

REPORT OF THE SUPERVISORY BOARD OF FABRYKI MEBLI „FORTE” JOINT STOCK COMPANY IN THE FINANCIAL YEAR 2017

The report of the Supervisory Board of FABRYKI MEBLI „FORTE” S.A. in the financial year 2017 covers as follows:

- I. Report on activity of the Supervisory Board in the financial year 2017
- II. The assessment of the Company's standing including the assessment of the internal control systems, risk management, compliance and a function of the internal audit.
- III. Assessment of the methods of fulfilling the information obligations by the Company concerning the application of the principles of corporate governance, defined in the Regulations of the Stock Exchange and the provisions concerning the current and periodical information transferred by the issuers of the securities
- IV. Assessment of rationality of conducting the policy by the Company in terms of sponsoring and charity activity.

I REPORT ON THE ACTIVITY OF THE SUPERVISORY BOARD IN THE FINANCIAL YEAR 2017

The Supervisory Board of FABRYKI MEBLI „FORTE” S.A. with its registered seat in Ostrów Mazowiecka (the Company) acts under generally binding provisions of law, in particular the Code of Commercial Companies, the Company's Articles of Association, the Regulations of the Supervisory Board and in accordance with the “Code of Best Practice for WSE Listed Companies” adopted by the Company, guided by the Company's reasonable interest and the good of its Shareholders. The Company declared the compliance with corporate governance contained in “Good Practices of the companies listed at SE 2016” applicable since 1st of January 2016.

In accordance with § 4 of the Regulations of the Supervisory Board, the Supervisory Board constantly supervises all fields of the Company's activity. In particular, its tasks include assessing the Company's financial statements and the Management Board's reports on the Company's operations from the point of view of their consistency with accounting books and

documents as well as the actual state, as well as the Management Board's motions as to profit distribution or loss coverage, as well as submitting to the General Meeting the annual written report on the results of this assessment.

Members of the Supervisory Board, in particular the Chairman, were in constant contact with the Company's Management Board, carrying out consultations regarding individual fields of its activity.

In the financial year 2017, the composition of the Supervisory Board was as follows:

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| - Zbigniew Mieczysław Sebastian | – Chairman of the Supervisory Board, |
| - Bernard Woźniak | – Vice Chairman of the Supervisory Board, |
| - Tomasz Domagalski | – Member of the Supervisory Board |
| - Stanisław Krauz | – Member of the Supervisory Board, |
| - Jerzy Smardzewski | – Member of the Supervisory Board |

The changes in the composition of the company's supervisory board over 2017 were as follows:

- on April 12, 2017, Mr. Stefan Golonka resigned from the position of a Member of the Supervisory Board, effective as at the date of the Ordinary General Meeting of FABRYKI MEBLI "FORTE" S.A. approving the financial report and the Management Board report on the operations of the Company for the financial year 2016, i.e. on 17 May 2017,
- on May 17, 2017 Mr. Bernard Woźniak was appointed to the Supervisory Board

The criteria of independence, defined pursuant to the principle II.Z.4 „Good Practices of the Companies listed at SE 2016”, are fulfilled by the following members of the Supervisory Board: Bernard Woźniak, Tomasz Domagalski and Jerzy Smardzewski.

In the reporting period, i.e. from 1 January to 31 December 2017, the Supervisory Board conducted ten meetings, including seven by means of a written mode, during which it passed 40 resolutions concerning, among others:

1. Approval of the „Company Plan for the year 2017” and “Plan of the Company's Capital Group for the year 2017”
2. Agreement to conclude a joint venture agreement with Indian Furniture Products Limited
3. Approval of the annex to the loan agreement concluded with FURNIREX Sp. z o.o.

4. Payment of advances for bonuses for Management Board members and granting a bonus to the Chairman of the Management Board
5. Acceptance of the report on the activities of Internal Audit in FABRYKI MEBLI "FORTE" S.A. for 2016
6. approval of the Internal Audit Plan in FABRYKI MEBLI "FORTE" S.A. for 2017,
7. changes to the Internal Audit Card FABRYKI MEBLI "FORTE" S.A.,
8. evaluation of the Company's financial statements and the Management Board's report on the Company's operations in the financial year 2016,
9. evaluation of the consolidated financial statements and the report of the Management Board on the operations of FABRYK MEBLI "FORTE" Capital Group S.A. in the financial year 2016,
10. evaluation of the Management Board's motion regarding distribution of the Company's net profit for the financial year 2016 and payment of the dividend,
11. adoption of the report on the activities of the Company's Supervisory Board in 2016,
12. assessment of matters being the subject of the debates of the Ordinary General Meeting of the Company,
13. meeting the conditions for granting series F warrants to Eligible Persons in the third year of the Incentive Scheme II,
14. determination of authorized persons and number of F-series warrants attributable to entitled persons and submitting bids for series F warrants,
15. agree to grant and approve the "FORTE" S.A. FURNITURE FACTORIES already completed payment surety TANNE Sp. z o. o.,
16. agreeing to change of security for DYSTRI-FORTE Sp. z o. o.,
17. the approval of the loan agreement concluded with Möbelvertrieb FORTE GmbH,
18. consent to the conclusion of a loan agreement concluded with Terceira Sp. z o. o.
19. approving the loan agreement concluded with Terceira Sp. z o. o.,
20. approving the establishment of ANTWERP FP Sp. z o. o.,
21. agreement to grant a loan for FORTE FURNITURE PRODUCTS INDIA PVT. LTD,
22. appointment of the Audit Committee, members of the Audit Committee and the Chairman of the Audit Committee,
23. acceptance of the Regulations of the Audit Committee,
24. establishing the uniform text of the Company Statute,
25. election of the Vice Chairman of the Supervisory Board,
26. approve the Internal Audit Plan for 2017,
27. consent to the purchase of real estate,
28. agreeing to make donations to the AMF FOUNDATION NASZA DROGA.

The activities of the Supervisory Board in the year 2017 concentrated around matters of material importance for the operations of the Company. The Supervisory Board carefully observed all aspects of the Company's activity and the activities of the Management Board. Supervisory Board put emphasis on the undertaken investment activities being a continuation of the implementation of the Company's Capacity Development Plan. The scope of activities subject to control, consultations and opinions of the Supervisory Board included significant fields of activity, such as assessing financial statements and the Management Board's reports on the Company's operations, and approving and consenting to the Management Board's performance of certain activities reserved for the competence of the Supervisory Board. The Supervisory Board analyzed the Company's financial results, the course of the investment process and matters regarding key projects implemented by the Company's Management Board in the year 2017 on a regular basis.

Opinions expressed by the Supervisory Board were favorably received by the Company's General Meeting, which adopted decisions in accordance with the Supervisory Board's recommendations.

Pursuant to the Act of 11 May 2017 on statutory auditors, audit firms and public supervision implementing Directive 2006/43 / EC of the European Parliament and of the Council of May 17, 2006 on statutory audits of annual financial statements and consolidated financial statements, amending Council Directives 78/660 / EEC and 83/349 / EEC (ie Journal of Laws of 2017, No. 1089 dated 6 June 2017) The Supervisory Board of the Company appointed the Audit Committee from among its members. The Audit Committee was appointed:

- Zbigniew Sebastian,
- Jerzy Smardzewski,
- Bernard Woźniak.

The function of the Chairman of the Audit Committee was entrusted to Mr. Bernard Woźniak. The Supervisory Board adopted the Audit Committee Regulations defining the framework of the Committee's activities. The main tasks of the Audit Committee, in accordance with the regulations included in the Act on auditors and adopted Audit Committee Regulations, are monitoring, advising and supporting the Supervisory Board in the performance of its statutory control and supervisory functions, in particular in the scope of:

- a) monitoring the financial reporting process of the Company and Capital Group FABRYK MEBLI "FORTE" S.A. (hereinafter: FORTE Capital Group),

- b) monitoring the effectiveness of internal control systems and risk management systems as well as internal audit, including internal reporting,
- c) monitoring the performance of financial audits, in particular the auditing company's audit,
- d) controlling and monitoring the independence of the statutory auditor and the audit firm,
- e) assessing the independence of the auditor and consenting to the Company's provision of permitted non-audit services,
- f) development of a policy for the selection of an audit firm to carry out the audit,
- g) elaboration of the policy of providing audit services by entities related to this company and by a member of the auditing company's network of permitted non-audit services,
- h) developing a procedure for selecting an audit firm,
- i) make recommendations regarding the selection of the entity conducting the audit of the financial statements as well as its amendments, evaluation of its work, in particular in terms of its independence,
- j) submitting recommendations aimed at ensuring the reliability of the financial reporting process in the Company and / or the Capital Group FORTE.

In the period of its activity in 2017, the Audit Committee adopted resolutions regarding the adoption of:

- a) Regulations of the Audit Committee,
- b) The policy of selecting an audit firm authorized to audit statutory financial statements,
- c) Procedures for selecting an audit firm authorized to audit statutory financial statements,
- d) The policy of providing by the auditing company conducting the audit, by entities related to this auditing company and by a member of the auditing company network, allowed non-audit services to FORTE and the FORTE Capital Group.

Both the Supervisory Board, as appointed in the Audit Committee, conscientiously fulfilled the tasks of a specialized body exercising control over the management of the Company. The Supervisory Board consists of people with extensive experience and professionalism, who have the potential to fully and thoroughly analyze the information received from the Company. Also, the participation of independent Members of the Supervisory Board in the work is a guarantee of applying objective criteria for the assessment of issues submitted for analysis by the Council.

The Supervisory Board as a group of experts also performed advisory functions towards the Management Board, contributing its knowledge and experience and offering support in the decisions made.

The Supervisory Board has been diligent and effective in supervising the activities of the Management Board and, therefore, positively evaluates its operations in the financial year 2017.

II ASSESSMENT OF THE COMPANY'S STANDING INCLUDING THE ASSESSMENT OF INTERNAL CONTROL SYSTEMS, RISK MANAGEMENT, COMPLIANCE AND INTERNAL AUDIT.

The Company's Management Board is responsible for conducting the accountancy of the Company keeping the accounts in accordance with the International Financial Reporting Standards (IFRS) approved by the International Accounting Standards Board and for the internal control system and its effectiveness in the process of preparing financial statements. Substantive supervision over the process of preparing financial statements and periodic reports of the Company is performed by the Member of the Management Board responsible for financial matters. The Management Board in the process of day-to-day management and management of the Company, as well as in the phase of preparation of periodic reports, performs periodic verification of risk factors relevant to the Company on an ongoing basis throughout the financial year. In order to ensure the reliability and correctness of the process of preparation and preparation of financial statements, a number of control mechanisms have been designed and implemented, which are an integral part of the reporting system. These mechanisms consist, in particular, in the continuous use of verification of reporting data with accounting records, analytical data and other documents constituting the basis for the preparation of financial statements as well as applicable legal regulations regarding accounting and preparation of financial statements.

The Company has proper procedures for preparing financial statements to ensure the completeness and correctness of accounting for all business transactions in a given scope.

The monitoring of the completeness of business events is supported by the system for the electronic circulation of V-desk documents. The authorized employees of the Company have access to the electronic circulation of documents within their competence.

The Company has implemented an investment procedure that enables full supervision over each stage of planning and implementation of investments.

The Company manages the risk in relation to the process of preparing financial statements also through the on-going monitoring of changes in external regulations and regulations regarding reporting requirements and preparation for their introduction in advance in time.

Annual and semi-annual financial reports are subject to independent audit and review by the Company's auditor. The results of the audit are presented by the auditor to the management of the Company at the summary meetings.

The internal control procedures and risk management system of the Company operating in the Company, the Supervisory Board assesses as coherent, stable and efficient tools that significantly reduce the risks associated with current operations.

In 2017, an integrated risk management system was implemented at the Company, supporting the management process at the strategic and operational level. The company is aware of the risks associated with its operations and implemented control mechanisms to manage risk and maintain them at an acceptable level, both in production divisions and in other areas of activity. The Supervisory Board positively assesses the Company's internal control system functioning in 2017 and the risk management system important for the Company, stating that their functioning limits the main risks in the Company's operations.

The Company has an Internal Audit Office. The audit system operates in accordance with the International Standards for the Professional Practice of IIA Internal Audit, is based on the principle of independence and may cover all areas of the Company's and the Capital Group's activities. The Internal Audit Department systematically examines and monitors control mechanisms and identifies potential risks in individual processes, as well as detects irregularities and weaknesses in relation to the applicable procedures. The principles of cooperation of the Internal Audit Office with the Supervisory Board of the Company have been developed and implemented. The Supervisory Board approved the Internal Audit Card FABRYKI MEBLI "FORTE" S. A defining the operating principles of the Internal Audit Office and conducting audits in the Company and the Capital Group. Audit activities were conducted on the basis of the "Audit plan for 2017", which was approved by the Management Board and approved by the Supervisory Board of the Company.

The Internal Audit Office cooperates with the Audit Committee, among others, informing about the internal control system, the risk management system and the ongoing operations of the Internal Audit Department.

The Company has developed and implemented numerous internal regulations and procedures in order to ensure functioning in compliance with applicable law and ethical standards applicable in FORTE. At the same time, the Management Board and the management of the Company communicate to its employees, contractors, suppliers and other entities cooperating with FORTE that it complies with applicable legal regulations and the highest ethical standards.

In the opinion of the Supervisory Board, the Company's situation is stable. The Supervisory Board does not see any real threats to the current operation of the Company, and the financial results for 2017 should be assessed as satisfactory.

III. ASSESSMENT OF THE METHOD OF FULFILLING THE INFORMATION OBLIGATIONS BY THE COMPANY CONCERNING THE USAGE OF THE PRINCIPLES OF CORPORATE GOVERNANCE DEFINED IN THE REGULATIONS OF THE STOCK EXCHANGE AND THE PROVISIONS CONCERNING THE CURRENT AND PERIODICAL INFORMATION TRANSFERRED BY THE ISSUERS OF THE SECURITIES.

The Supervisory Board assessed the realization method of the information obligations by the Company concerning the corporate governance, defined in the regulations of the Warsaw Stock Exchange S.A. in Warsaw and the provisions concerning the current and periodical information transferred by the issuers of the securities.

FABRYKI MEBLI „FORTE” S.A. complies with the principles of corporate governance and realizes the information obligations defined in the provisions concerning the current and periodical information transferred by the issuers of the securities. The Company published in the EBI system the report concerning the scope of application of „Good Practices of the Companies Listed at WSE 2016”, from which it clearly results that a vast majority of the detailed principles has been applied by the Company. At the same time, the Company indicated and justified which detailed principles are not applied. In the text of the document „STATEMENT ON APPLICATION OF THE PRINCIPLES OF CORPORATE GOVERNANCE BY FABRYKI MEBLI FORTE S.A. IN 2016” constituting an integral part of the annual report for 2017 the Management Board of FABRYKI MEBLI „FORTE” S.A. in accordance with the requirements of the principles of the corporate governance indicated in detail and described which recommendations from „Good Practices of the Companies listed at WSE 2016” it does not use.

The Company published on its website the information and documents defined in the collection „Good Practices of the Companies listed at WSE 2016”.

FABRYKI MEBLI „FORTE” S.A. shall transfer with the use of the ESPI and EBI system and publishes at its website all current and periodical reports.

In the opinion of the Supervisory Board of FABRYKI MEBLI „FORTE” S.A. it properly and reliably fulfills the information obligations concerning the application of the principles of the corporate governance, defined in the Regulations of the Warsaw Stock Exchange Warsaw S.A. and the regulations concerning the current and periodical information transferred by the issuers of the securities.

IV. ASSESSMENT OF RATIONALITY OF THE CHARITY AND SPONSORING ACTIVITY CONDUCTED BY THE COMPANY

The Company’s Management Board adopted a Policy of FABRYKI MEBLI „FORTE” S.A. in the scope of charity and sponsorship activity (hereinafter: Charity policy). Under the executed Charity policy, the Company focused its activity of sponsoring and charity nature mainly on supporting the initiatives aiming at levelling the social differences and counteracting the social exclusion of children and the youth which were especially talented, needing help and being in a difficult life situation.

The Company undertook numerous initiatives and actions which supported broadly understood education and comprehensive development of a young generation. The involvement in the development of culture, preservation of cultural output and national heritage and institutions and cultural events, which were located, first of all, in the places of conducting professional activity of the Company. Particularly noteworthy is the fact that the Company supports events such as the Hajnówka Festival Muzyki Cerkiewnej or Suwałki Blues Festival. FORTE has been funding these events for years, understanding their contribution to the development of culture.

FABRYKI MEBLI „FORTE” S.A. works actively to support education by cooperating with universities and high schools educating the future employees of the Company, and also by giving non-financial support to equip the educational units and by supporting research as well as educational and scientific activity connected with the development of the wood and furniture industry.

A permanent element of the charity activity is the long-term cooperation with the AMF

NASZA DROGA FOUNDATION, which focuses its activity on outstandingly talented youth from the area of Ostrów powiat. Thanks to the support of the Company, it is possible to implement the scholarship program adopted by the Foundation for young gifted high school and senior students.

In 2017, FORTE sponsored over PLN 200,000 for the sponsorship activities alone, and over PLN 100,000 for supporting employee initiatives.

An important element of executing the Charity policy is the “FORMY – Program Inicjatyw Pracowniczych” (“FORMY – Employee Initiatives Program”) project, started in 2016. Under the program, each employee may be granted financial or non-financial support from the company for the implementation of their own project aimed at local communities in the regions of FORTE’s activity.

In the opinion of the Supervisory Board the sponsoring and charity activity conducted by FABRYKI MEBLI „FORTE” S.A. constitutes an important element of shaping the positive image of the Company as socially responsible, in being particular involved in education and shaping the young generation.

Signature:

Zbigniew Sebastian

Chairman of the Supervisory Board of FABRYKI MEBLI “FORTE” S.A.