP Sp. z o.o.	Subsidiary	03.09.2015	5	-	5
ANTWERP Sp.z o.o. SKA	Subsidiary	03.09.2015	51 042	-	51 042
total			**59 551**	**(411)**	**59 140**

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

for the year ended 31 December 2016 and 31 December 2015

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

Changes in value of shares owned by the Company in the reporting period have been presented in the below table:

Company name	Balance value of shares/in 2015	Balance value of shares/in 2016	change
MV Forte GmbH	1 838	1 838	-
Forte Baldai UAB	164	164	-
Forte Möbel AG	352	352	-
Forte SK S r o	96	96	-
Forte Furniture Ltd.	6	6	-
Forte Iberia S.l.u.	63	279	216
Kwadrat Sp. z o.o.	5 514	6 514	1 000
TM Handel Sp. z o.o. S.K.A.	50	50	-
TANNE Sp. z o.o.	5	90 005	90 000
DYSTRI-FORTE Sp. z o.o.	5	4 000	3 995
ANTWERP Sp. z o.o.	5	5	-
ANTWERP Sp.z o.o. SKA	51 042	-	(51 042)
TERCEIRA Sp. z o.o.	-	50 981	50 981
FORESTIVO Sp. z o.o.	-	101	101
Meblopol Sp. z o.o.	3	3	-
total	**59 143**	**154 394**	**95 251**

Details regarding the changes in equity are included in note 1 of this report.

Description of financial security established over financial assets:

Shares of the carrying value of 90 005 thousand PLN in the subsidiary company TANNE Sp. z o.o., were encumbered with registered pledge and constitute investment loan collateral for building board plant.

21.1. Tests for the loss of value of shares in subsidiaries

Financial data obtained from subsidiaries the shares of which have not been covered by impairment losses do not indicate a loss of value of shares, therefore, no tests for loss of value of shares in subsidiaries were conducted.

22. Reserves

	Status as at	
	31.12.2016	31.12.2015
Materials	55 823	47 164
Production in progress (at manufacturing price) Finished products:	22 101	24 433
End products:		
According to acquisition price/manufacturing price	66 832	65 091
According to net realisable value	63 664	64 467
Goods	1 659	2 815
Total inventories, at the lower of the two: acquisition price (cost of construction) and realisable value.	**143 247**	**138 879**

Inventories of finished products, products under production, goods and materials were subjected to credit collaterals with value of 35 847 thousand PLN (IN 2015: 31 139 thousand PLN)

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

Calculation of inventory revaluation write-downs recognised in the books of the Group was performed on the basis of reviews, analyses of inventories in all material groups, as well as experience in the management of slow-moving materials.

Assortment items remaining in the Group's warehouse have been subjected to a comprehensive analysis. Replacements have been selected, design works have been carried towards technological changes, and attempts have been made to complete furniture from the existing semi-finished products. In the case of indices, for which obtaining the full value may be questionable in the opinion of the Group, the percentage of value was determined that could be recoverable. The Corporate Management decided that the stocks of merchandising goods, finished goods and slow moving half-products in stock for over a year will be covered by a 100% write-down due to impairment losses.

In this way, it was estimated that at the balance sheet date the value of revaluation write-down on inventories should amount to PLN 8 754 thousand Within 2015year: PLN 2 733 thousand).

Impairment write-down on inventories has been recognized in the profit and loss account under the item of the cost of sales (amount 4 484 thousand PLN) and other operating costs (amount 1 537 thousand PLN).

23. Trade and other receivables

	status as at	
	31.12.2016	31.12.2015
Income tax receivables	-	-
Trade receivables from related parties	9 701	13 072
Receivables under supplies and services from other entities	146 933	138 478
Other receivables from related parties	15 506	30 964
Other budget receivables	1 342	1 729
Total (net) receivables	**173 482**	**184 243**
Revaluation write-down on receivables	1 704	2 459
Gross receivables	**175 186**	**186 702**

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

	Status as at 31.12.2016	31.12.2015
a) up to 1 month	101 180	93 674
b) over 1 month and up to 3 months	29 863	24 280
c) over 3 months and up to 6 months	42	97
d) over 6 months and up to 1 year	-	-
e) over 1 year	-	-
f) overdue receivables	27 253	35 959
Total trade receivables (gross)	**158 338**	**154 010**
Revaluation write-down on receivables	(1 704)	(2 459)
Total trade receivables (net)	**156 634**	**151 551**

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

	Status as at 31.12.2016	31.12.2015
a) up to 1 month	20 983	26 929
b) over 1 month and up to 3 months	3 069	4 765
c) over 3 months and up to 6 months	1 303	858
d) over 6 months and up to 1 year	403	756
e) over 1 year	1 495	2 651
Total overdue trade receivables (gross)	**27 253**	**35 959**
Revaluation write-down on receivables	(1 704)	(2 459)
Total overdue trade receivables (net)	**25 547**	**33 500**

For terms and conditions of related party transactions, refer to note 34.1. of additional notes and explanations.

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

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

As at 31 December 2016, the Company's trade receivables in the amount of PLN 1 704 thousand (As at 31 December 2015: PLN 2 459 thousand) were considered uncollectible and therefore subject to impairment write-down.

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

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

	Change of status 2016	2015
Revaluation write-down as at 1 January	2 459	3 022
Creation	613	114
Used	(1 332)	(450)
Release	(36)	(227)
Revaluation write-down as at 31 December	**1 704**	**2 459**

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

	Total equity	Not overdue	Overdue, but recoverable < 30 days	30 – 90 days	90– 180 days	180–365 days	>365 days
31 Dec 2016	156 634	131 085	20 983	3 069	1 303	194	-
31 Dec 2015	151 551	118 051	26 929	4 765	858	756	192

24. Accruals

Accruals	Status as at 31.12.2016	31.12.2015
Property and motor insurance	949	837
Fairs	108	576
Research and development	910	1 218
Business trips	222	-
Other	308	228
	2 497	**2 859**

25. Short-term financial assets

Short term financial assets	Status as at 31.12.2016	31.12.2015
Fair value of derivatives (zero cost option strategies)	-	5 673
	-	**5 673**

For details of loans granted to subsidiaries, refer to point 36.2 of additional notes and explanations.

26. Other short term financial assets

Other short-term financial assets	Status as at 31.12.2016	31.12.2015
Borrowings granted	1 704	10 810
Interest on loans granted to related entities	248	34
Loans granted to other entities	1 000	
Interest on loans granted to other entities	8	
	2 960	**10 844**

For details of loans granted to subsidiaries, refer to point 34.1 of additional notes and explanations.

On 23 June 2016 the Company advanced 1 000 thousand PLN to company Furnirex Sp. z o.o. According to the loan agreement, the last drawdown can occur on 31 March 2017. The date of loan repayment has been established for 31 December 2017.

27. Cash and cash equivalents

	Status as at 31.12.2016	31.12.2015
Cash at bank and in hand	17 369	10 082
Other cash (overnight deposits and deposits under three months)	35 223	35 764
	52 592	**45 846**

Cash and cash equivalents at bank earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents as at 31 December 2016 is PLN 52 592 thousand 31 December 2015 PLN 45 486 thousand.

As at 31 December 2016, the Group did not hold cash of limited disposability (as at 31 December 2015: did not occur).

28. Share capital and supplementary/reserve capital

28.1. Share capital

Share capital (shares in units)	Status as at 31.12.2016	31.12.2015
Share capital (shares in units)	8 793 992	8 793 992
Series A ordinary shares with a nominal value of PLN 1 each	2 456 380	2 456 380
Series B ordinary shares with a nominal value of PLN 1 each	6 058 000	6 058 000
Series C ordinary shares with a nominal value of PLN 1 each	2 047 619	2 047 619
Series D ordinary shares with a nominal value of PLN 1 each	4 327 093	4 327 093
Series E ordinary shares with a nominal value of PLN 1 each	68 000	68 000
Series F ordinary shares with a nominal value of PLN 1 each	150 000	150 000
	23 901 084	**23 901 084**

Nominal value of shares

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

Shareholders' rights

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

Major Shareholders

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

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

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

28.2. Share Premium

In the reporting year ended on 31 December 2016 there was no increase in capital from share premium account (31 December 2015: 1 568 thousand PLN).

Other capital

Revaluation reserve from financial instruments

	Status as at 31.12.2016	31.12.2015
Opening balance of accumulated result on financial instruments hedging cash flows	4 596	3 925
Amount recognised in equity in the reporting period due to hedging transactions	(17 059)	5 088
Amount recognised in profit and loss account due to:		
- ineffectiveness of the transactions concluded	(113)	(2 255)
- conclusion of transactions subject to hedging	(18)	(2 012)
- discontinuance of hedge accounting	-	-

Deferred income tax	3 266	(150)
Closing balance of accumulated result on financial instruments hedging cash flows	**(9 328)**	**4 596**

Other reserve and supplementary capital

	Statutory supplementary capital	Other reserve capital	Total
As at 01 January 2016	**1 250**	**193 574**	**194 824**
Write-down on gains for investments and the financing of the current activities of the Group	-	54 035	54 035
As at 31 December 2016	**1 250**	**247 609**	**248 859**

	Statutory supplementary capital	Other reserve capital	Total
As at 01 January 2015	1 250	166 464	167 714
Write-down on gains for investments and the financing of the current activities of the Group	-	27 110	27 110
As at 31 December 2015	**1 250**	**193 574**	**194 824**

According to the requirements of the Code of Commercial Companies, the Parent Company is obliged to establish supplementary capital in order to cover losses. At least 8% of profit for the fiscal year reported in the Parent Company's individual financial statements is allocated to the supplementary capital until the capital reaches at least one third of the Parent Company's share capital.

The General Meeting of Stockholders takes decisions about the use of the supplementary capital; however a part of the reserve capital in the amount of one third of the initial capital may be only used to cover the loss reported in the individual financial statements of the Parent Company, and it is not subject to distribution to other purposes.

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

28.3. Retained earnings

Retained earnings	31.12.2016	31.12.2015
Net profit	97 195	77 936
Undistributed profit	23 568	23 342
	120 763	**101 278**

Undistributed profit comes from the valuation of fixed assets at fair value determined at the transition to IFRS less deferred tax as well as on account of valuation of retirement benefits.

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

28.4. Financial fixed assets

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

doubtful when it is not clear what the effects of the adjustment are on the basis of the CCC. Therefore, according to the Management Board, recognition of the hyperinflation adjustment directly in the Group's equity shown in the balance sheet could be misleading for the readers of the report, hence, taking into account the provisions of IAS 1. 17 appropriate amounts and method of conversion are included only in the following table (in '000 PLN). Given the information outlined below financial statements present fairly the financial position and cash flows of the Group, and is in compliance with IFRS.

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

29. Interest-bearing bank loans and credits

Short-term	**Nominal interest rate %**	**Loan currency**	**31.12.2016**	**31.12.2015**
PKO BP S.A.– capital loan in the amount of 100 000 thousand. PLN. short-term portion	depending on the currency used 1M WIBOR /1M EURIBOR	do 09.06.2019	-	51 138
ING Bank Śląski S.A. – capital loan in the amount of 100 000 thousand. PLN- short-term portion	depending on the currency used 1M WIBOR /1M EURIBOR /1M LIBOR	do 30.06.2019	-	41 635
mBank S.A. – capital loan in the amount of 5 000 thousand EUR - short-term portion	depending on the currency used O/N WIBOR or O/N EURIBOR or O/N LIBOR	do 12.12.2019	-	5 065
PKO BP S.A. – investment loan in the amount of 3 500 thousand- Short-term portion	1M EURIBOR	do 22.12.2018	4 075	3 140
mBank S.A. – investment loan in the amount of 2 400 thousand EUR - short-term portion	1M EURIBOR	do 31.12.2018	2 654	2 557
Total short-term			**6 729**	**103 535**

Long-term	**Nominal interest rate %**	**Loan currency**	**31.12.2016**	**31.12.2015**
PKO BP S.A.–capital loan in the amount of PLN 100 000 thousand- long-term portion	depending on the currency used 1M WIBOR /1M EURIBOR	to 09.06.2019	61 936	-
ING Bank Śląski S.A. – capital loan in the amount of PLN 100 000 thousand- long-term portion	depending on the currency used 1M WIBOR /1M EURIBOR /1M LIBOR	to 30.06.2019	79 736	-

mBank S.A. – capital loan in the amount of 5 000 thousand EUR- long-term portion	depending on the currency used O/N WIBOR or O/N EURIBOR or O/N LIBOR	to 12.12.2019	5 533	-
PKO BP S.A. – investment loan in the amount of EUR 3 500 thousand-long-term portion	1M EURIBOR	to 22.12.2018	2 447	6 180
mBank S.A. – investment loan in the amount of EUR 2 400 thousand-long-term portion	1M EURIBOR	to 31.12.2018	3 156	4 914
Total long-term			**152 808**	**11 094**

Bank loan securities as at	**31 December 2016**
PKO BP S.A. – investment loan in the amount of EUR 3 500 thousand	1. Registered pledge on purchased movable assets of value not lower than EUR 5 130 thousand 2. An assignment of rights from the insurance policy 3. Blank promissory note issued by the Borrower with the Borrower's promissory note declaration
mBank S.A. – investment loan in the amount of EUR 2 400 thousand	1. Registered pledge on purchased machines and equipment up to the maximum amount of security of EUR 3 600 thousand 2. Cession of rights from insurance policy
PKO BP S.A. – capital loan in the amount of PLN 100 000 thousand	1. The aggregate capped contractual mortgage to the amount 120 000 thousand PLN on the right of perpetual usufruct of the developed property of the Issuer and buildings located within this property that constitute objects of property separated from land, located in Hajnówka and Ostrów Mazowiecka. 2. In blanco promissory note with blank promissory note agreement, transfer of rights from insurance policy, on which mortgage was established 3. Registered pledge on the inventory of items indicated regarding grade, located in the Unit in Hajnówka
ING Bank Śląski S.A. – capital loan in the amount of PLN 100 000 thousand	1. Registered pledge on movable assets in the factory in Suwałki up to a maximum amount of PLN 120 000 thousand 2. Joint capped mortgage up to a maximum amount of PLN 54 000 thousand on the right of perpetual usufruct of land and ownership right of buildings in the factory in Suwałki, together with the assignment of rights under the insurance contract. 3. Registered pledge established on inventory items of minimum value of 65 000 thousand PLN in the plant in Suwałki and Ostrów Mazowiecka to the maximum security amount of 120 000 thousand. PLN 4. Assignment of insurance policy rights
mBank S.A. – capital loan in the amount of EUR 5 000 thousand	1. Blank promissory note issued by the Borrower with the Borrower's promissory note declaration. 2. Registered pledge on fixed assets up to the highest security sum of 6 000 thousand EUR

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

Currency	Status as at	
	31.12.2016	31.12.2015
PLN	-	-
EUR	136 204	97 862
USD	23 333	16 767
	159 537	**114 629**

With the nominal interest rate the margin of the bank should be additionally taken negotiated bank margins which reflect the risk related to the funding of the Company.

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

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

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

Description of loan collateral is presented in the note above.

30. Deferred revenues and accruals

Provision for employee benefits after the employment period has been described in note 16.1.

Long-term accruals	Status as at 31.12.2016	31.12.2015
Long-term accrued/deferred income due to:		
Subsidy to purchased tangible fixed assets	13	37
Short term accurals, including:	**31.12.2016**	**31.12.2015**
Accrued/deferred expenses due to:		
Commissions	3 331	2 380
Bonuses for customers	30 041	18 054
Bonuses	2 577	1 941
Leaves	7 670	5 102
Balance sheet audit costs	35	34
External services	11 253	4 369
Other costs	557	178
Short-term provisions:		
Short-term provision for benefits after the employment period	422	122
Guarantee repairs	2 133	1 850
Accrued/deferred income due to::		
Subsidy to purchased tangible fixed assets	24	24

	58 043	34 054

The amount of PLN 30 041 thousand is a provision created by the Group for future bonuses payable due to sales realised in 2016 to customers. The bonuses will be paid by setting them off against payments occurring after the balance sheet date.

The amount of PLN 11 253 thousand is a reserve established by the Group for costs of external services, in particular: marketing, credit insurance and disposal.

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

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

31. Trade and other liabilities (short-term)

Trade and other liabilities (short-term):

	Status as at	
	31.12.2016	**31.12.2015**
Liabilities arising from supplies and services	**78 383**	**61 242**
Towards related entities	10 745	8 833
To other entities	67 051	52 091
Advances received for deliveries	587	318
Liabilities from tax, customs, social insurance and other benefits i	**5 347**	**5 043**
Personal income tax	1 167	1 070
Social insurance	4 037	3 673
Other	143	300
Other liabilities	**14 232**	**14 330**
Payroll liabilities to employees	12 373	11 932
Capital commitments	771	1 376
Other liabilities	1 088	1 022
	97 962	**80 615**
Liabilities relating to corporate income tax	10 176	3 598
Total liabilities	**108 138**	**84 213**

Terms and conditions of the above financial liabilities

For terms and conditions of related party transactions, refer to point 34.1 of additional notes and explanations. Trade liabilities do not bear interest and they are usually payable within 7 to 45 days. Other liabilities do not bear interest and are payable within 1 month.

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

Interest payable is normally settled at maturity periods throughout the financial year.

32. Liabilities from derivative instruments

	Status as at	
	31.12.2016	**31.12.2015**
Fair value of derivatives (zero cost option strategies)	11 517	-
	11 517	**-**

33. Contingent liabilities

- On 27 March 2013, the Company issued four guarantees for loans taken out by FURNIREX Sp. z o.o. with its registered seat in Hajnówka to finance a technological investment to a total amount of PLN 18 299 thousand. FURNIREX Sp. z o.o. made an offer to the Company, according to which it invested the funds received under the technological loans in modern investments located in a production area in Hajnówka leased from Forte. FURNIREX Sp. z o.o. uses modern technologies to provide services of processing entrusted material for FORTE and other furniture manufacturers. Guarantees were granted for BRE Bank S.A. (currently mBank S.A.) for the period to 30.06.2018. Balance of loans as at 31.12.2016 amounts to PLN 1 464 thousand.
- On 28.06.2016, the Company provided a guarantee and committed to pay all cash liabilities of the subsidiary DYSTRI-FORTE Sp. z o.o., having its registered office in Warsaw at Nowogrodzka 50 flat 515 , resulting from the credit agreement of 14 December 2015 concluded between DYSTRI-FORTE Sp. z o.o. and ING Bank Śląski SA. The Company undertook to satisfy any liabilities of the Borrower, covering, in particular, full repayment of the principal amount of the credit, interests, commission, fees and other costs, up to the amount of EUR 8 700 000, until 29 October 2024. As at 31.12.2016, the credit balance amounts to PLN 21 951 000.

- In the reporting period ended on 31 December 2016 the Company granted the following collateral security on investment liabilities of the subsidiary company TANNE Sp. z o. o.:
  - to SIEMPELKAMP Maschinen- und Anlagenbau GmbH arising from the agreement for design, delivery, installation and launching part of the production line to produce strand boards. The total net value of the agreement amounts to 23 650 thousand EUR. Investment project completion is planned for July 2018. The balance of outstanding liabilities for the end of the reporting period is 11 636 thousand EUR.
  - to Büttner Energie - und Trocknungstechnik GmbH arising from the agreement for design, delivery, installation and launching part of the production line to produce strand boards. The total net value of the agreement amounts to 15 000 thousand EUR. Investment project completion is planned for March 2018. The balance of outstanding liabilities for the end of the reporting period is 7 380 thousand EUR.
  - to PAL SRL arising from the agreement for design, delivery, installation and launching part of the production line to produce strand boards. The total net value of the investment amounts to 22 947 thousand EUR. Investment project completion is planned for May 2018. The balance of outstanding liabilities for the end of the reporting period is 13 768 thousand EUR.
  - to BUDIMEX S.A. arising from the agreement to perform investment task according to the general contracting system in the form of designing and building the production and warehouse facility, whose area is around 33 600 m2 in a fully finished condition. The total net value of the investment amounts to 28 550 thousand EUR. Investment project completion is planned for February 2017. Liability expiry is set for 28 February 2017. The balance of outstanding liabilities for the end of the reporting period is 7 657 thousand PLN.
  - to EWK Umwelttechnik GmbH arising from the agreement to perform investment task in the form of designing and installing the air purification system. The total net value of the agreement amounts to 4 700 thousand EUR. Liability expiry is set for 31 December 2019. The balance of outstanding liabilities for the end of the reporting period is 4 230 thousand EUR.
  - to Robert Burkle GmbH arising from the agreement to perform investment task in the form of designing and installing the pasting line. The total net value of the agreement amounts to 3 125 thousand EUR. Liability expiry is set for 31 December 2017. The balance of outstanding liabilities for the end of the reporting period is 2 187 thousand EUR.
- In the reporting period ended on 31 December 2016 the Company granted the following collateral security on credit facilities of the subsidiary company TANNE Sp. z o. o.:
  - guarantee up to the amount of 105 000 thousand EUR for TANNE Sp. z o.o liabilities to PKO BP S.A. arising from the Loan Agreement dated 17 October 2016,
  - guarantee up to the amount of 105 000 thousand EUR for TANNE Sp. z o.o liabilities to BGK arising from the Loan Agreement dated 17 October 2016,
  - guarantee up to the amount of 18 564 thousand EUR for TANNE Sp. z o.o liabilities to PKO BP S.A. arising from the Loan Agreement dated 17 October 2016,
  - guarantee up to the amount of 21 750 thousand EUR for TANNE Sp. z o.o liabilities to BGK arising from the Hedge Contract dated 17 October 2016,
  - subordination agreement appertaining to the Company against TANNE Sp. z o.o receivables of PKO BP S.A. and BGK arising from the Loan Agreement dated 17 October 2016 and Hedge Contracts dated 17 October 2016,
  - establishment of pledge over financial instruments and registered pledge on the shares of TANNE Sp. z o.o owned by the Company,

- declaration in favour of PKO BP S.A. on submission to enforcement on the basis of Art. 777 § 1, point 5) of the Code of Civil Procedure, of all of the Company's assets up to the amount of 105 000 thousand EUR relevant to the surety of the Loan Agreement dated 17 October 2016,
- declaration in favour of BGK on submission to enforcement on the basis of Art. 777 § 1, point 5) of the Code of Civil Procedure, of all of the Company's assets up to the amount of 105 000 thousand EUR relevant to the surety of the Loan Agreement dated 17 October 2016,
- declaration in favour of PKO BP S.A. on submission to enforcement on the basis of Art. 777 § 1, point 5) of the Code of Civil Procedure, of all of the Company's assets up to the amount of 18 564 thousand EUR relevant to the surety of the Hedge Contract dated 17 October 2016,
- declaration in favour of BGK on submission to enforcement on the basis of Art. 777 § 1, point 5) of the Code of Civil Procedure, of all of the Company's assets up to the amount of 21 750 thousand EUR relevant to the surety of the Hedge Contract dated 17 October 2016,
- declaration in favour of PKO BP S.A. on submission to enforcement on the basis of Art. 777 § 1, point 6) of the Code of Civil Procedure, of the shares covered by the registered pledge up to the amount of 210 000 thousand EUR relevant to the surety of the Loan Agreement dated 17 October 2016,
- declaration in favour of PKO BP S.A. on submission to enforcement on the basis of Art. 777 § 1, point 6) of the Code of Civil Procedure, of the shares covered by the registered pledge up to the amount of 40.314 thousand EUR relevant to the surety of the Hedge Contract dated 17 October 2016.

34. Court cases

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

35. Information on related entities

35.1. Transactions with related entities

The following table presents total amounts of transactions concluded with subsidiaries. The transactions concern products, goods and services as well as purchase of services.

Related entity		Sale to related entities	Purchase from related entities	Receivables from related entities	Liabilities towards related entities
MV Forte GmbH	31.12.2016	1 432	19 225	1 358	1 865
	31.12.2015	1 218	15 816	1 146	3 293
Forte Möbel AG	31.12.2016	35 725	2 945	6 956	635
	31.12.2015	32 974	2 515	6 948	869
Forte Baldai UAB	31.12.2016	-	184	-	15
	31.12.2015	-	176	-	14
Forte SK S.r.o.	31.12.2016	9	1 154	-	97
	31.12.2015	-	1 105	-	93
Forte Furniture Ltd.	31.12.2016	-	731	-	-
	31.12.2015	-	623	-	-
Forte Iberia S.l.u	31.12.2016	9	1 314	-	111
	31.12.2015	5	1 004	25	-
Forte Mobilier S.a.r.l.	31.12.2016	-	-	-	-
	31.12.2015	-	-	-	-
Forte Mobila S.r.l.	31.12.2016	-	-	-	-
	31.12.2015	-	-	24	-
TM Handel Sp. z o.o.	31.12.2016	4 145	438	267	187
	31.12.2015	4 419	3 461	320	232

TM Handel Sp. z o.o. S.K.A	31.12.2016	1	-	-	-
	31.12.2015	1	-	-	-
FORT INVESTMENT Sp. z o.o. o.o.	31.12.2016	1	-	-	-
	31.12.2015	-	-	-	-
Dystri Sp. z o.o.	31.12.2016	2 029	12 612	568	2 761
	31.12.2015	2 753	-	3 611	-
Terceira Sp. z o.o.	31.12.2016	396	21 661	215	5 067
	31.12.2015	169	5 531	57	4 332
Tanne Sp. z o.o.	31.12.2016	15 066	12	337	7
	31.12.2015	766	-	941	-
Antwerp Sp. z o.o. SKA	31.12.2016	-	-	-	-
	31.12.2015	16	1 266	-	-
Total	**31.12.2016**	**58 813**	**60 276**	**9 701**	**10 745**
	31.12.2015	**42 321**	**31 497**	**13 072**	**8 833**

Joint venture in which the Parent Company is a venturer

In the reporting period ended 31 December 2016 The Group's Parent Company does not conduct joint ventures.

Terms and conditions of transactions with related parties

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

Loans and credits granted to the related entities

In the reporting period ended 31 December 2016, the Company concluded the following loan agreements with subsidiaries:

The Company concluded the following loan agreements with the affiliated companies:

- on 25 February 2016 with the affiliated company Tanne Sp. z o.o. up to the amount of 9 000 thousand PLN, with the maturity date of 30 June 2016. The amount receivable was paid on 06 May 2016;
- on 28 February 2016 with the affiliated company TM-Handel Sp. z o.o. SKA, up to the amount of 10 thousand PLN. On 30 December 2016 Annex to the loan agreement was signed, according to which the maturity date was extended to 30 June 2017;
- on 29 February 2016 the annex to the loan agreement with the affiliated company Antwerp Sp. z o.o., according to which the borrowing base was increased to 30 thousand PLN. On 30 December 2016 an annex to the loan agreement was signed, according to which the maturity was extended to 30 June 2017;
- on 13 June 2016 with the affiliated company Tanne Sp. z o.o. up to the amount of 10 000 thousand EUR, with the last drawdown up to 30 June 2018. Drawdown may be performed in PLN or EUR. Repayment will be made in 20 instalments, beginning from 30 September 2018 to 30 June 2023. On 12 August 2016 the borrowing base was increased to 20 000 thousand EUR;
- on 29 June 2016 Annex to the loan agreement with the affiliated company Dystri- Forte Sp. z o.o. was signed, according to which the maturity date of 227 thousand EUR was extended to 30 June 2017;
- on 30 June 2016 Annex to the loan agreement with the affiliated company Galeria Kwadrat Sp. z o.o. was signed, according to which the maturity date of the next instalment was postponed to 30 June 2018;
- on 31 July 2016 Annex to the loan agreement with the affiliated company Kwadrat Sp. z o.o. was signed, according to which the maturity date of the next instalment was postponed to 31 July 2018;
- on 05 December 2016 the annex to the loan agreement with the affiliated company Forte Mobilier SARL, according to which the borrowing base was increased to 30 thousand PLN, with the last drawdown up to 31 December 2017. Repayment will be made in 8 instalments, beginning from 31 March 2018;
- on 31 December 2016 with the affiliated company Möbelvertrieb Forte GmbH up to the amount of 3 400 thousand EUR, with the last drawdown up to 31 May 2017. Repayment will be made in 12 instalments, beginning from 30 June 2017. The first tranche was paid on 02 January 2017.

Balances of the loans advanced to the aforementioned affiliated entities as of the date of 31 December 2016 are presented in the table below:

Related entity	Loan amount	Loan currency	Payment term	Loan balance as at 31.12.2016 in thous. PLN.	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
Fort 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	-
Möbelvertrieb Forte GmbH	3 400	EUR	March 2020	-	-
total				**62 650**	**248**
Including:					
Short term portion:					
Kwadrat Sp. z o. o.				-	4
Galeria Kwadrat Sp. z o.o.				-	7
Dystri- Forte Sp. z o.o.				1 004	4
Fort 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 portion:					
Kwadrat Sp. z o. o.				1 441	-
Galeria Kwadrat Sp. z o.o.				1 020	-
Fort Mobilier S.a.r.l.				88	-
Tanne Sp. z o.o.				58 397	-
Total:				**60 946**	**-**

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

Balance of loans granted to non-consolidated subsidiaries as at 31 December 2015:

Related entity	Loan amount in thousands	Loan currency	Payment term	Loan balance as at 31.12.2015 in thous. PLN	Interest amount as at 31.12. 2015 in thous. PLN
Kwadrat Sp. z o. o.	439	EUR	June 2018	1 388	3
Galeria Kwadrat Sp. z o.o.	1 254	PLN	June 2020	1 020	7
Fort Investment Sp. z o.o.	5 000	PLN	June 2015	2 802	17
Dystri- Forte Sp. z o.o.	7 620	PLN	June 2016	7 616	7
Dystri- Forte Sp. z o.o.	227	EUR	June 2016	967	-
Fort Mobilier S.a.r.l.	10	EUR	December 2017	43	-
Tanne Sp. z o.o.	1 700	PLN	February 2016	1 700	-
Antwerp Sp. z o.o.	10	PLN	July 2016	10	-
Total:				**15 546**	**34**
Including:					
Short term portion:					
Kwadrat Sp. z i o				347	3
Galeria Kwadrat Sp. z o.o.				170	7
Dystri- Forte Sp. z o.o.				7 616	7

Dystri- Forte Sp. z o.o.	967	-
Tanne Sp. z o.o.	1 700	-
Antwerp Sp. z o.o.	10	-
Fort Investment Sp. z o. o.	-	17
Total:	**10 810**	**17**
Long term portion:		
Kwadrat Sp. z i o	1 041	-
Galeria Kwadrat Sp. z o.o.	850	-
Fort Mobilier S.a.r.l.	43	-
Fort Investment Sp. z o. o.	2 802	-
Total:	**3 736**	**-**

36. Financial instruments

36.1. Carrying value

Classification of financial instruments according to IAS 39 as at 31 December 2016	Financial assets held to maturity	Financial assets at fair value through profit or loss,	Financial assets available for sale.	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities valued at amortised cost	Hedging instruments	Financial liabilities excluded from IAS 39	**Total**
Financial fixed assets:	**-**	**-**	**3**	**60 946**	**-**	**-**	**-**	**-**	**60 949**
Financial assets	-	-	3	60 946	-	-	-	-	60 949
Financial current assets:	**-**	**-**	**-**	**213 528**	**-**	**-**	**-**	**-**	**213 528**
Receivables from supplies and services as well as other receivables	-	-	-	157 976	-	-	-	-	157 976
Receivables from derivative instruments	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	52 592	-	-	-	-	52 592
Other financial assets	-	-	-	2 960	-	-	-	-	2 960
Long-term financial liabilities:	**-**	**-**	**-**	**-**	**-**	**(152 808)**	**-**	**(842)**	**(153 650)**
Interest-bearing loans and borrowings	-	-	-	-	-	(152 808)	-	-	(152 808)
Financial liabilities due to lease -	-	-	-	-	-	-	-	(842)	(842)
Short-term liabilities	**-**	**-**	**-**	-	-	**(86 971)**	**(11 517)**	**(1 076)**	**(99 564)**
Liabilities arising from supplies and services as well as other liabilities	-	-	-	-	-	(80 242)	-	-	(80 242)
Liabilities related to derivative instruments	-	-	-	-	-	-	(11 517)	-	(11 517)
Current portion of bank loans and credits	-	-	-	-	-	(6 729)	-	-	(6 729)
Financial liabilities due to lease	-	-	-	-	-	-	-	(1 076)	(1 076)
	-	**-**	**3**	**274 474**	**-**	**(239 779)**	**(11 517)**	**(1 918)**	**21 263**

Classification of financial instruments according to IAS 39 as at 31 December 2015									
	Financial assets held to maturity	Financial assets at fair value through profit or loss,	Financial assets available for sale.	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities valued at amortised cost	Hedging instruments	Financial liabilities excluded from the scope of IAS 39	**Total**
Financial fixed assets:	**-**	**-**	**3**	**4 736**	**-**	**-**	**-**	**-**	**4 739**
Financial assets	-	-	3	4 736	-	-	-	-	4 739
Financial current assets:	**-**	**-**	**-**	**209 967**	**-**	**-**	**5 673**	**-**	**215 640**
Receivables from supplies and services as well as other receivables	-	-	-	153 277	-	-	-	-	153 277
Receivables from derivative instruments	-	-	-	-	-	-	5 673	-	5 673
Cash and cash equivalents	-	-	-	45 846	-	-	-	-	45 846
Other financial assets	-	-	-	10 844	-	-	-	-	10 844
Long-term financial liabilities:	**-**	**-**	**-**	**-**	**-**	**(11 094)**	**-**	**(1 231)**	**(12 325)**
Interest-bearing loans and borrowings	-	-	-	-	-	(11 094)	-	-	(11 094)
Financial liabilities due to lease -	-	-	-	-	-	-	-	(1 231)	(1 231)
Short-term liabilities	**-**	**-**	**-**	-	-	**(167 175)**	-	**(999)**	**(168 174)**
Liabilities arising from supplies and services as well as other liabilities	-	-	-	-	-	(63 640)	-	-	(63 640)
Current portion of bank loans and credits	-	-	-	-	-	(103 535)	-	-	(103 535)
Financial liabilities due to lease	-	-	-	-	-	-	-	(999)	(999)
	-	**-**	**3**	**214 703**	**-**	**(178 269)**	**5 673**	**(2 230)**	**39 8**

36.2. Fair value

	As at 31 December 2016		As at 31 December 2015	
	Carrying value	Fair value	Carrying value	Fair value
Financial fixed assets	60 946	60 946	4 739	4 739
Receivables from derivative instruments	-	-	5 673	5 673
Cash and cash equivalents	52 952	52 952	45 846	45 846
Other current financial assets	2 960	2 960	10 844	10 844
Interest-bearing loans and borrowings	(152 808)	(152 808)	(11 094)	(11 094)
Financial liabilities due to lease	(842)	(842)	(1 231)	(1 231)
Liabilities due to derivatives	(11 517)	(11 517)	-	-
Current portion of loans and borrowings	(6 729)	(6 729)	(103 535)	(103 535)
Short-term Financial liabilities due to lease	(1 076)	(1 076)	(999)	(999)

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

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

36.3. Fair value hierarchy

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

	As at 31 December 2016		As at 31 December 2015	
	Level 2	Level 3	Level 4	Level 5
Financial fixed assets	-	3	-	3
Receivables from derivative instruments	-	-	5 673	-
Liabilities related to derivative instruments	(11 517)	-	-	-
	(11 517)	**3**	**5 673**	**3**

Methods of determining fair value of financial instruments

Level I

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

Level II

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

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

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

Level III

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

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

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

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

Income, costs, profit and loss positions (including interest-related income and costs) as at 31 December 2016								
	Financial assets held to maturity	Assets/financial liabilities at fair value through profit or loss	Financial assets available for sale.	Loans and receivables	Financial liabilities valued at amortised cost	Hedging instruments	Financial liabilities excluded from IAS 39	**Total**
Income/(expense) due to interest	-	-	-	1 013	(1 532)	-	(69)	**(588)**
Foreign exchange profits/(losses)	-	-	-	4 730	(6 864)	-	(32)	**(2 166)**
(Establishment)/reversal of revaluation write-downs	-	-	-	(577)	-	-	-	**(577)**
Dividends	-	-	11	-	-	-	-	**11**
Profits/(losses) on sale/execution of financial instruments	-	-	-	-	-	-	-	**-**
Adjustment of sales due to hedging transactions	-	-	-	-	-	18	-	**18**
Profits/(losses) due to the valuation and execution of derivatives in the period	-	-	-	-	-	113	-	**113**
Net profit(loss) total	**-**	**-**	**11**	**5 166**	**(8 396)**	**131**	**(101)**	**(3 189)**

Income, costs, profit and loss positions (including interest-related income and costs) as at 31 December 2015								
	Financial assets held to maturity	Assets/financial liabilities at fair value through profit or loss	Financial assets available for sale.	Loans and receivables	Financial liabilities valued at amortised cost	Hedging instruments	Financial liabilities excluded from IAS 39	**Total**
Income/(expense) due to interest	-	-	-	993	(1 053)	-	(132)	**(192)**
Foreign exchange profits/(losses)	-	-	-	(454)	(815)	-	-	**(1 269)**
(Establishment)/reversal of revaluation write-downs	-	-	-	136	-	-	-	**136**
Dividends	-	-	26	-	-	-	-	**26**
Profits/(losses) on sale/execution of financial instruments	-	-	-	-	-	-	-	**-**
Adjustment of sales due to hedging transactions	-	-	-	-	-	2 011	-	**2 011**
Profits/(losses) due to the valuation and execution of derivatives in the period	-	-	-	-	-	2 255	-	**2 255**
Net profit(loss) total	**-**	**-**	**26**	**675**	**(1 868)**	**4 266**	**(132)**	**2 967**

37. Financial risk management objectives and policies

Apart from derivatives, the Group's principal financial instruments comprise bank loans, bonds, cash, treasury bills and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors and contract liabilities, which arise directly from its operations. The Group also performs transactions involving derivatives, primarily zero-cost option strategies. The purpose of these transactions is to manage interest rate risk and currency risk arising in the course of business activity of the Group.

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

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Management Board verifies and agrees policies for managing each of these risks and they are summarised below. The Group also monitors the market price risk arising from all financial instruments. The accounting policies of the Group relating to derivatives are set out in note 6.19.

37.1. Interest rate risk

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

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

Interest rate risk – sensitivity analysis

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

	Increase in percentage points	Impact on gross financial result
Year ended on 31.12.2016		
PLN	(0,10%)	(13)
EUR	(0,01%)	(1)
USD	0,55%	128
Year ended on 31.12.2015		
PLN	(0,20%)	(1)
EUR	(0,05%)	(6)
USD	0,30%	-

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

31 December 2016 – variable interest rate

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

31 December 2015 – variable interest rate

	<1 year	1–2 years	2-5 years	> 5 years	Total
Bank loans	103 535	5 697	5 397	-	114 629
Financial leasing	999	1 231	-	-	2 230

The effective interest rate for loans taken by the Group as at 31 December 2016 was 0.9717 % (in 2015: 0.8604 %).

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

37.2. Currency risk

The Group has sales transactions currency exposures. Such an exposure arises from sales and purchases made by an operating unit in currencies other than its functional currency. Approximately 85% of the Group's sales transactions are denominated in currencies other than the functional currency of the operating unit performing the sales.

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

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

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

	Percentage changes in	Impact on gross financial	Impact on equity
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)	-
Financial lease	1%	(24)	-
Total influence of increase of exchange		**(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	-
Financial lease	(5 %)	120	-
Total influence of the decrease of		**(2 686)**	**43 710**
31 December 2015			
Trade receivables	3%/ 10%	4 098	-
Loans granted	3%	72	-
Cash	3%/ 10%	264	-
Hedging instruments	3%	-	(2 333)
Trade liabilities	3%/ 10%	(971)	-
Bank loans	3%/ 10%	(4 613)	-
Financial lease	3%	(30)	-
Total influence of increase of the		**(1 180)**	**(2 333)**
Trade receivables	(3 %)	(4 019)	-
Loans granted	(3 %)	(72)	-
Cash	(3 %)	(262)	-
Hedging instruments	(3 %)	-	25 124

Trade liabilities	(3 %)	971	-
Bank loans	(3 %)	3 439	-
Financial lease	(3 %)	30	-
Total influence of the decrease of		**87**	**25 124**

Currency risk hedging

The basic method of managing the currency risk hedging strategies use derivative instrument.

To hedge future foreign currency transactions, the Company uses symmetrical option strategies.

The impact of derivatives on the statement of financial position.

As per 31 December 2016 the fair value of open items within derivative instruments amounted to PLN 11 517 thousand. Their total volume was incorporated as liabilities on account of derivative financial instruments.

The impact of derivatives on financial result and other comprehensive income

In the reporting period ended 31 December 2016, the result on derivatives amounted to PLN 131 thousand and concerned the implementation of the expiring option strategies covered by hedge accounting (status as at 31 December 2014 PLN 4 266 thousand).

The impact of derivatives on the result of the period

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

Hedge accounting

Summary of the more important hedge accounting policies has been presented in note 6.20. According to them, changes in fair value of hedging instruments include, in part, the effective equity of the Parent Company and the ineffective portion in the profit and loss account. At the time of implementation of the hedged sales revenue, changes in fair value of hedging instruments are recognised in the profit and loss account.

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

At the end of each month, measurement is performed of the effectiveness of hedging – retrospective efficiency – by comparing the cumulative change in fair value of the hedging instrument to the cumulative change in the value of the estimated future cash flows based on market data exchange on the valuation date.

Revaluation reserve from hedging instruments

Revaluation reserve from financial instruments is presented in item 28.3 of additional explanatory notes.

Fair value foreign exchange contracts

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

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

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

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

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

37.3. Credit risk

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

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

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

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

37.4. Liquidity risk

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

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

The table below provides an analysis of the Group's financial liabilities as at 31 December 2016 and as at 31 December 2015 by maturity based on contractual non-discount payment terms.

31 December 2016	**<1 year**	**1–2 years**	**2-5 years**	**> 5 years**	**Total**
Bank loans	6 729	5 603	147 205	-	159 537
Financial lease	1 076	610	232	-	1 918
Trade and other receivables	97 962	-	-	-	97 962
	105 767	**6 445**	**147 205**	**-**	**259 417**

31 December 2015	**<1 year**	**1–2 years**	**2-5 years**	**> 5 years**	**Total**
Bank loans	103 535	5 697	5 397		114 629
Financial lease	999	1 231	-	-	2 230
Trade and other receivables	80 615	-	-	-	80 615

	185 149	**12 325**	**-**	**-**	**197 474**

38. Capital management

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

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, or issue new shares. In the reporting periods ended 31 December 2016 and 31 December 2015, there were no changes to the Company's objectives, policies and processes for managing capital.

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

	31.12.2016	**31.12.2015**
Interest-bearing credits and loans	159 537	114 629
Financial lease	1 918	2 230
Trade and other liabilities, provisions, accruals/deferrals	180 994	126 505
Cash and cash equivalents	(52 592)	(45 846)
Net debt	**289 857**	**197 518**
Share capital	23 901	23 901
Surplus of share sale above their nominal value	113 214	113 214
Other reserve capital	248 860	194 824
Revaluation reserve	(9 328)	4 596
Capital from merger	(1 073)	(1 073)
Incentive scheme	2 354	1 290
Retained earnings	120 763	101 278
Total capital	**498 691**	**438 030**
Capital and net debt ratios	**788 548**	**635 548**
Gearing ratio	**36,76%**	**31,08%**

38.1. Immediate families

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

On 10 June 2014 the Ordinary Meeting of Shareholders of FABRYKI MEBLI „FORTE" S.A. approved an introduction of an incentive scheme for Members of the Management Board of the Company (" Incentive Scheme").

The purpose of the Incentive Scheme is to strive for further development of the Capital Group of the Company and its subsidiaries ("Capital Group") by creating motivational mechanisms for persons responsible for Company management, which would refer to the financial results of the Capital Group and an increase of share value.

The programme is of settlement program character via emission of capital instruments in exchange for services provided-total of 356,220 subscription warrants of the Company in 3 series with issue price equal to the arithmetic mean of rate of shares of the Company listed on WSE, calculated on the basis of ratings of these shares in the period from 28 April 2014 to 10 June 2014.

The issue price of Company share of H series was established via resolution of the Supervisory Board of 27 October 2014 for the amount 46.19. Each warrant authorizes to obtain one share of H series for the issue price.

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

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

Increase of net profit per 1 Company share which constitutes a condition for offering Warrants for a given period is established on the basis of the consolidated annual financial statement of the Capital Group, reviewed by the auditor and approved by the resolution of the General Meeting of Shareholders of the Company.

Execution of rights from Warrants may occur no earlier than post one year from the formal decision of their obtaining and no later than by 30 November 2018.

Series of the incentive scheme ought to be treated as separate programmes in the understanding of IFRS 2.

Fair value of the incentive scheme

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

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

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

38.2. Entity with significant influence over the Group

Information about the entities holding more than 5% of the share capital of the Parent Company are presented in Note 28.

38.3. Terms and conditions of transactions with related entities

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

38.4. Remuneration of the Group's senior management

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

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

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

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

Remuneration paid or payable to other members of key management personnel

	Year ended	
	31.12.2016	**31.12.2015**
Short-term employee benefits (salaries and overheads)	8 507	5 921
Jubilee awards	-	-
Benefits after the employment period	79	25
Revenues from dissolution of employment	-	-
Share-based employee benefits	-	-
Total remuneration paid to key management personnel (except for members of the Management Board and the Supervisory Board)	**8 586**	**4 946**

38.5. Participation of senior executives in the employee programmes and schemes

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

39. Employment structure

Average employment in the Group in the period from January to December 2015 was as follows:

	2016	**2015**
Management Board of the Company	5	5
Administration	206	187
Sales Department	480	585
Production Division	2 251	2 107
Other	147	133
Total	**3 089**	**3 017**

40. Events occurring after balance end of reporting period

On 02 January 2017 the Company received a notification from SKARBIEC Towarzystwo Funduszy Inwestycyjnych S.A., with its registered office in Warszawa, acting:
1) in its own name, as an entity managing portfolios composed of one or more financial instruments,
2) on behalf of the fund SEZAM XX Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, which is managed by the abovementioned,
3) on behalf of the fund SKARBIEC Fundusz Inwestycyjny Otwarty with separated sub-funds, which is managed by the abovementioned,
information that as a result of purchase of the shares of the company FABRYK MEBLI FORTE S.A., made on 28 December 2016 by BENTHAM Sp. z o.o. - portfolio company of the fund SEZAM XX FIZ Aktywów Niepublicznych, the contribution of Fundusze with the Portfolio Company exceeded 5 % of the total number of votes in the general meeting of shareholders of the Issuer.

As of 27 December 2016 Fundusze was the owner of a total of 99 448 shares of the Company, which constitutes 0.42 % of the contribution in the share capital of the Company. The shares enabled performing 99 448 votes in the general meeting of shareholders of the Company, which amounts to 0.42 % of the contribution in the total number of votes in the Company. After purchasing the shares by the Portfolio Company, as of 28 December 2016, Fundusze with the Portfolio Company are the owners of a total of 2 149 448 shares of the Company, which constitutes 8.99 % of the contribution in the share capital of the Company. The shares enable performing 2 149 448 votes in the general meeting of shareholders of the Company, which amounts to 8.99 % of the contribution in the total number of votes in the Company.

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

Signatures of persons entrusted with maintenance of accounts

Anna Wilczyńska

....

Signatures of all members of the Management Board

President of the Management Board

Maciej Formanowicz

....

Member of the Management Board

Gert Coopmann

....

Member of the Management Board

Klaus Dieter Dahlem

....

Member of the Management Board

Maria Florczuk

....

Member of the Management Board

Mariusz Gazda

....

Ostrów Mazowiecka, 20 March 2017

FABRYKI MEBLI „FORTE" S.A. CAPITAL GROUP

Management board's report on the operations of the Fabryki Mebli FORTE capital group for the period ended 31 december 2016

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

Ostrów Mazowiecka, 20 March 2017

Table of content

I. CURRENT FINANCIAL AND OPERATIONAL STANDING

This Report on the operations of the Issuer – Fabryki Mebli "FORTE" S.A. – in 2016 was prepared on the basis of § 91 of the Regulation of the Minister of Finance of 19 February 2009 concerning current and periodic information provided by securities issuers and conditions of recognising as equivalent information required under the regulations of a state not being a member state (Journal of Laws of 28 January 2014, item 133).

1. Basic information on Fabryki Mebli FORTE S.A.

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. The company initially (from 17 June 1992) conducted activities under the name "FORTE" Sp. z o .o. On 25 November 1993, pursuant to a notarial deed, "FORTE" Sp. z o. o. was merged with FABRYKI MEBLI "FORTE" Sp. z o. o. Prior to its transformation into a joint stock company, the Company conducted activities under the name FABRYKI MEBLI "FORTE" Sp. z o. o.

The company is entered into the National Court Register maintained by the District Court for the city of Warsaw in Warsaw, XIV Economic Department of National Court Register (former XXI Economic Department) under KRS number 21840.

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

The duration of the Company is perpetual.

Main activities of the Company include:

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

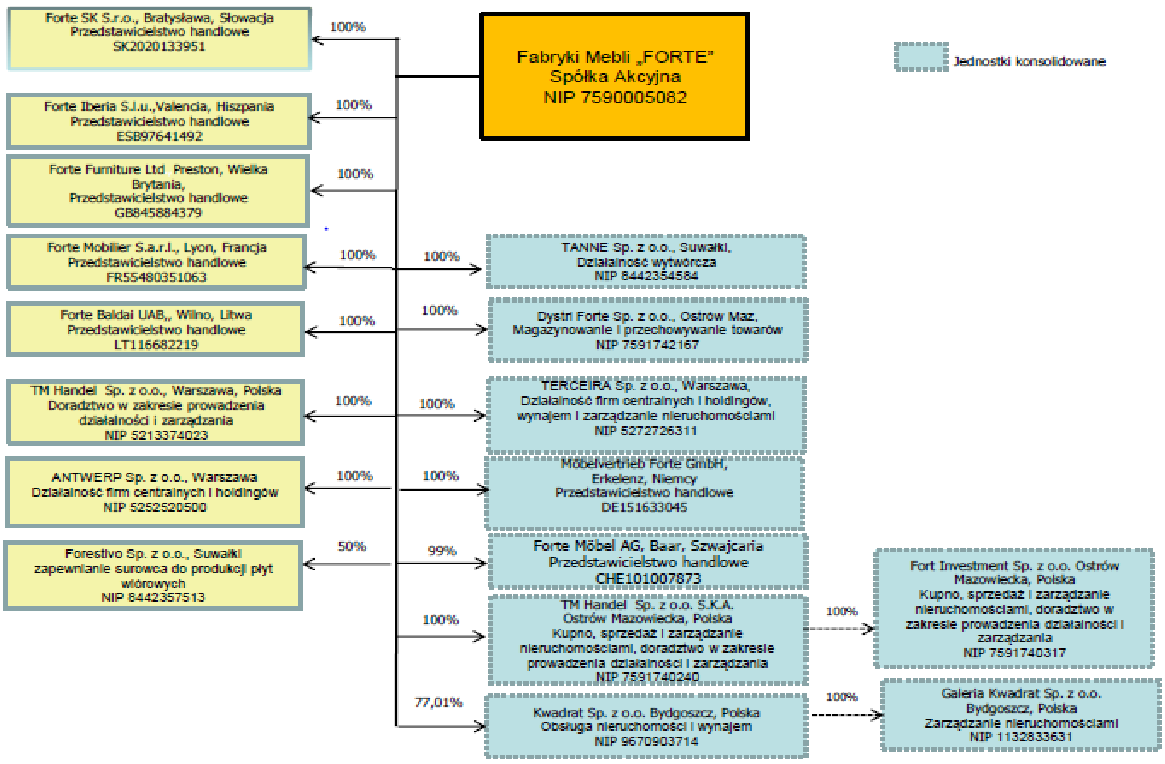
Fabryki Mebli „FORTE" S.A. conducts its operations by means of its four country branches:

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

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

The Company is a Parent Company and forms the Capital Group together with other entities. As at 31 December 2016 the

the capital group was composed of:



1.2. Company Management Board

Management Board composition as per 31 December 2016

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

Changes in the composition of the Management Board

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

1.3. Supervisory Board

Supervisory Board composition as per 31 December 2016

Zbigniew Sebastian – Chairman of the Supervisory Board
Stefan Golonka – Vice-Chairman of the Supervisory Board
Stanisław Krauz – Member of the Supervisory Board
Tomasz Domagalski - Member of the Supervisory Board
Jerzy Smardzewski - Member of the Supervisory Board

1.4. Forte's mission and policy

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

The objective of Fabryki Mebli "FORTE" S.A. is to:

- Continually increase the value of the company, and thus ensure that the shareholders receive a higher-than-average return on invested capital,
- Ensure the supply of goods and services meeting the requirements of Customers in a wide range of their needs taking into account specific market requirements,

- Achieve full satisfaction of our Customers,
- Strengthen the opinion of a credible and reliable partner,
- Build creative relationships in the work environment through shaping the awareness and personality of people,
- Provide conditions ensuring safety and health at work,
- Conduct activities in an environmentally acceptable way,
- Be committed to preserving the values of FSC.

The above-mentioned policy is implemented by the Company through:

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

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

1.5. Key sales events attended by the Issuer in 2016

Year 2016	• **14 -17 January 2016** - Trade fairs BEGROS, Germany FORTE showed an offer on two stands with a total area of 424 sqm. From the group of self-assembly furniture - 8 programs, including two Terzio and Quatrix in all functions (living room, dining room, bedroom, hallway).These were the ones that were the most successful in this group. For a group of assembled furniture the Company has prepared 11 new collections, where 7 of them had been implemented into production, • **20 - 23 January, 2016** - Trade fairs SARAGOSSA FERIA DEL MUEBLE, Spain Held every two years trade fair Saragossa Feria del Mueble is an important event for the furniture industry in Spain. The most important manufacturers of furniture present their offer there, and the event attracts thousands of visitors. The development of sales in the Iberian Peninsula is one of the strategy elements for the coming years for FORTE, hence our presence there. Collections in "white gloss" attracted the biggest customer interest. • **24 - 27 January 2016** - Trade fairs BIRMINGHAM NEC, United Kingdom FORTE showed dozens of collections, including news and programs from the existing offer. Collections in dark and cool colors were liked the most (especially Amerigo and Bellvue). • **February 19, 2016** - FORTE signed a cooperation agreement with the city of Suwalki in order to develop vocational education in the wood industry, • **8-11 March 2016** - International Furniture Trade Fair, Poznan FORTE stand was awarded the Acanthus Aureus Medal. This is a prize for the best architectural and graphic solutions that are conducive to direct communication with the client and highlight the image of the company presenting the offer at the trade fair, • **14-17 March 2016** - Trade Partner, Paris France Trade fairs were organized by one of Forte partners specializing in the sale of furniture in France. Forte company presented there its debut stand, • **8-10 and 11-13 May, 2016** - Trade Fairs in Messezentrum, Barntrup, Germany Trade fairs Partnertage are organized for customers on the German market and trade fairs organized by the Group Steinhoff

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

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

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

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

1.6. Awards and honours

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

RANKING PRODUCENTÓW MEBLI SKRZYNIOWYCH

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

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

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

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

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

- On the 12th of October the Board President of the Fabryki Mebli "Forte" S.A. has been awarded one of the main prizes of the final of "Leaders of Tomorrow 2016" competition, organized on the occasion of the 20th anniversary of the ICAN Institute - editor of the prestigious magazine "Harvard Bussines Review Poland". President Maciej Formanowicz received the award in the category of Foreign Expansion.

- November 17 Fabryki Mebli "Forte" S.A. received the Eco Certificate in the WSFiZ headquarters in Bialystok during the Eco Forum "Ecology and Renewable Energy Sources as an opportunity for the development of Eastern Poland"

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

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

2. Information concerning basic products, goods and services

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

Assortment	2016		2015		Change during 2016/15	
	Value	Share	Value	Share		%
Products	1 061 756	96,1%	927 273	97,1%	134 483	14,5%
Goods	8 945	0,8%	11 081	1,2%	(2 136)	(19,3%)
Materials	12 095	1,1%	7 552	0,79%	4 543	60,2%
Services	21 760	2,0%	8 800	0,91%	12 960	147,3%
Total:	**1 104 556**	**100,0%**	**954 706**	**100,0%**	**149 850**	

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

According to the Company's strategy, it focuses its activities on the production of residential self-assembly type of furniture. Complementarity and coherence of the offer is additionally ensured with mounted furniture of higher price range, imported tables, chairs and decorative additions. The products offered by Fabryki Mebli "FORTE" S.A. have been recognizable in the market for many years and are highly regarded by the customers.

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

In 2016 export sales of FORTE amounted to PLN 923 261 thousand and comprised 83.6 % of total sales (in 2015 it was at the level of PLN 793 485 thousand- – 83,1 %). German-speaking markets (Germany, Austria, Switzerland) remain export leading markets in which total sales in 2016 comprised approx. 55% of total sales and France (11%), Spain and Portugal (5%), Czech Republic, Slovakia and Hungary (5%)

Sales in the second largest Polish market amounted to PLN 181 295 thousand. (16.4 %) against PLN 161 221 thousand (16,9 %) in 2015 and concentrated on the two main distribution channels: traditional furniture stores and retail chains.

The largest recipients of Company goods are: Roller GmbH with headquarters in Germany and Steinhoff International Group with headquarters in France. Roller GmbH and Steinhoff International Group's share in Fabryki Mebli "FORTE" S.A.'s sales income exceeded 10%. There are no formal ties between the customer and the Company.

4. Information concerning sources of supply of materials for production, goods and services

In 2016 purchase of materials, goods and services from national suppliers constituted 76,1% of total purchase of the Company.

The key supplier of raw materials for the Company was Pfleiderer Group. Pfleiderer's share in Fabryki Mebli "FORTE" S.A. sales income exceeded 10%. There are no formal ties between the supplier and the Company.

Purchase from import in 2016 constituted 23,9% of total purchases. The main direction of import for the Company was German market-24,9% and Lithuania (12,8%)within the total value of imported purchase.

5. Information concerning contracts important for the activity.

Insurance contracts entered into by the Issuer in 2016:

- in co-insurance with Generali 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 September 2016 – 24 September 2017
  - property insurance from force majeoure– the sum insured PLN 560 586 thousand
  - insurance of the loss of profit – the sum insured PLN 246 129 thousand
- in TUiR "WARTA" S.A. :period of insurance 25 September 2016 – 24 September 2017
  - electronic equipment insurance against all risks – the sum insured PLN 4 612 thousand
  - business liability insurance – the sum insured PLN 30 000 thousand
  - insurance of cargo in transport – the sum insured PLN 674 000 thousand
  - electronic equipment insurance against all risks – the sum insured PLN 8 958 thousand

- with AIG Europe Limited Sp. z o.o.: insurance period 01 April 2016 – 31 March 2017
  - liability insurance of the Members of the Issuer's Bodies – the sum insured EUR 20 000 thousand.
- with Insurance Company Euler Hermes S.A.: insurance period 01.06.2016 – 30.11.2017
- trade credit risk insurance with the option of Parent Company debt collection - the maximum amount of insurance: 70 - times of the paid premium for the insurance year, no less than 70 times the minimum contribution of 500 thousand zloty.

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

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

Detailed information regarding transactions concluded with related entities have been included in Notes 34 of the financial statements.

7. Information regarding credits and loans.

Short-term	Nominal interest rate %	Due date	31.12.2016	31.12.2015
PKO BP S.A.– working capital loan in the amount of PLN 100 000 thousand - short-term portion	depending on the currency used 1M WIBOR /1M EURIBOR	to 09.06.2019	-	51 138
ING Bank Śląski S.A. – – working capital loan in the amount of EUR 1 000 000 thousand - short-term portion	depending on the currency used 1M WIBOR /1M EURIBOR /1M LIBOR	to 30.06.2019	-	41 635
mBank S.A. – working capital loan in the amount of EUR 5 000 thousand - short-term portion	depending on the currency used O/N WIBOR or O/N EURIBOR or O/N LIBOR	to 12.12.2019	-	5 065
PKO BP S.A. -investment loan in the amount 3 500 thousand EUR- short-term portion	1M EURIBOR	to 22.12.2018	4 075	3 140
mBank S.A. investment loan in the amount 2 400 thousand EUR- short-term portion	1M EURIBOR	to 31.12.2018	2 654	2 557
Short-term total			**6 729**	**103 535**

Long-term	Nominal interest rate %	Due date	31.12.2016	31.12.2015
PKO BP S.A.– working capital loan in the amount of PLN 100 000 thousand - long-term portion:	depending on the currency used 1M WIBOR/ 1M EURIBOR	to 09.06.2019	61 936	-
ING Bank Śląski S.A. .– working capital loan in the amount of PLN 100 000 thousand - long-term portion:	depending on the currency used 1M WIBOR/ 1M EURIBOR / 1M LIBOR	to 30.06.2019	79 736	-
mBank S.A. – working capital loan in the amount 5000 thousand EUR- long-term portion	depending on the currency used O/N WIBOR or O/N EURIBOR or O/N LIBOR	to 12.12.2019	5 533	-
PKO BP S.A. -investment loan in the amount 3 500 thousand EUR- - long-term portion	1M EURIBOR	to 22.12.2018	2 447	6 180

mBank S.A. – investment loan in the amount of EUR 2 400 thousand -long-term portion	1M EURIBOR	to 31.12.2018	3 156	4 914
Total Long-term			**152 808**	**11 094**

Bank loan securities as at	**31 December 2016**
PKO BP S.A. – investment loan in the amount of EUR 3,500 thousand EUR	1. Registered pledge on movable assets of value no less than EUR 5 130 thousand 2. Assignment of rights under the insurance contract 3. In blanco bill of exchange by the Borrower with blank promissory note
mBank S.A. – investment loan in the amount of EUR 2,400 thousand EUR	1. Registered pledge on purchased machines and devices up to the highest sum of security of 3,600 thousand EURO 2. Assignment of rights under the insurance contract
PKO BP S.A. – working capital loan in the amount of PLN 1000 000 thousand	1. Total bail stipulated mortgage of up to PLN 120 000 thousand on the perpetual usufruct right to the real estate of the Issuer and buildings located in these real estates which are separate from the land located in Hajnówka and in Ostrów Mazowiecka 2. An in blanco bill of exchange with a promissory note, transfer of rights under insurance contracts property on which the mortgage was established 3. Registered pledge on things labeled as to species present in the Unit in Hajnówka
ING Bank Śląski S.A. PKO BP S.A. – investment loan in the amount of PLN 100 000 thousand.	1. Registered pledge on movable assets in the factory in Suwalki and Ostrow Mazowiecka up to the maximum security amount of PLN 120 000 thousand. 2. Joint capped rate mortgage to the amount of PLN 54 000 thousand, established on the right of perpetual usufruct of land and the right of ownership of the buildings in the factory in Suwalki with the agreement on assignment of rights resulting from the insurance 3. Registered pledge on stocks with a minimum value PLN 65 000 thousand in the factory in Suwalki and Ostrow Mazowiecka up to the maximum security amount of PLN 120 000 thousand 4. Assignment of insurance policy
mBank S.A. – working capital loan in the amount of EUR 5 000 thousand EUR	1. An in blanco bill issued by the credit recipient issued with the bill of exchange 2. Registered pledge on fixed assets up to the maximum security amount of 6 000 thousand EUR

With the nominal interest rate one should consider additionally negotiated bank margins, which reflect the risks associated with the Company financing.

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

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

On 15/12/2016, the Management Board of the Company signed an annex with mBank S.A. to the credit agreement in the current account of 20/12/2013. By virtue of this annex the loan amount has been increased to the maximum of 5 000 thousand EUR and the credit period was extended to 12.12.2019.

8. Information on loans granted in the given financial year

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

- on 25.02.2016 with a subsidiary Tanne Sp. z o.o. for PLN 9 000 thousand , with a maturity date till 30/06/2016. The whole of the loan was repaid on 06.05.2016;
- on 28.02.2016, with the subsidiary TM-Handel Sp. z o.o. SKA, for the amount of PLN 10 thousands. On 30/12/2016 an annex to the loan agreement was signed, according to whichthe maturity date was extended to 30/06/2017;
- on 29.02.2016, the annex to the loan agreement with a subsidiary Antwerp Sp. z o.o., in accordance with which the loan amount was increased to PLN 30 000 was signed.On 30/12/2016 an annex to the loan agreement was signed, according to which the maturity date was extended to 30/06/2017;
- on 13/06/2016 with a subsidiary Tanne Sp. z o.o. to the amount of 10 000 thousand EUR with the last drawing date to 30/06/2018. Drawing may occur in PLN or EUR. Repayment will be in 20 installments starting from 30.09.2018 until 30.06.2023. On 12.08.2016 the loan amount was increased to 20 000 thousand EUR;
- on 29.06.2016, the annex to the loan agreement with a subsidiary Dystri- Forte Sp. z o.o. was signed, according to which the deadline for repayment of 227 000 EUR was extended till 30/06/2017;
- on 30.06.2016, the annex to the loan agreement with a subsidiary, Gallery Square Sp. z o.o., was signed according to which the repayment term of the next installment was postponed until 30/06/2018;
- on 31.07.2016, the annex to the loan agreement with a subsidiary Kwadrat Sp. z o.o. was signed, according to which the repayment term of the next installment was postponed until 31/07/2018;
- on 05.12.2016, the annex to the loan agreement with a subsidiary of Forte Mobilier SARL was signed, according to which the loan amount was increased to 30000 EUR from the date of the last year drawing to 31.12.2017. The repayment will be effected in 8 installments starting from 31.03.2018;
- on 31.12.2016 with a subsidiary Möbelvertrieb Forte GmbH to the amount of 3 400 000 EUR, dated on the last drawing 31/05/2017. The repayment will be effected in 12 installments starting from 30.06.2017.The first tranche of the loan was withdrawn on 02.01.2017.

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

Related entity	Loan level in currency	Loan currency	Due date	Loan balance as at 31.12.2016 in PLN thousands	Interest amount as at 31.12.2016 in thousand PLN
Kwadrat Sp. z o. o.	439	EUR	lipiec 2021	1 441	4
Galeria Kwadrat Sp. z o.o.	1 254	PLN	czerwiec 2023	1 020	7
Fort Investment Sp. z o.o.	5 000	PLN	grudzień 2017	660	4
Dystri- Forte Sp. z o.o.	227	EUR	czerwiec 2017	1 004	3
Fort Mobilier S.a.r.l.	30	EUR	grudzień 2019	88	-
Tanne Sp. z o.o.	20 000	EUR	czerwiec 2023	58 397	230
Antwerp Sp. z o.o.	30	PLN	czerwiec 2017	30	-
TM- Handel Sp. z o.. SKA	10	PLN	czerwiec 2017	10	-
Möbelvertrieb Forte GmbH	3 400	EUR	marzec 2020	-	-
Total:				**62 650**	**248**
Including:					
Short-term portion:					
Kwadrat Sp. z o. o.				-	4
Galeria Kwadrat Sp. z o.o.				-	7
Dystri- Forte Sp. z o.o.				1 004	4
Fort 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 portion:					
Kwadrat Sp. z o. o.				1 441	-
Galeria Kwadrat Sp. z o.o.				1 020	-
Fort Mobilier S.a.r.l.				88	-
Tanne Sp. z o.o.				58 397	-
Total:				**60 946**	**-**

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

9. Informacje o udzielonych i otrzymanych w danym roku obrotowym poręczeniach i gwarancjach

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

- In the reporting period ended 31 December 2016, the Company granted the following securities on investment liabilities of the subsidiary TANNE Sp. z o.o.:
    - for SIEMPELKAMP Maschinen und Anlagenbau GmbH from a contract for the design, supply, installation and commissioning parts of the production line for the manufacture of chipboard. The total net value of the agreement amounts to 23 650 thousand EUR. Deadline for completion of the investment is planned for July 2018. The balance of liabilities at the end of the reporting period is 11 636 thousand EUR.
    - for Büttner Energie - und Trocknungstechnik GmbH from a contract for the design, supply, installation and commissioning parts of the production line for the manufacture of chipboard. The total net value of the agreement amounts to 15 000 thousand EUR. Deadline for completion of the investment is planned for March 2018. The balance of liabilities at the end of the reporting period is 7 380 thousand EUR
    - for PAL SRL from the contract to design, supply, installation and commissioning parts of the production line for the manufacture of chipboard. The total net value of the investment amounts to 22 947 thousand EUR. Deadline for completion of investment is planned for May 2018. The balance of liabilities at the end of the reporting period is 13 768 thousand EUR
    - for BUDIMEX S.A. the contract for the comprehensive implementation of the investment project as a general contractor in the form of building design and construction of production and storage area of approx. 33 600 m2 in a completely finished state. The total net value of the agreement amounts to PLN 28 550 thousand The completion date is scheduled for February 2017. Expiry date falls on 28.02.2017. The balance of liabilities at the end of the reporting period is PLN 7 657 thousand .
    - for EWK Umwelttechnik GmbH from the contract for the comprehensive implementation of an investment in the form of design and installation of air purification system. The total net value of the agreement amounts to 4 700 thousand EUR. Expiry date falls on 31.12.2019. The balance of liabilities at the end of the reporting period is 4 230 thousand EUR.
    - for Robert Burkle GmbH the contract for the comprehensive implementation of an investment in the form of design and installation of the lamination. The total net value of the agreement amounts to 3 125 thousand EUR. Expiry date falls on 31.12.2017. The balance of liabilities at the end of the reporting period is 2 187 thousand EUR.
- In the reporting period ended 31 December 2016, the Company granted the following securities of loan obligations of the subsidiary TANNE Sp. z o.o.:
    - guarantees to the amount of 105 000 thousand EUR for TANNE Sp. z o.o. commitments with PKO BP S.A. under the Loan Agreement dated 17.10.2016,
    - guarantees to the amount of 105 000 thousand EUR for TANNE Sp. z o.o. commitments to BGK under the Loan Agreement dated 17.10.2016,
    - guarantees to the amount of 18 564 thousand EUR for TANNE Sp. z o.o. commitments with PKO BP S.A. under the Hedging Agreement dated 17.10.2016,
    - guarantees to the amount of 21 750 thousand EUR for TANNE Sp. z o.o. commitments to BGK under the Hedging Agreement dated 17.10.2016 r.,
    - subordination agreements due to the Company TANNE Sp. z o.o. with a liability of PKO BP S.A. and BGK resulting from the Loan Agreement dated 17.10.2016 and Hedging Agreement dated 17.10.2016
    - pledges of financial and registered pledges on shares TANNE Sp. z o.o.. held by the Company,
    - statements on behalf of PKO BP S.A. declaration of submission to enforcement in art. 777 § 1 point 5) of the Code of Civil Procedure, of all the assets of the Company to the amount of 105 000 thousand EUR guarantee associated with the Loan Agreement dated 17.10.2016
    - for BGK statements of declaration of submission to enforcement in art. 777 § 1 point 5) of the Code of Civil Procedure, of all the assets of the Company to the amount of 105 000 thousand EUR guarantee associated with the Loan Agreement dated 17.10.2016

- statement on behalf of PKO BP S.A. on declaration of submission to enforcement in art. 777 § 1 point 5) of the Code of Civil Procedure, of all the assets of the Company amounts to 18 564 thousand EUR associated with guarantee of Hedging Agreement dated on 17.10.2016,
- BGK on declaration of submission to enforcement in art. 777 § 1 point 5) of the Code of Civil Procedure, of all the assets of the Company amounts to 21 750 thousand EUR associated with guarantee Hedging Agreement dated on 17.10.2016,
- statement on behalf of PKO BP S.A. on declaration of submission to enforcement in art. 777 § 1 point 6) of the Code of Civil Procedure, the registered pledge of shares pledged to the amount of 210 000 thousand EUR guarantee associated with the Loan Agreement dated 17.10.2016
- statement on behalf of PKO BP S.A. on declaration of submission to enforcement in art. 777 § 1 point 6) of the Code of Civil Procedure, the registered pledge of shares pledged to the amount of 40,314 thousand EUR associated with guarantee Hedging Agreement dated 17.10.2016.

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

The Issuer did not publish any prognosis of financial results in 2016.

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

Net working capital	2016	2015
Current assets	374 778	388 344
Short-term liabilities	(185 503)	(222 801)
Net working capital	189 275	165 543
Ratio of net working capital (net working capital /total assets)	22,5%	24,3%

Debt analysis	2016	2015
Total liabilities	342 449	243 364
Total debt ratio (total debts/total liabilities)	40,7%	35,7%
Credit rating (net profit + amortisation)/ total debts)	34,5%	39,9%
Own capital debt indicator (total liabilities/own capital)	68,7%	55,6%

Long-term liabilities of Fabryki Mebli "FORTE" S.A. dated 31 December 2016 amounted to PLN 156 946 thousand. and mainly consisted of liabilities from loans and borrowings (PLN 152 808 thousand), representing 97.4% of total long-term liabilities.

Short-term liabilities dated 31 December 2016 amounted to PLN 185 503 thousand and consisted primarily of the liabilities regarding Trade and other payables (PLN 97 962 thousand), representing 52.8% of total short-term liabilities and reserves and accruals (PLN 58 043 thousand), representing 29.1% of total current liabilities.

The company has a relatively low debt level and good cash flow. There are no dangers related too inability to repay incurred liabilities

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

The Issuer's investment plan for 2017 amounts to PLN 30 000 thousand and assumes mainly investments in further improvement of productivity through purchase of modern machinery and equipment to all the factories of the Company as well as recreation of some parts of amortized tangible assets. Investments planned in 2017 will be financed partly from company's own resources and partly from bank loans. Informacja dotycząca instrumentów finansowych w zakresie ryzyka zmiany cen, kredytowego, istotnych zakłóceń przepływów środków pieniężnych oraz utraty płynności finansowej

13. Information regarding financial instruments in respect of: risk: price change, credit risk, risk of

significant disturbances to cash flows and risk of a loss of the financial liquidity.

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

Apart from derivatives, the Company's principal financial instruments comprise bank loans, finance leases with buy option, cash, short-term deposits and short term corporate bonds. The main purpose of these financial instruments is to raise finance for the Company's operations and optimal management of generated asset surplus. The Company has various other financial instruments such as trade debtors and trade creditors and contract liabilities, which arise directly from its operations.

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

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

13.1. Interest rate risk

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

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

Interest rate risk — sensitivity analysis

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

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the given instrument. The other financial instruments of the Company that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

13.2. Currency risk

The company is at currency risk which occurs as a result of the conduct by the Company of sale and purchase in currencies other than the valuation currency. About 85,5 % of the Company's sales transactions are denominated in foreign currencies, mainly in EUR.

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

The sensitivity of gross profit due to changes in the fair value of monetary assets and liabilities to reasonably possible fluctuations in the EUR, GBP and USD (in total) exchange rates are described in item 37 of additional explanatory notes to the financial statements

Currency risk hedging

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

The impact of derivative instruments on the statement of financial position

Dated 31 December 2016, the fair value of exchange contracts that meet the criteria of assessment for hedge accounting amounted to (PLN 11 517 thousand) and the effective value was recognized fully in the reserve capital and revaluation of liabilities related to derivative financial instruments (2015: PLN 5 673 thousand).

Impact of derivatives on financial result and other comprehensive income

In the reporting period ended 31 December 2016, the result on derivatives amounted to PLN 4 131 thousand and concerned the implementation of the expiring option strategies covered by hedge accounting (status as at 31 December 2015: PLN 4 266 thousand).

Impact of derivatives on the result of the period

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

Hedge accounting

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

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

At the end of each month measurement is performed of the effectiveness of hedging – retrospective efficiency – by comparing the cumulative change in fair value of the hedging instrument to the cumulative change in the value of the estimated future cash flows based on market data exchange on the valuation day.

Revaluation reserve from hedging instruments

Revaluation reserve from financial instruments is presented in item 28.3 of additional explanatory notes to the financial statements.

Fair value of foreign exchange contracts

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

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

13.3. Credit risk

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

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

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

There are no significant concentrations of credit risk in the Company.

13.4. Liquidity risk

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

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

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

14. Commentary to basic financial parameters of the Company

Opis	2016	2015	Change %
Description	1 104 556	954 706	15,7%
Sales revenue	(676 505)	(608 191)	11,2%
Cost of sales	428 051	346 515	23,5%
Gross profit from sales	38,7%	36,3%	
Gross profit from sales	111 235	82 402	35%
Operating profit (EBIT)	132 017	101 684	29,8%
EBITDA	118 628	88 608	33,9%
Gross profit	97 195	77 936	24,7%
Net profit	8,8%	8,2%	
Net return on sales	19,5%	17,8%	
Return on equity (ROE)	11,6%	11,4%	

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

Sales revenues in 2016 amounted to PLN 1 104 556 thousand and in relation to the previous year they were higher by 15.7% (by value of PLN 149 850 thousand
In the Management Board's opinion achieving such good sales performance confirms the assumptions of the strategy of continuous development of the Group FORTE. The company produced a total of 3.9 million pieces of furniture that weresold to customers in more than 40 countries, mainly in Europe but also in Asia and Africa. Share in the growth of sales revenue was also beneficial for the Company, as an exporter, the level of EUR / PLN.

Gross profitability of sales stood at 38.7%, up 2.4 points percent higher than in the previous year. The main reasons for this improvement in profitability are: the positive impact of the increase in the EUR / PLN, the increased scale of production to lower unit costs, stable situation on the market prices of basic raw materials and consistent policy of budgetary discipline.

The costs of sales - charge of incomes of sales costs was 23.9%, compared to 22.8% in the same period the previous year. In terms of value, cost of sales increased by PLN 46 364 thousand.

The main reason for the increase of charge of incomes of sales costs was incurring the costs trademark license fees by the company, in connection with its in-kind contribution to the subsidiary in October 2015.

Overheads - revenue load overheads amounted to 4.3% compared to 3.7% in 2015.The increase in this category of costs is mainly due to increased investment in programs related to the Company's continued policy focused on workforce development.

Operating business profit - The Company recorded a very significant 35% increase in operating profit. It amounted to PLN 111 235 thousand (10.1% of revenues), in comparison to 82 of PLN 402 thousand (8.6% of revenues) in 2015.

Net profit in the reporting period amounted to PLN 97 195 thousand(8.8% of revenues), compared with PLN 77 936 thousand in the comparative period (8.2% of revenues).

15. Evaluation of factors and unusual events affecting the result of business activity for the financial year, including determination of the degree of influence of these factors and unusual events on the achieved result.

There were no other factors or unusual events besides those described in section 14 of this report.

16. Situation on the basic raw materials market is perceived as quite stable.

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

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

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

17. Changes in basic principles of company management of Issuer and his capital group

Did not occur.

18. Any agreements concluded between the Company and the Management staff regarding compensation in case of their resignation or dismissal from the performed function without an important cause or in case their recall or dismissal is due to merger by acquisition

The Company concluded the following with persons managing:

•agreement providing that in the case of recalling the Manager compensation equal to his 6 month remuneration, , unless the basis for the dismissal will be any of the following reasons: committing a crime by the Manager against the Company, serious and culpable violation by the Manager of the provisions in the field of securities trading, breach of essential contractual obligations, existence of a permanent impediment to the exercise by the Manager of the function of the member of Management Board lasting longer than two months in total. The agreement also provides that the Manager may terminate the agreement in the event of a breach by the Company of the relevant obligations under the agreement In this case, the Manager will be entitled to compensation in the amount of 6 of his/her monthly salaries. Also in the case of non-appointment of the Manager for the 2014-2019 term of the Management Board, the given member of the Management Board will be entitled to compensation in the amount of his/her 6 monthly salaries, with the exclusion of the cases specified above on the side of the Manager.

19. Employment, HR policy in Forte. FORTE

The structure of employment according to professions education, gender and the type of work performed

Employment structure	Status as at: 2016	2015
according to education		
University degree	16%	15%
Secondary education	45%	46%
Vocational	28%	28%
Primary education	11%	11%
as per gender		
Women	31%	30%
Men	69%	70%
according to the type of work		
Blue-collar workers	82%	83%
White-collar workers	18%	17%

Average employment in 2016 in the Company amounted to 3 089 people, compared with 3 017 people in 2015. Employment increased by 2.4% relative to the end of 2015 is a derivative of sales and the associated increase of the tasks in the areas of production and logistics.

19.1 Development and training

Training

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

"Yellow Elephant"

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

19.2 Apprenticeship plans and practices.

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

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

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

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

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

Mission

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

Vision

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

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

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

Actions

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

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

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

The Company does not support neither sponsor, in particular:

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

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

Rules for granting support

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

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

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

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

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

Increase of net profit per one Company share constituting the condition for offering the Warrants for a given period is established on the basis of the consolidated annual financial report of the Capital Group, investigated by the statutory auditor and approved via a resolution by the Annual Meeting of Shareholders of the Company.
Execution of rights from Warrants may take place no sooner than post the period of 1 year from the formal decision concerning their take over and no later than on 30 November 2018.
Series of the incentive programme are considered as separate programmes in the meaning of MSSF 2.

The fair value of the incentive program

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

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

	Series	**Number of warrants**	**average weighted price of completion**
Occurs as per 01.01.2016 including:		**237 480**	
	D	118 740	46,19
	F	118 740	46,19
Change during reporting period		**-**	**-**
Occurring as per 31.12.2016		**237 480**	
Possible for completion as per 31.12.2016	D	118 740	46,19
	F	118 740	46,19

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

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

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

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

Issuer's managing and supervising persons		Number of shares with a nominal value of PLN 1 each.
Gert Coopmann	Member of Board	50 000
Zbigniew Sebastian	Chairman of Supervisory Board	300

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

23. Fabryki Mebli "Forte" S.A. share price performance

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

Key data on Forte shares:

Key data	2016	2015
Company's net profit in PLN '000	97 195	77 936
The highest share price in PLN	79,60	62,50
The lowest share price in PLN	46,52	49,39
Share price at the end of the year in PLN	76,00	53,40
P/E ratio as of the end of the year	18,69	16,38
Number of shares on the stock exchange (in items)	23 901 084	23 901 084
Average daily trading volume (in items)	14 355	21 526

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

The Issuer does not possess such information.

25. Information concerning control system of the employee s hare programme.

Did not occur.

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

Did not occur.

27. Information on the contract with an entity authorised to audit financial statements.

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

On 3 August 2016:

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

On 21 May 2015:

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

28. Structure of assets and liabilities

Liquidity and efficiency analysis	2016	2015
Current liquidity (current assets/ short-term liabilities)	2,0	1,7
Quick liquidity (current assets – inventories/ short-term liabilities)	1,2	1,1
Receivables rotation in days (average trade receivables * 365/ sales revenues)	50	51
Inventory turnover in days (average inventory * 365/ own cost of sales)	75	85
Liabilities rotation in days (average trade liabilities * 365/ own cost of sales)	37	31
Rotation of current assets in days (average current assets * 365 / sales revenues) 143	126	141

Characteristics of the balance sheet structure	2016		2015		% Change
	in PLN '000	% of the balance sheet total	in PLN '000	% of the balance sheet total	2016/2015
Non-current assets	466 362	55%	293 050	43,0%	59%
Current assets	374 778	45%	388 344	57,0%	(3%)
Total assets	**841 140**	**100%**	**681 394**	**100%**	**23%**
Equity	498 691	59%	438 030	64,3%	14%
Long-term liabilities and provisions	156 946	19%	20 563	3,0%	663%
Short-term liabilities and provisions	185 503	22%	222 801	32,7%	(17%)
Total equity and liabilities	**841 140**	**100%**	**681 394**	**100%**	**23%**

In 2016, the Company recorded an increase in **balance sheet total** by PLN 159 746 thousand.

Fixed assets increased by PLN 173 312 thousands, which is mainly a result of an increase of capital in subsidiaries by PLN 94 thousand and loans given to subsidiaries in the amount of PLN 56 211 thousand.

In **current assets** there was a decrease in the position of receivables due to supplies and services together with other claims (PLN 10 761 thousand), financial assets due to short-term given loans (PLN 7 884 thousand) and due to derived financial instruments (PLN 5 673 thousand). Simultaneously the Company recorded increase in the position of supplies (PLN 4 368 thousand) as well as in the position of funds (PLN 6 746 thousand).

On the side of **liabilities** there have been increases of liabilities connected with: bank loans (by PLN 44 908 thousand), trade and other payables (by 17 347 thousand) and provisions and accruals (by PLN 23 989 thousand), liabilities due to income tax (PLN 6 578 thousand) and liabilities due to derivative financial instruments (PLN 11 517 thousand).

The increase in **bank loans** balance arises from partial recapitalizing of related entities.

Increase in the balance of **trade liabilities** is the consequence of increased production. The Company timely performs all of its obligations which is confirmed by a stable indicator of rotation of liabilities.

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

The Company maintains a good financial liquidity. The closing **balance of cash** at the end of the reporting period was PLN 52 592 thousand, which as compared to the end of 2015 was a decrease by PLN 6 746 thousand.

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

Among the most important events of 2016, the Company may include:

- continuation of upward sales trend, which was reflected in producing record number of furniture packages and crossing of symbolic billion PLN in income from sale.
- Continuous optimisation of production processes, i.a. through development of investitions enabling further

increase of productive abilities
- realisation of medium-term investment plans of the Group according to the accepted schedule
- including the Parent Company in the elite group of 25 Warsaw Stock Exchange companies recorded in Respect Index, which means companies which are run in a reliable and balanced way
- making a decision about creation joint venture which produces and sells furniture in India
- continuation of conscious policy geared towards employee's development- continuation of "Forte Academy"

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

On 19 January 2016 a resolution was passed by Extraordinary Meeting of Shareholders regarding conversion of the Antwerp SP. Z O.O. limited joint-stock partnership into SP. Z O.O. general partnership. Registration of the legal form afirmation was made on 1 of March 2016. On 31 of May 2016 General Meetings of Partners of Antwerp SP. Z O.O. general partnership made a decision about dissolving the partnership without liquidation and division of its assets among the partners. Consequently, Fabryki Mebli "FORTE" joint-stock company on 31 of May 2016 made an arrangement with Antwerp of transfering onto "FORTE" all 1 100 shares in company's registered capital under the company Terceira SP. Z O.O. with its head office registered in Warsaw having nominal value of 50 PLN each and with total nominal value of PLN 55 thousand, which constitutes 100% of Terceira SP. Z O.O. registered capital. On 31 of May 2016 total amount of shares amounted to PLN 207 605 thousand. On 26 July 2016 Antwerp SP. Z O.O. general partnership was delated from business register.

On 22 January 2016 a resolution was made by Extraordinary Partners Meeting regarding increasing the registered capital of Kwadrat SP. Z O.O. from the amount of PLN 4 763 thousand to PLN 5 763 thousand through creating 1000 new shares with the nominal value of PLN1000 each in return for cash contribution in amount of PLN 1 000 thousand. 100% of new shares were taken by Fabryki Mebli "FORTE" S.A.. Registration of increasing the registered capital was made on 17 March 2016 . After the change, the percentage share of the Company in the capitals of Kwadrat SP. Z O.O. increased from 77,01% to 81%.

On 5 of February 2016 a resolution was made by Extraordinary Partners Meeting about increasing the registered capital of DYSTRI-FORTE SP. Z O.O. from the amount of PLN 5 thousand to PLN 55 thousand through creating 100 new shares of nominal value of PLN 500 each in return for cash contribution in amount of PLN 3 995 thousand. The surplus of the cash contribution value above the nominal value of covered shares was transfered to the Company reserve capital. 100% of shares in increased registered capital of DYSTRI-FORTE SP. Z O.O. were taken by Fabryki Mebli "FORTE"S.A. Registration of increasing the registered capital was made on 29 February 2016.

On 5 February 2016 a resolution was made by Extraordinary Partners Meeting about increasing the registered capital of TANNE SP. Z O.O. from the amount of PLN 5 thousand to PLN 55 thousand through creating 100 new shares of nominal value of PLN 500 each in return for cash contribution in amount of PLN 3 495 thousand. The surplus of the cash contribution value above the nominal value of covered shares was transfered to the Company reserve capital. 100% of shares in increased registered capital of TANNE Sp. z o.o. were taken by Fabryki Mebli "FORTE" S.A.

On 15 February 2016 the District Court for Warsaw, XIII Economic Department of the National Court Register conducted a registration of increasing the registered capital of TERCEIRA SP. Z O.O. from PLN 5 thousand to PLN 55 thousand. 100% of shares in increased registered capital of TERCEIRA Sp. z o.o. were taken by ANTWERP Sp. z o.o. - XXXIV- general partnership in return for cash contribution in the amount of PLN 207 600 thousand. The surplus of the cash contribution value above the nominal value of covered shares was transfered to the Company reserve capital.

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

On 5 May 2016 a resolution was made by Extraordinary Partners Meeting about increasing the registered capital of TANNE sp. z o.o. from the amount of PLN 55 thousand to PLN 60 thousand through creating 10 new shares of nominal value of PLN 500 each in return for cash contribution in amount of PLN 12 000 thousand. The surplus of the cash contribution value above the nominal value of covered shares was transfered to the Company reserve capital. 100% of shares in increased registered capital of TANNE sp. z o.o. was taken by Fabryki Mebli "FORTE" S.A.

On 10 May 2016 a resolution was made by Extraordinary Partners Meeting about increasing the registered capital of Galeria Kwadrat Sp. z o.o. from the amount of PLN 17 305 thousand to PLN 17 310 thousand through creating 100 new shares of nominal value 50 PLN each in return for cash contribution in amount of PLN 1 000 thousand. 100% of newly created shares was taken by Galeria Kwadrat Sp. z o.o. . Registration of increasing registered capital was made on 22 July 2016.

On 13 June 2016 a resolution was made by Extraordinary Partners Meeting about increasing the registered capital of TANNE sp. z o.o from the amount of PLN 60 thousand to PLN 100 thousand through creating 80 new shares of nominal value 500 PLN each in return for cash contribution in amount of PLN 54 505 thousand. The surplus of the cash contribution value above the nominal value of covered shares was transfered to the Company reserve capital. 100% of shares in increased registered capital TANNE sp. z o.o were taken by Fabryki Mebli "FORTE" S.A.

On 8 September 2016 a resolution was made by Extraordinary Partners Meeting about increasing the registered capital of TANNE sp. z o.o from the amount of PLN 100 thousand to PLN 120 thousand through creating 40 new shares of nominal value 500 PLN each in return for cash contribution in amount of PLN 20 000 thousand. The surplus of the cash contribution value above the nominal value of covered shares was transfered to the Company reserve capital. 100% of shares in increased registered capital of TANNE sp. z o.o were taken by Fabryki Mebli "FORTE" S.A. Registration of increasing registered capital was made on 10 November 2016.

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

31. Description of off-balance sheet items by counterparty, object and value.

On 27 March 2013 the Company granted four loan guarantees for loans taken by FURNIREX Sp. z o.o. with its seat in Hajnówka for the financing of technological investment of total value of PLN 18 299

- FURNIREX Sp. z o.o. submitted an offer to the Company pursuant to which it invested the means obtained from technological loans into modern investments which were located in the production areas rented out from Forte S.A. in Hajnówka. FURNIREX Sp. z o.o. with the use of modern technologies uses the services of processing the obtained material for FORTE and for other furniture producers. Guarantees were granted for BRE Bank S.A. (current mBank S.A.) with the validity period until 30.06.2018. Loan balance as per 31.12.2016 amounts to PLN 1464 thousand.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

32. Description of off-balance sheet items by counterparty, object and value.

- Individual asset and liability positions from situation as at 31 December2016 were recalculated according to avarage 1 EUR rate on 31 December 2016 (1 EUR= 4,4240 PLN). Whereas profit and loss account positions both with cashflow table for the year 2016 were appraised according to rate representing the arithmetical mean of avarage rates valid on the last day of each month (1 avarage EUR for 2016= 4,3757 PLN)
- Individual items of assets and liabilities as at 31 December 2015 were converted by the average exchange rate of EUR 1 dated 31 December 2014 (1 EUR = PLN 4.2623). Particular items of the profit and loss account and the cash flow statement for the year 2014 were calculated on the basis of exchange rates constituting the arithmetic mean of rates established on the last day of each month (average per 1 EUR in 2014 = PLN 4.1893).

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

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

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

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

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

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

Ostrów Mazowiecka, 20 March 2017

II CORPORATE GOVERNANCE

The Management Board of Fabryki Mebli "FORTE" S.A. with its registered seat in Ostrów Mazowiecka (hereinafter reffered to as "Company" or "FORTE") acting according to § 91 of Act 5 point 4 of Resolution by the Minister of Finance regarding current and regular information transferred through Issuers of securities and conditions for recognising the equivalence information required by the Country law of non-member state from 19 February 2016 (Journal of Laws No 33 item 259 as amended) presents the statement regarding the use by the Company of corporate governance rules in 2016. The statement concerning the use of corporate governance rules by the Company in 2016 shall form an independent part of the report of Company operations and it will be 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

Począwszy od dnia 1 stycznia 2016 roku Spółka stosowała zasady ładu korporacyjnego zawarte w dokumencie „Dobre Praktyki Spółek Notowanych na GPW 2016" stanowiącym załącznik do Uchwały nr 26/1413/2015 Rady Giełdy z dnia 13 października 2015 r. Wyżej wymieniony dokument jest publicznie dostępny na stronie internetowej Giełdy Papierów Wartościowych w Warszawie S.A. pod adresem: https://www.gpw.pl/lad_korporacyjny_na_gpw.

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

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

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

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

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

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

Bearing in mind the possibility of fulfilling the requirements necessary for the correct identification of the shareholder and maintaining the right level of safety of electronic communication throughout the Annual General Meeting of Shareholders, in particular, during the process of voting at the General Meeting, the Company decided not to apply this recommendation in its part. In the course of the Meeting of Shareholders the Company will enable the shareholders to execute their voting rights in persons or via proxy.

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

Specific rule No IV. Z.2

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

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

Part V

Specific rule No. V. Z.6

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

Part IV
Specific rule No. VI.Z.4

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

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

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

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

Management Board of the Company is responsible for the conduct of Company accounts in accordance with the Act of 29 September 1994 on accounts (Journal of Law, no. from 2016 , item 1047 as amended) and the internal control system and efficiency of its functioning in the process of creating financial reports.
A Member of the Management Board responsible for financial matters supervises the process of preparing the Company's financial statements and interim reports. Both separate and consolidated statements are prepared by the employees of the Finance Office controlled by the Chief Accountant and the Member of the Management Board responsible for the Company's finances.
In order to provide reliability and correctness of the process of elaboration of financial reports a number of control mechanisms have been designed and implemented which are an integral part of the reporting system. These mechanisms consist, above all, in applying on an ongoing basis verification of reported data with accounting books, analytical data and other documents constituting the basis for elaboration of financial reports and the provisions of law in force iin the scope of accounting rules and principles of elaboration of financial reports.
The process of preparing financial data for the purpose of reporting is automated, and subject to formalised operational and acceptance procedures.
The Company possesses relevant procedures for preparing financial statements which payment ensuring the complete and correct recognition of all business transactions in a given scope. These procedures include in particular:

- adequate internal communication in the scope of preparing the process of preparing financial statements,
- detailed planning of all activities related to the preparation of the financial statements and determining a detailed activity scheduled together with assigning responsibility of individual persons for given actions.

The monitoring of the completeness of economic events is additionally supported by the V-desk electronic document circulation system. This system records in particular all incoming invoices, as well as all agreements concluded by the Issuer. Access to electronic circulation of documents is grounded in the scope of their competence to authorised Company staff.
The V-desk system covers the registration, factual description, boasting and acceptance of invoices – in accordance with competences assigned by the Management Board.
Accepted invoices are imported to the SAP R3 operating system after prior verification of the correctness of accounting descriptions by the Accounting Office employees.

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

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

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

No.	Shareholder	Number of held shares and votes	% stake in share capital	% share in the overall number of votes
1.	MaForm SARL	7 763 889	32,48%	32,48%
2.	Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	2 300 000	9,62%	9,62%
3.	Skarbiec Towarzystwo Funduszy Inwestycyjnych S.A.*	2 149 448	8,99%	8,99%
4.	ING Otwarty Fundusz Emerytalny	1 200 000	5,02%	5,02%

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

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

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

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

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

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

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

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

In accordance with the Company's Articles of Association, the Management Board consists of between one and five members appointed for a joint term of office. The number of the Management Board Members is determined by the Supervisory Board, which also appoints the President of the Management Board and other Members of the Management

Board. The Management Board is appointed for a joint three-year term of office. In accordance with the Code of Commercial Companies, Members of the Management Board may be dismissed by the Supervisory Board at any moment. The Supervisory Board determines the terms and conditions of remunerating Members of that Management Board, including the provisions of agreements and appointment letters binding Members of the Management Board with the Company. In accordance with the Articles of Association of the Company, the Management Board directs the activities of the Company and represents it before third parties. The work of the Management Board is managed by the President of the Management Board. The scope of activities of the Management Board includes all matters related to managing the Company not restricted to the competencies of the Company's other bodies.
The powers of the Management Board of the Company related to the right to decide on redeeming shares do not deviate from the regulations contained in the Code of Commercial Companies.

9. Principles of introducing amendments to the articles of association or memorandum of association of the Issuer.

Articles of Association of the Company are amended in accordance with mandatory provisions of the Code of Commercial Companies, i.e. Art. 430 et seq., by way of a resolution of the General Meeting of the Company.
The General Meeting of the Company may authorise the Supervisory Board to establish the consolidated text of the amended Articles of Association of the Company.
Company Management, acting pursuant to the Regulation of the Ministry of Finance regarding current information and periodical information submitted by the Issuers of stocks and the conditions for considering as equivalent the information required by the provisions of law of non-member country as of 19 February 2009 (Journal of Laws no. 33, item 259 as amended) informs the shareholders of the intended, conducted changes to the content of the Company Statute and regarding elaboration of the unified text of the Statute including the changes made, by publishing current reports and by placing the current text of the Statute on the internet website of the Company.

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

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

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

The schedule of works regarding organising General Meetings is planned in such a way as to duly perform obligations towards shareholders and allow them to execute their rights.
On 19 April 2016, the General Meeting was convened by the Company's Management Board through a notice published on the Company's website at least 26 days prior to the date of the General Meeting, and in a manner specified for transmitting current information according to the provisions on public offering and conditions governing the introduction of financial instruments to organised trading and on public companies. Resolutions adopted by the General Meeting were published on the Company's website.
Resolutions of the General Meeting are adopted by a simple majority of the votes cast, unless the provisions of law or the Company's Articles of Association provide otherwise. Votes in favour or against a resolution are considered votes cast.
The following matters were reserved in the Articles of Association to the exclusive decision of the General Meeting:
-terms and conditions and manner of redeeming shares of the Company,
-terms and conditions of issuing utility certificates in exchange for redeemed shares,
-creating reserve capital and earmarked funds,
-allocating reserve capital,
-allocating pure profit earned by the Company.
A resolution of the General Meeting is not required for the purchase and sale of .real property, perpetual usufruct, and a share in real property, sale and transfer of property use rights, encumbrance of real estate, establishing of limited real rights on the Company assets (decisions on such matters are reserved for the Company's Supervisory Board).
Representatives of the media may be present during the General Meeting.
The 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. The course of the Annual General Meeting in 2016 was compliant with the provisions of the Code of Commercial Companies and the Company's Regulations of General Meetings. Members of the Management Board, Supervisory Board and the certified auditor of the Company present during the Meeting, were ready to give any explanations and respond to the shareholders' questions in the scope of their competencies in accordance with the binding provisions of law.

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

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

SUPERVISORY BOARD

The Company's Supervisory Board acts on the basis of the provisions of the Code of Commercial Companies, the Company's Articles of Association and the Regulations of the Supervisory Board of Fabryki Mebli "FORTE" S.A. with its registered seat in Ostrów Mazowiecka. Supervisory Board consists of between five and seven members. The Chairman of the Supervisory Board is appointed by the General Meeting. From among its members, the Supervisory Board appoints the Vice Chairman and secretary, if necessary. If the number of members of the Supervisory Board falls below the minimum number set out in the Code of Commercial Companies, the General Meeting supplements /appoints/ the Supervisory Board for the remaining part of the term of office.
The term of office of the Supervisory Board is four years. In accordance with resolution No 25/2011 adopted on 10 June 2014, the Annual General Meeting of Fabryki Mebli "FORTE" S.A. established a five-person Supervisory Board of the Company in the current term of office.
In 2016, the Supervisory Board of Fabryki Mebli "FORTE" S.A. was composed of:
Zbigniew Sebastian – Chairman,
Stefan Golonka – Vice-Chairman,
Tomasz Domagalski - Member,
Stanisław Krauz - Member,
Jerzy Smardzewski - Member.

The exclusive competence of the Supervisory Board includes in particular adopting resolutions on matters regarding:

a) purchasing and selling real property, perpetual usufruct or a share in real property, selling and transferring rights to use real property, encumbrance on real property, establishing limited property rights on the property of the Company,
b) taking out loans exceeding the Company's financial plan,
c) granting sureties to the amount exceeding in total the equivalent of EURO 150,000,
d) taking over the obligations of third parties,
e) accepting and establishing pledges and other securities, except for a pledge and securities related to the ordinary business of the Company in the amount not exceeding in total the equivalent of EURO 150,000,
f) concluding, terminating and amending lease agreements and other such agreements, if they are concluded for a period longer than three years and when the annual lease rent paid by the Company exceeds the equivalent of EURO 150,000,
g) leasing the enterprise or its part,
h) purchasing and selling establishments and branches of the Company,
i) selling the Company's enterprise or its part,
j) approving employee participation in profits and granting special pension rights,
k) establishing the annual plan for the enterprise (in particular investment in financial plans), as well as strategic plans,
l) granting borrowings outside the ordinary course of trade to a total amount exceeding the equivalent of 50.000 EURO.

Meetings of the Supervisory Board are held when necessary, but at least three times in a financial year.
The Members of the Supervisory Board may cast their vote in writing via another Member of the Supervisory Board. The Supervisory Board may also adopt resolutions in writing or through direct remote communication means. A resolution is valid if all Members of the Supervisory Board have been notified of the content of the draft resolution.
Taking into consideration the fact that in the current term of office the Supervisory Board is composed of five persons, the functions of the Audit Committee are performed by the whole Supervisory Board.
No other committees were established in the Company.

MANAGEMENT BOARD

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

Mariusz Gazda – Member of the Management Board

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

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

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

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

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

President of the Management Board

Maciej Formanowicz

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Member of the Management Board

Gert Coopmann

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Member of the Management Board

Klaus Dieter Dahlem

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Member of the Management Board

Maria Florczuk

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Member of the Management Board

Mariusz Gazda

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Ostrów Mazowiecka, 20 March 2017