



REPORT OF THE SUPERVISORY BOARD OF FABRYKI MEBLI „FORTE” SPÓŁKA AKCYJNA FOR THE FINANCIAL YEAR 2019

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The report of the Supervisory Board of FABRYKI MEBLI „FORTE” S.A. for the financial year 2019 includes in particular:

- I. Report on the activities of the Supervisory Board in the financial year 2019.
- 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 2019**

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 2019 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 2019, the Supervisory Board held eleven meetings, including six meetings in written form, during which it adopted 36 resolutions regarding, inter alia:

1. establishment of financial pledges and registered pledges on new shares in TANNE Sp. z o. o. and submission of declarations of submission to enforcement pursuant to Article 777 of the Code of Civil Procedure with respect to new shares,
2. approval of the FABRYKI MEBLI "FORTE" S.A. Capital Group Plan for 2019”,
3. adoption of the FABRYKI MEBLI "FORTE" S.A. Internal Audit Activity Report for 2018,
4. adoption of the FABRYKI MEBLI "FORTE" S.A. Internal Audit Plan for 2019,
5. liquidation of FORTE MOBILIER S.A.R L. based in Lyon,

6. advance payments in respect of bonuses for Members of the Management Board,
7. establishment of security in the form of a registered pledge on fixed assets together with the assignment of cash receivables under the insurance agreement in favour of PKO BP,
8. evaluation of the Management Board report on the operations of the FABRYKI MEBLI "FORTE" S.A. Capital Group in the financial year 2018, the financial statements of FABRYKI MEBLI "FORTE" S.A. in the financial year 2018 and the consolidated financial statements of the FABRYKI MEBLI "FORTE" S.A. Capital Group in the financial year 2018,
9. evaluation of the Management Board's proposal to cover the Company's net loss for the financial year 2018,
10. adoption of the Report on the activities of the Supervisory Board of the Company in the financial year 2018,
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 2018 to the Annual General Meeting for approval,
12. assessment of matters included in the agenda of the Annual General Meeting of the Company,
13. increase of share capital in FORTE BRAND Sp. z o.o.,
14. termination of management contracts with Members of the Management Board,
15. determination of the number of Members of the Management Board for a new term of office,
16. election of Members of the Management Board for a new term of office and the rules of their remuneration,
17. establishment of rules for the performance of duties by Members of the Management Board during their excused absence,
18. conclusion of agreements with Members of the Management Board concerning non-disclosure of trade secrets, non-competition and non-solicitation,
19. approval of a loan agreement made with FORTE FURNITURE PRODUCTS INDIA PRIVATE LIMITED,
20. consent to sell shares in KWADRAT Sp. z o. o. by FABRYKI MEBLI "FORTE" S.A.,
21. consideration and opinion on matters included in the agenda of the Extraordinary General Meeting of FABRYKI MEBLI "FORTE" S.A.,
22. establishment of a company in Romania,

23. increase of involvement of FABRYKI MEBLI "FORTE" S.A. in FORTE FURNITURE PRODUCTS INDIA PRIVATE LIMITED based in Kakkalur.

In 2019, 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 analysed the Company's financial results and investments, as well as the manner of implementation of projects significant for the development of the Company and of the Capital Group in 2019.

Pursuant to the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight implementing Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC (i.e. OJ 2017. 1089 of 6 June 2017), the Supervisory Board of the Company appointed an Audit Committee. The Audit Committee is composed of:

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

Mr Bernard Woźniak is the Chairman of the Audit Committee.

In the course of its activity in 2019, the Audit Committee held four meetings, during which it passed a resolution on the adoption of the report on the activities of the Audit Committee for the period from 1 January to 31 December 2018.

In 2019, 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 2018",
- "Summary of the semi-annual review - meeting with the Audit Committee",
- "Additional report to the Audit Committee. Audit strategy and plan. Financial year ended 31 December 2019".

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 cooperates 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 2018 and the main assumptions of the audit plan for 2019.

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 2019.

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.

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 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. The Supervisory Board has approved the FABRYKI MEBLI "FORTE" S. A. Internal Audit Charter which defines the principles of operation of the Internal Audit Department and the rules for conducting audits across the Company and the Capital Group. Audit activities were carried out on the basis of the "Internal Audit Plan for 2019", 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 2019” which is an integral part of the annual report for 2019, 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.

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. Particularly noteworthy is the Company's support for events such as the International Festival of Orthodox Church Music in Hajnówka or the Suwałki Blues Festival. FORTE has provided financial support for these events for years, as it understands their contribution to developing culture.

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.

An important element of the Charity Policy is a cyclical project "FORMS" - 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 "FORMS" project, each employee may apply for financial or in-kind support for their own project

addressed to local communities where FORTE conducts its business. In 2019, twenty-one projects targeted at local communities in the places where the Company operates were implemented under the “FORMS” programme.

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.

The Company strives to implement its sponsorship activities in a prudent manner, focusing primarily on the locations where manufacturing activities are carried out, e.g. by sponsoring the Suwałki Blues Festival, the Orthodox Music Festival, Ostrów days, family picnics, sailing competitions and other sports activities.

In 2019, the Company allocated PLN 1,914 thousand for charity and over PLN 170 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.



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

www.FORTE.com.pl