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# Independent Auditor's Report

## To the General Shareholders' Meeting and Supervisory Board of Fabryki Mebli „FORTE” S.A.

### Report on the Audit of the Annual Consolidated Financial Statements

#### Opinion

We have audited the accompanying annual consolidated financial statements of Fabryki Mebli „FORTE” S.A. Group (the “Group”), whose parent entity is Fabryki Mebli „FORTE” S.A. (the „Parent Entity”), which comprise:

- the consolidated statement of financial position (balance sheet) as at 31 December 2019,

and, for the period from 1 January to 31 December 2019:

- the consolidated statement of profit or loss;
- the consolidated statement of comprehensive income;
- the consolidated statement of changes in equity;
- the consolidated statement of cash flows;

and

- notes comprising a summary of significant accounting policies and other explanatory information

(the “consolidated financial statements”).

In our opinion, the accompanying consolidated financial statements of the Group:

- give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the financial year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union (“IFRS EU”) and the adopted accounting policy;
- comply, in all material respects, with regard to form and content, with applicable laws and the provisions of the Parent Entity's articles of association.

Our audit opinion on the consolidated financial statements is consistent with our report to the Audit Committee dated 15 April 2020.



## Basis for Opinion

We conducted our audit in accordance with:

- International Standards on Auditing as adopted by the National Council of Certified Auditors as National Standards on Auditing (the “NSA”); and
- the act on certified auditors, audit firms and public oversight dated 11 May 2017 (the “Act on certified auditors”); and
- regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest

entities and repealing Commission Decision 2005/909/EC (the “EU Regulation”); and

- other applicable laws.

Our responsibilities under those regulations are further described in the Auditor’s Responsibility for the audit of the consolidated financial statements section of our report.

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

## Independence and Ethics

We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (“IFAC Code”) issued by the International Ethics Standards Board for Accountants as adopted by the resolutions of the National Council of Certified Auditors, as well as other independence and ethical requirements, applicable to audit

engagement in Poland. We have fulfilled all ethical responsibilities resulting from those requirements and IFAC Code. During our audit the key certified auditors and the audit firm remained independent of the Group in accordance with requirements of the Act on certified auditors and the EU Regulation.

## Material uncertainty related to going concern

We draw attention to Note 5 “Basis for preparation of the consolidated financial statements” and Note 40 “Events after the balance sheet date” of the consolidated financial statements, which indicate that after the balance sheet date, the Group limited its operations and recorded a significant decrease in sales revenue as a result of the COVID-19

pandemic announced in March 2020. As stated in Note 5 and Note 40, these events or conditions, along with other matters as set forth in these notes, indicate that a material uncertainty exists that may cast significant doubt on the Group’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Emphasis of Matter – comparative information

We draw attention to Note 6 “Changes in accounting policies and correction of errors” to the consolidated financial statements which describes that the Group changed its accounting policy in relation to accounting for tax relief related to business operations conducted in the Special Economic Zone, and

made retrospective adjustments to the comparative information in the accompanying consolidated financial statements. Consequently, the comparative information in the accompanying financial statements has been restated. Our opinion is not modified in respect of this matter.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. They are the most significant assessed risks of material misstatements, including those due to fraud, described below and we performed appropriate audit procedures to address these matters. Key audit matters were addressed in

the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon we have summarised our response to those risks. We do not provide a separate opinion on these matters. In addition to the matter described in the “Material uncertainty related to going concern” section of our report we have determined the following key audit matter:

## Revenue recognition

Sales revenues in 2019: PLN 1,176,618 thousand (2018: PLN 1,107,298 thousand)

We refer to consolidated financial statements:

Point 8.2 „Significant accounting principles. Revenues”; Note 11.1 „Sales revenues and its geographical structure”

### *Key audit matter*

In the year ended 31 December 2019 the Group generated sales revenues primarily from the sale of products. Revenues from the sale of products constituted 94% of the total revenues.

Sales revenues are one of the key indicators of the Group’s performance and evaluation of its results, and an area of interest for analysts and investors, which increases significantly the risk of manipulation of the consolidated financial statements in this area.

The application of revenue recognition principles of the financial reporting standard is complex and requires the Group to make significant estimates and apply professional judgement. The complexity results, in particular, from the following factors:

- the variety of sales terms applied by the Group in its contracts with clients increases the risk of recognizing revenue in inappropriate reporting period;
- significant uncertainty is related to the estimation of the contract consideration, in particular as regards variable consideration resulting from the price discounts offered to clients.

For the above reasons, we have concluded that there is a significant risk of misstatement associated with revenue recognition in the consolidated financial statements. Therefore, the above area required our increased attention in the audit and as such was determined by us to be a key audit matter.

### *Our response*

Our audit procedures included, among others:

- evaluation of appropriateness of the Group’s revenue recognition policy against the requirements of the financial reporting standard and our understanding of Group’s activities,
- understanding of internal control system and tests of design and implementation of key relevant controls associated with revenue recognition process,
- analysis of selected sales transactions recorded before and after the year end to evaluate whether revenue was allocated to the appropriate period by inspecting the relevant documentation, including goods delivery documents, and critical assessment of:
- meeting the criteria for recognizing revenue, including, inter alia, the commitment of the parties to perform their obligations and the probability of collecting the consideration due to the Group;
- the correctness of determining the amount of total contract consideration, with particular regard to the estimation of variable consideration such as price discounts, based, inter alia, on the analysis of historical data, taking into account the impact of changes in market circumstances during the audited year;
- the correctness of determination of the timing of the transfer of control and recognition of revenue in the appropriate period and amount, based on the analysis of contracts with Clients, sales invoices, dispatch notes and waybills.
- analysis of credit notes issued after the year end to evaluate the

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- appropriateness of the revenue recognition in the audited year,
  - searching for fictitious sales using Automated Audit Procedures to match sales invoices to related dispatch notes at the transaction level, and investigate unmatched transactions,
  - analysis of journal entries recorded to revenue accounts, including in particular, manual entries recorded in correspondence with accounts, on which the Group usually does not recognize revenue and reconciliation of selected postings to the underlying documentation,
  - obtaining confirmations for a sample of third-party sales invoices unpaid as at 31 December 2019.
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### **Responsibility of the Management Board and Supervisory Board of the Parent Entity for the consolidated financial statements**

The Management Board of the Parent Entity is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards, as adopted by the European Union, the adopted accounting policy, the applicable laws and the provisions of the Parent Entity's articles of association and for such internal control as the Management Board of the Parent Entity determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board of the Parent Entity is responsible for assessing the

Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board of the Parent Entity either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

According to the accounting act dated 29 September 1994 (the "Accounting Act"), the Management Board and members of the Supervisory Board of the Parent Entity are required to ensure that the consolidated financial statements are in compliance with the requirements set forth in the Accounting Act. Members of the Supervisory Board of the Parent Entity are responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibility for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with NSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in

the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

The scope of audit does not include assurance on the future viability of the Group or on the efficiency or effectiveness with which the Management Board of the Parent Entity has conducted or will conduct the affairs of the Group.



As part of an audit in accordance with NSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board of the Parent Entity;
- conclude on the appropriateness of the Management Board of the Parent Entity's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report on the audit of the consolidated financial statements to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report on the audit of the consolidated financial statements.

However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee of the Parent Entity regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Audit Committee of the Parent Entity with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee of the Parent Entity, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current reporting period and are therefore the key audit matters. We describe these matters in our auditors' report on the audit of the consolidated financial statements unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



## Other information

The other information comprises:

- the letter of the President of the Management Board of the Parent Entity;
  - the selected financial data;
  - the report on activities of the Group for the year ended 31 December 2019 (the “Report on activities”), including the corporate governance statement and the statement on non-financial information referred to in art. 49b paragraph 1 of the Accounting Act, which are separate parts of the Report on activities.
  - the statement of the Management Board of the Parent Entity regarding the preparation of the financial statement and report on activities;
  - the Parent Entity Management Board’s information regarding appointment of the audit firm;
  - the statement of the Supervisory Board of the Parent Entity regarding the Audit Committee; and
  - the Parent Entity Supervisory Board’s assessment of the financial statements and the report on activities,
- (the “Other information”).

### *Responsibility of the Management Board and Supervisory Board*

The Management Board of the Parent Entity is responsible for the Other information in accordance with applicable laws.

The Management Board and members of the Supervisory Board of the Parent Entity are required to ensure that the report on activities

of the Group for the year ended 31 December 2019 (the “Report on activities”), including the corporate governance statement and the report on non-financial information referred to in art. 55 paragraph 2c of the Accounting Act are in compliance with the requirements set forth in the Accounting Act.

### *Auditor’s Responsibility*

Our opinion on the consolidated financial statements does not cover the Other information.

In connection with our audit of the consolidated financial statements, our responsibility was to read the Other information and, in doing so, consider whether the Other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we performed, we conclude that there is a material misstatement in the Other information, we are required to report that fact.

In accordance with the Act on certified auditors our responsibility was to report if the Report on activities was prepared in accordance with

applicable laws and the information given in the Report on activities is consistent with the consolidated financial statements.

Moreover, in accordance with the requirements of the Act on certified auditors our responsibility was to report whether the Group included in the statement on corporate governance information required by the applicable laws and regulations, and in relation to specific information indicated in these laws or regulations, to determine whether it complies with the applicable laws and whether it is consistent with the consolidated financial statements and to inform whether the Group prepared a separate report on non-financial information.

### *Opinion on the Report on activities*

Based on the work undertaken in the course of our audit of the consolidated financial statements, in our opinion, the accompanying Report on activities, in all material respects:

- has been prepared in accordance with applicable laws, and
- is consistent with the consolidated financial statements.



### *Opinion on the statement on corporate governance*

In our opinion, the corporate governance statement, which is a separate part of the Report on activities, includes the information required by paragraph 70 subparagraph 6 point 5 of the Decree of the Ministry of Finance dated 29 March 2018 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent of information required by the laws of a non-member state (the "decree").

Furthermore, in our opinion, the information identified in paragraph 70 subparagraph 6 point 5 letter c-f, h and letter i of the decree, included in the corporate governance statement, in all material respects:

- has been prepared in accordance with applicable laws; and
- is consistent with the consolidated financial statements.

### *Information about the statement on non-financial information*

In accordance with the requirements of the Act on certified auditors, we report that the Group has prepared a separate report on non-financial information referred to in art. 55 paragraph 2c of the Accounting Act.

We have not performed any assurance procedures in relation to the separate report on non-financial information and, accordingly, we do not express any assurance conclusion thereon.

### *Statement on Other information*

Furthermore, based on our knowledge about the Group and its environment obtained in the audit of the consolidated financial statements,

we have not identified material misstatements in the Report on activities and the Other information.

## **Report on other legal and regulatory requirements**

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### **Statement on services other than audit of the financial statements**

To the best of our knowledge and belief, we did not provide prohibited non-audit services referred to in art. 5 paragraph 1 second

subparagraph of the EU Regulation and art. 136 of the act on certified auditors.

### **Appointment of the audit firm**

We have been appointed for the first time to audit the annual consolidated financial statements of the Group by resolution of the Supervisory Board dated 30 May 2018. Our

period of total uninterrupted engagement is 2 years, covering the periods ended 31 December 2018 to 31 December 2019.

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On behalf of audit firm

**KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.**

Registration No. 3546

*Signed on the Polish original*

*Signed on the Polish original*

Marta Zemka

Anna Paszkiewicz

Key Certified Auditor  
Registration No. 10427  
*Limited Partner, Proxy*

Key Certified Auditor  
Registration No. 12508

Warsaw, 16 April 2020