

**REPORT OF THE SUPERVISORY BOARD OF  
FABRYKI MEBLI "FORTE" SPÓŁKA AKCYJNA  
FOR THE FINANCIAL YEAR 2020**

The report of the Supervisory Board of FABRYKI MEBLI „FORTE” S.A. for the financial year 2020 includes in particular:

- I. Report on the activities of the Supervisory Board in the financial year 2020.
- II. Assessment of the Company's standing, including assessment of internal control, risk management and compliance systems and internal audit function.
- III. Assessment of the manner in which the Company fulfils its disclosure obligations concerning the application of corporate governance principles as set out in the Regulations of the Warsaw Stock Exchange and the regulations concerning current and periodic information provided by issuers of securities.
- IV. Assessment of the rationality of the Company's policy on sponsorship, charity and other similar activities.

**I REPORT ON THE ACTIVITIES OF THE SUPERVISORY BOARD IN THE  
FINANCIAL YEAR 2020**

The Supervisory Board of FABRYKI MEBLI "FORTE" S.A. based in Ostrów Mazowiecka (the Company) operates on the basis of generally applicable laws, 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 2016" adopted by the Company. The Company has declared compliance with the corporate governance principles contained in the "Code of Best Practice for WSE Listed Companies 2016".

Pursuant the Company's Articles of Association and the Regulations of the Supervisory Board, the Supervisory Board exercises permanent supervision over all areas of the Company's operations. Its tasks include, in particular, evaluating the Company's financial statements and Management Board reports on the Company's operations as regards their compliance with the accounts, documents and the facts, and Management Board's proposals

on distribution of profit and coverage of loss, as well as submitting an annual written report on the results of such evaluation to the General Meeting.

The Supervisory Board and the Management Board of FABRYKI MEBLI "FORTE" S.A. cooperate especially at meetings of the Supervisory Board, in accordance with generally applicable laws and internal regulations.

The Supervisory Board of FABRYKI MEBLI "FORTE" S.A. consists of Members who are appointed for a joint four-year term. The Supervisory Board of the current term (2018 - 2022) is composed of the following persons:

- Stanisław Krauz,
- Zbigniew Mieczysław Sebastian,
- Jerzy Smardzewski,
- Paweł Szczepiórkowski,
- Jacek Tucharz,
- Bernard Woźniak.

The Annual General Meeting of FABRYKI MEBLI "FORTE" S.A. appointed Mr Zbigniew Sebastian as Chairman of the Supervisory Board. Mr Bernard Woźniak was appointed Vice-Chairman of the Supervisory Board.

The independence criteria determined in accordance with the principle 11.Z.4 of the "Code of Best Practice for WSE Listed Companies 2016", according to statements made by Members of the Supervisory Board, were met in 2020 by the following Members: Jerzy Smardzewski, Piotr Szczepiórkowski, Jacek Tucharz and Bernard Woźniak.

In the reporting period, i.e. from 1 January to 31 December 2020, the Supervisory Board held eleven meetings, including two physical meetings, four meetings by videoconference via the Microsoft Teams application and five in written form, during which it adopted 27 resolutions regarding, inter alia:

1. approval of the FABRYKI MEBLI "FORTE" S.A. Capital Group Plan for 2020,
2. increasing the involvement of FABRYKI MEBLI "FORTE" S.A. at FORTE FURNITURE PRODUCTS PRIVATE LIMITED based in Kallakur (India),
3. advance payments in respect of bonuses for Members of the Management Board due for 2019
4. changes in the principles of remunerating members of the Management Board,

5. reducing the honorarium for members of the Management Board due to the spread of the COVID-19 coronavirus,
6. evaluation of the Management Board report on the operations of the FABRYKI MEBLI "FORTE" S.A. Capital Group in the financial year 2019, the financial statements of FABRYKI MEBLI "FORTE" S.A. in the financial year 2019 and the consolidated financial statements of the FABRYKI MEBLI "FORTE" S.A. Capital Group in the financial year 2019,
7. approval of the Report on the activities of the Internal Audit of FABRYKI MEBLI "FORTE" S.A. for the year 2019,
8. adoption of the FABRYKI MEBLI "FORTE" S.A. Internal Audit Plan for 2020
9. adoption of the Report on the activities of the Supervisory Board of the Company in the financial year 2019,
10. evaluation of the Management Board's proposal to cover the Company's net loss for the financial year 2019,
11. submission of the financial statements of the Company and of the FABRYKI MEBLI "FORTE" S.A. Capital Group and the report on the operations of the FABRYKI MEBLI "FORTE" S.A. Capital Group and the Management Board's proposal to cover the loss for 2019 to the Annual General Meeting for approval,
12. assessment of matters included in the agenda of the Annual General Meeting of the Company,
13. giving an opinion on the draft Remuneration Policy for Members of the Management Board and Supervisory Board of FABRYKI MEBLI "FORTE" S.A.,
14. amendments to the resolution of the Supervisory Board on the reduction of the honorarium for members of the Management Board,
15. determine the rules for calculating the profit bonus for the Members of the Management Board,
16. consent to the establishment of a company in Belgium,
17. expressing consent to the change of the terms of the confidentiality agreement, non-competition, non-compete and non-acquisition agreement concluded with a member of the Management Board,
18. adoption of the Regulations specifying the detailed rules of participation in a meeting of the Supervisory Board using means of direct remote communication and adopting resolutions in this manner outside meetings,

19. approval of the Audit Committee's report on the supervision of FABRYKI MEBLI "FORTE" S.A. over financial assets in subsidiaries and affiliates,
20. appointment of a new member of the Management Board,
21. determining the principles of remuneration and other benefits due to a member of the Management Board,
22. concluding an agreement with a member of the Management Board on maintaining business secrets, non-competition, prohibition to conduct competitive activities and non-sourcing.

In 2020, the work of the Supervisory Board focused on issues of significant importance for the Company's operations. The Supervisory Board looked at the key aspects of the Company's operations and the work of the Management Board. The scope of works subject to supervision, consultation and opinion of the Supervisory Board included significant areas of activity, such as evaluation of the financial statements and Management Board reports on the Company's operations, as well as approval and consent for the Management Board to perform certain activities reserved for the Supervisory Board. The Supervisory Board was regularly informed by the Management Board about current activities, regularly analyzed the financial results, and received up-to-date information on the situation in the Company and the Capital Group related to the SARSCOV-2 coronavirus pandemic and on significant measures taken to prevent the negative effects of the pandemic.

Pursuant to the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (i.e. of 15 July, 2020, Journal of Laws of 2020, item 1415), the Supervisory Board of the Company appointed the Audit Committee. The Audit Committee consists of:

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

Mr Bernard Woźniak is the Chairman of the Audit Committee.

Due to the special circumstances related to the SARS-CoV-2 coronavirus pandemic, the Audit Committee operated in the reporting period as remote meetings, i.e. videoconferences, convened by the Chairman of the Audit Committee. Communication during the Audit Committee meetings took place via the Microsoft Teams application. In 2020, six meetings of the Audit Committee were held. In 2020, the Audit Committee adopted a resolution on the adoption of the Report on the activities of the Audit Committee for the period from 1<sup>st</sup>

January to 31<sup>st</sup> December 2019. During the meetings of the Audit Committee, issues were discussed, concerning in particular:

- the results of the analysis of the most important risks regarding FORTE and the FORTE Capital Group, with particular emphasis on the risks that may affect the financial statements of the Company and the Capital Group,
- internal control and audit, as a broadly understood process of preparing the financial statements of the Company and the Capital Group,
- information on the progress of work on the preparation of semi-annual and annual financial statements of FORTE and the FORTE Capital Group
- Internal Audit plans for a given year and reports on the activities of Internal Audit of FABRYKI MEBLI "FORTE" S.A.,
- the Company's supervision over financial assets in its subsidiaries and affiliates.

In 2020, the Audit Committee held three meetings with an audit firm authorised to audit the statutory financial statements of the Company and of the Capital Group, i.e. KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k. based in Warsaw, during which Members of the Audit Committee were provided with comprehensive information on, among other things, the auditors' work on the reports being prepared. The auditors informed Members of the Audit Committee about the principles of auditors' independence, presented key areas of the audit and methodology of the audit work. The auditors prepared and submitted the following documents to the Audit Committee:

- "Additional report to the Audit Committee, Summary of the audit of separate and consolidated financial statements for the financial year ended 31 December 2019",
- "Summary of the semi-annual review - meeting with the Audit Committee",
- "Additional report to the Audit Committee" from 9 December 2020.

The Audit Committee meetings were attended by persons responsible for the preparation of financial statements of the Company and of the Capital Group, i.e. Management Board Member responsible for the Company's finances and Chief Accountant, as well as Director of the Internal Audit Department. Members of the Audit Committee were informed about the most significant risks occurring in the Company that may affect financial statements of the Company and of the Capital Group and about the progress of work on preparing the financial statements. The Internal Audit Department cooperated with the Audit Committee by, among others, providing information about the internal control system, the risk management system and the current activities of the Internal Audit Department. During the

Audit Committee meetings, Director of the Company's Internal Audit Department presented a report on the activities of the Audit Department in 2019 and the main assumptions of the audit plan for 2020.

In 2020, the Audit Committee dealt with the issue concerning the supervision of FABRYKI MEBLI "FORTE" S.A. over financial assets in subsidiaries and affiliates of the Company. In order to verify whether the Company properly exercises supervision over financial assets in its subsidiaries and affiliates, the Audit Committee requested the Company's Management Board to provide information on this matter. After receiving comprehensive information from the Company, the Audit Committee Members thoroughly examined the presented materials and positively assessed the supervision of FABRYKI MEBLI "FORTE" S.A. over financial assets in subsidiaries and affiliates of the Company.

Both the Supervisory Board and the Audit Committee performed the tasks of a body exercising control over the management of the Company. The Supervisory Board is composed of people with extensive experience and professionalism, who have the potential to thoroughly analyse information received from the Company. The participation of independent Members of the Supervisory Board in its work allows for the application of objective criteria for the assessment of issues submitted for analysis by the Supervisory Board.

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

The Supervisory Board has diligently and effectively supervised the activities of the Management Board and therefore has a positive view of its activities in the financial year 2020.

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

The Management Board of the Company is responsible for keeping the accounts in accordance with the International Financial Reporting Standards (IFRS) approved by the International Accounting Standards Board (IASB) 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 Member of the Management Board responsible for financial matters. In the

process of day-to-day management of the Company and during preparation of periodic reports, the Management Board performs a periodic verification of risk factors relevant to the Company on an ongoing basis throughout the financial year. In order to ensure reliability and correctness of the process of preparing and drawing up 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 a continuous verification of reporting data with the accounts, analytical data and other documents as the basis for preparing financial statements as well as the applicable laws on accounting and preparation of financial statements.

The Company has appropriate procedures for preparing financial statements in order to ensure complete and accurate accounting for all business transactions.

Monitoring the completeness of business events is supported by the V-desk electronic document circulation system. Access to the electronic document circulation is granted to authorised employees of the Company within their competence.

The Company has implemented an investment procedure which enables full supervision at each stage of investment planning and execution.

The Company manages risk in relation to the process of preparing financial statements, also by monitoring changes in applicable laws and external regulations concerning reporting requirements on an ongoing basis and by preparing for their implementation well in advance. The financial and accounting team reporting to the Member of the Management Board responsible for the finances of the Company and the Capital Group, constantly monitors the changes required by the provisions and external regulations relating to the stock exchange reporting requirements (including the International Financial Reporting Standards and the Uniform European Reporting Format).

In addition, the Company has a system of controlling the implementation of budget assumptions, which are prepared on many levels of operational activities, starting from planning and implementing the budgets of individual offices and organizational units of the Company and the Capital Group and operating costs according to their place of creation, and ending with consolidated reports for the entire Group Capital.

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

Internal control procedures and material risk management system operating in the Company are assessed by the Supervisory Board as consistent, stable and efficient tools that

allow for significant reduction of risks associated with current operations. At the same time, the Supervisory Board is aware that the Company should continuously take actions aimed at strengthening its internal control system and eliminating emerging threats, in particular those related to proper functioning of the systems used by the Company.

The Company has implemented an integrated risk management system to support the management process at the strategic and operational level. The Company is aware of the risk associated with its operations and has implemented control mechanisms to manage the risk and to maintain it at an acceptable level, both in the production area and in other areas of activity. The Supervisory Board has a positive view of the internal control system and the material risk management system operating in the Company in 2019 and believes that they reduce the main risks associated with the Company's operations.

The performance of the Compliance function at the Company is dispersed, in particular the tasks related to the Compliance function are performed by the Legal Department and the Internal Audit Department. The Legal Department, among other things, monitors and informs the Company about changes in legal regulations, potential consequences of non-compliance with laws, internal regulations and standards of conduct adopted by the Company. The Internal Audit Department, among other things, carries out audits aimed at verifying the correctness of procedures and principles of operation functioning in the Company. The Company has developed and implemented numerous internal regulations and procedures to ensure that it operates in accordance with applicable laws and ethical standards which are in force at FORTE. At the same time, the Management Board and the management staff of the Company communicate to employees, contractors, suppliers and other entities cooperating with FORTE that it complies with applicable laws and ethical standards described in the Code of Ethics of FABRYKI MEBLI "FORTE" S.A.

The Company has an Internal Audit Department. The audit system operates in accordance with the International Standards for the Professional Practice of Internal Auditing (IIA), which is based on the principle of independence and may cover all areas of activity of the Company and the Capital Group. The Internal Audit Department systematically examines and monitors control mechanisms and identifies potential risks in individual processes, as well as detects irregularities and deficiencies in relation to the applicable procedures. The principles of cooperation between the Internal Audit Department and the Supervisory Board of the Company have been developed and implemented. Audit activities were carried out on the basis of the "Internal Audit Plan for 2020", which was approved by the Supervisory Board of the Company.



The Internal Audit Department cooperates with the Audit Committee, among others, by providing information about the internal control system, the risk management system, the current activities of the Internal Audit Department and the audit plans for a given calendar year.

In the opinion of the Supervisory Board, internal control, risk management, compliance and internal audit systems properly support the Company's operations.

**III. ASSESSMENT OF THE MANNER IN WHICH THE COMPANY FULFILS ITS DISCLOSURE OBLIGATIONS CONCERNING THE APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES AS SET OUT IN THE REGULATIONS OF THE STOCK EXCHANGE AND THE REGULATIONS CONCERNING CURRENT AND PERIODIC INFORMATION PROVIDED BY ISSUERS OF SECURITIES.**

The Supervisory Board assessed the manner in which the Company fulfils its disclosure obligations with respect to corporate governance principles, as set out in the Regulations of the Warsaw Stock Exchange and the regulations concerning current and periodic information provided by issuers of securities.

FABRYKI MEBLI „FORTE” S.A. adheres to corporate governance principles and fulfils its disclosure obligations set out in the regulations concerning current and periodic information provided by issuers of securities. The Company has published in the EBI system a report on the scope of application of the „Code of Best Practice for WSE Listed Companies 2016”, which clearly shows that a vast majority of detailed principles is applied by the Company. At the same time, the Company indicated and justified which detailed principles are not applied. In its document „STATEMENT ON THE APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES BY FABRYKI MEBLI FORTE S.A. IN 2020” which is an integral part of the annual report for 2020, the Management Board of the Company, acting in accordance with the requirements of corporate governance principles, indicated and described in detail which recommendations and detailed principles of the „Code of Best Practice for WSE Listed Companies 2016” are not applied.

The Company publishes on its website information and documents specified in the „Code of Best Practice for WSE Listed Companies 2016”.

All current and periodic reports are transferred using the ESPI and EBI systems and are published on the website of FABRYKI MEBLI „FORTE” S.A.

In the opinion of the Supervisory Board, the Company properly and reliably fulfills its disclosure obligations concerning the application of corporate governance principles, as set out in the Regulations of the Warsaw Stock Exchange and the regulations concerning current and periodic information provided by issuers of securities. The Management Board properly fulfilled its obligation to inform shareholders on a current basis about significant events that had an impact on the financial condition of the Company.

#### **IV. ASSESSMENT OF THE RATIONALITY OF THE COMPANY'S SPONSORSHIP AND CHARITY ACTIVITIES**

The Management Board has adopted a "Policy of FABRYKI MEBLI „FORTE” S.A. relating to charity and sponsorship activities" (hereinafter: the Charity Policy). As part of its Charity Policy, the Company's sponsorship and charity activities are mainly focused on supporting initiatives aimed at levelling social differences and combating social exclusion of children and young people, especially gifted ones, who need help and are in a difficult life situation.

The Company undertakes numerous initiatives and activities which support education in its broadest sense and the comprehensive development of the young generation. Its commitment to the development of culture and art manifests itself in supporting initiatives related to the development of culture, preservation of cultural and national heritage as well as cultural institutions and events, which are primarily located in the places where the Company conducts its business.

The year 2020, marked by the SARS COV-2 coronavirus pandemic, resulted in numerous restrictions and restrictions, in particular in the operation of organizations and institutions supported by FORTE. Many cultural events and activities have been cancelled or have significantly reduced their activity. Also, cultural events sponsored by FORTE for years, such as the International Festival of Orthodox Church Music in Hajnówka and the Suwałki Blues Festival, did not take place. In this particularly difficult period for the health service, FORTE started active cooperation with local hospitals in the places where it operates, supporting the health service in the supply of medical equipment and personal protective equipment, allocating over PLN 30,000 for its purchase.

FABRYKI MEBLI „FORTE” S.A. is active in the field of education and upbringing by cooperating with universities and secondary schools educating future employees of the Company, as well as by providing in-kind assistance consisting in equipping educational

institutions or fostering research, teaching and scientific activities aimed at the development of wood and furniture industry. Acting on its own initiative, the Company cooperates with secondary schools to support vocational education, in particular in the locations where FORTE conducts its manufacturing activities.

The patronage of FORTE covers industry classes in Ostrów Mazowiecka, Suwałki and Białystok, with a total of 384 students.

An important element of the Charity Policy is a cyclical project "FORMY" - an employee initiatives programme". It is an employee volunteering programme, activating employees in local communities and integrating them in joint action. As part of the "FORMY" project, each employee may apply for financial or in-kind support for their own project addressed to local communities where FORTE conducts its business. The functioning of the "FORMY" Program allowed for the implementation in 2020, despite the pandemic, of eleven projects for local communities with a total value of over PLN 68,000.

A permanent element of our charity activities is the long-term cooperation with the AMF "NASZA DROGA" FOUNDATION, whose activity is focused on outstandingly talented young people from the Ostrów district. Thanks to the Company's support, it is possible to implement a scholarship programme adopted by the Foundation for gifted secondary and higher school students.

FORTE does not forget about helping the needy - the excluded, the sick, the disabled, therefore, in accordance with its mission, it supports activities that help such people.

In 2020, the Company allocated PLN 79 thousand for charity and over PLN 2 thousand for sponsorship activities.

In the opinion of the Supervisory Board, sponsorship and charity activities carried out by FABRYKI MEBLI „FORTE” S.A. are an important element of shaping a positive image of a socially responsible Company, which is in particular involved in educating and shaping the young generation.

Signed by:

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Zbigniew Sebastian

Chairman of the Supervisory Board  
of FABRYKI MEBLI "FORTE" S.A.