



Report of the Supervisory Board of FABRYKI MEBLI "FORTE" S.A. in the financial year 2018

Ostrów Mazowiecka May 2019

REPORT OF THE SUPERVISORY BOARD OF FABRYKI MEBLI "FORTE" SPÓŁKA AKCYJNA IN THE FINANCIAL YEAR 2018

The report of the Supervisory Board of FABRYKI MEBLI „FORTE” S.A. in the financial year 2018 includes in particular:

- I. Report on the activities of the Supervisory Board in the financial year 2018.
- II. Assessment of the Company's standing, including an assessment of the internal control, risk management and compliance systems and the internal audit function.
- III. Assessment of the manner in which the Company fulfils its disclosure obligations related to the application of corporate governance principles set out in the Regulations of the Warsaw Stock Exchange and provisions regarding current and periodic information provided by issuers of securities.
- IV. Assessment of the rationality of the Company's policy with respect to sponsorship and charity activities.

I REPORT ON THE ACTIVITIES OF THE SUPERVISORY BOARD IN THE FINANCIAL YEAR 2018

The Supervisory Board of FABRYKI MEBLI "FORTE" S.A. with its registered office in Ostrów Mazowiecka (the Company) operates in accordance with generally applicable laws, in particular the Code of Commercial Companies, the Company's Articles of Association, the Regulations of the Supervisory Board and the "Best Practice for WSE Listed Companies 2016" adopted by the Company. The Company committed itself to follow the principles of corporate governance contained in the "Best Practice for WSE Listed Companies 2016", effective as of 1 January 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 the Management Board's reports on the operations of the Company as to their consistency with the accounting records, documents and actual state of affairs, and Management Board's proposals on distribution of profit and coverage of losses, 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. work together, especially at meetings of the Supervisory Board, following the applicable laws and internal regulations.

On 21 June 2018, the Annual General Meeting of FABRYKI MEBLI "FORTE" S.A. resolved that the Supervisory Board comprise six members for a new term. Due to the expiry of the term of the Supervisory Board, the Annual General Meeting of FABRYKI MEBLI "FORTE" S.A. appointed the following persons for the new four-year term of office (2018 – 2022):

- 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 to the position of Chairman of the Supervisory Board. Mr Bernard Woźniak was appointed Vice-Chairman of the Supervisory Board.

The independence criteria defined in accordance with the principle II.Z.4 of the "Best Practice for WSE Listed Companies 2016", according to statements made by Members of the Supervisory Board, were fulfilled in 2018 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 2018, the Supervisory Board held eight meetings, including three meetings in written form, during which it adopted 28 resolutions regarding, inter alia:

1. approval of the "Plan of the FABRYKI MEBLI „FORTE” S.A. Capital Group for the year 2018”,
2. consent to provide securities to FORTE BRAND Sp. z o.o.,
3. advance payments in respect of bonuses for Management Board Members,
4. evaluation of the Company's financial statements and the Management Board's report on the operations of the Company in the financial year 2017,

5. evaluation of the consolidated financial statements and the Management Board's report on the operations of the FABRYKI MEBLI "FORTE" S.A. Capital Group in the financial year 2017,
6. evaluation of the Management Board's proposal on distribution of the Company's net profit for the financial year 2017,
7. approval of the Report on the activities of the Company's Supervisory Board in 2017,
8. appointment of a new Member of the Management Board of FABRYKI MEBLI "FORTE" S.A. and negotiations regarding the terms of the management contract,
9. assessment of matters included in the agenda of the Annual General Meeting of the Company,
10. selection of an audit firm to audit statutory financial statements of FABRYKI MEBLI "FORTE" S.A. and the FABRYKI MEBLI "FORTE" S.A. Capital Group,
11. election of the-Vice Chairman of the Supervisory Board,
12. appointment of Members of the Audit Committee, including the Chairman of the Audit Committee,
13. consent to secure payments due from TANNE Sp. z o. o. by FABRYKI "FORTE" S.A. and to change the amount of such sureties granted to TANNE Sp. z o.o.,
14. consent to secure the liabilities of FORTE BRAND Sp. z o. o. under a bank loan,
15. increase in the share capital of FORTE BRAND Sp. z o.o.,
16. increase in the share capital of TANNE Sp. z o.o.,
17. compilation of a consolidated text of the Articles of Association of the Company,
18. consent to enter into a lease agreement for business premises with a subsidiary of the President of the Management Board of the Company,
19. consent to sell properties located in Hajnówka,
20. consent to the winding-up of FORESTIVO Sp. z. o.o.

In 2018, the activities of the Supervisory Board focused on matters of significant importance for the operations of the Company. The Supervisory Board looked at all aspects of the Company's operations and the work of the Management Board. The scope of activities subject to supervision, consultation and opinion of the Supervisory Board included significant areas of activity, such as the evaluation of financial statements and the Management Board's reports on the operations of the Company, as well as approval and consent for the Management Board to perform certain activities reserved to the Supervisory Board. In 2018, the Supervisory Board regularly analysed the Company's financial results, the investment

process and the manner of implementing projects significant for the development of the Company and the Capital Group.

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 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC (i.e. Journal of Laws 2017. 1089 of 6 June 2017), the Company's Supervisory Board appointed for a new term elected the Audit Committee from among its members. The following persons were appointed as members of the Audit Committee:

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

The function of Chairman of the Audit Committee was entrusted to Mr Bernard Woźniak.

In the course of its activity in 2018, the Audit Committee held 5 meetings, including one in the form of teleconference, during which, inter alia, two resolutions were adopted regarding:

- a) approval of the report on the activities of the Audit Committee for the period from 9 October 2018 to 31 December 2018,
- b) recommendation regarding the selection of an audit firm to audit statutory financial statements of FABRYKI MEBLI "FORTE" S.A. and the FABRYKI MEBLI "FORTE" S.A. Capital Group.

In 2018, the Audit Committee held three meetings with auditors authorised to audit the statutory financial statements of the Company and the Capital Group, i.e. BDO Sp. z o. o. based in Warsaw, and then with KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k. based in Warsaw, during which Audit Committee Members obtained complete information on the work of statutory auditors on the reports in preparation. The auditors informed Audit Committee Members about the principles of auditors' independence, presented key areas of the audit and methodology of the audit work.

Both the Supervisory Board and the Audit Committee performed the tasks of a specialised 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 analyse the information received from the Company. Also, the participation of independent Members of the Supervisory Board in its work is a guarantee of applying objective criteria for the assessment of issues submitted for analysis by the Board.

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

The Supervisory Board delivered a diligent and effective supervision of the activities of the Management Board and, therefore, has a positive view of its activities in the financial year 2018.

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

The Company's Management Board 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 the 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 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 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 continuous verification of reporting data with accounting records, analytical data and other documents constituting the basis for the preparation of financial statements as well as with applicable legal regulations regarding accounting and preparation of financial statements.

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

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

The Company has successfully implemented an investment procedure, which allows it to exercise full supervision at every stage of planning and implementation of investments.

The Company manages risk in relation to the process of preparing financial statements also by monitoring changes in applicable laws and external regulations regarding reporting requirements on an ongoing basis and by preparing for their implementation well in advance.

Annual and semi-annual financial statements 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 summarising meetings.

Internal control procedures and material risk management system operating in the Company are assessed by the Supervisory Board as coherent, stable and efficient tools that significantly reduce the risks associated with current operations. At the same time, the Supervisory Board is aware that the Company should continuously undertake activities aimed at strengthening its internal control system and eliminating emerging threats regarding, in particular, correct functioning of the systems used by the Company.

The Company implemented an integrated risk management system to support 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 it at an acceptable level, both in production divisions and in other areas of activity. The Supervisory Board has a positive view of the internal control system operating in the Company in 2018 and the material risk management system, and believes that they limit the main risks associated with the Company's operations.

Implementation of the Compliance function at the Company is dispersed, in particular, tasks related to its functioning are carried out by the Legal Department and the Internal Audit Department. The Legal Department, in particular, 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 carries out audits aimed at verifying the correctness of procedures and operating principles of the Company. The Company is planning to appoint a person responsible for the Compliance function in the near future. The Company has developed and implemented numerous internal regulations and procedures in order to ensure that it operates in compliance with applicable laws and ethical standards which are in force in FORTE. At the same time, the Management Board and the management staff of the Company communicate to their employees, contractors, suppliers and other entities cooperating with FORTE that it complies with applicable legal regulations and the highest ethical standards.

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 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 Department with the Supervisory Board of the Company have been developed and implemented. The Supervisory Board approved the Internal Audit Charter of FABRYKI MEBLI "FORTE" S. A, specifying the operating principles of the Internal Audit Department and the rules for the conduct of audits in the Company and the Capital Group. Audit activities were conducted on the basis of the "Audit plan for 2018", which was approved by the Management Board and by the Supervisory Board of the Company.

The Internal Audit Department 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.

In the opinion of the Supervisory Board, the Company's standing is stable. The Supervisory Board has a positive view of the current operating activities of the Company.

III. ASSESSMENT OF THE MANNER IN WHICH THE COMPANY FULFILLS ITS DISCLOSURE OBLIGATIONS RELATED TO THE APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES SET OUT IN THE REGULATIONS OF THE STOCK EXCHANGE AND PROVISIONS REGARDING CURRENT AND PERIODIC INFORMATION PROVIDED BY ISSUERS OF SECURITIES.

The Supervisory Board assessed the manner in which the Company fulfilled its disclosure obligations regarding corporate governance principles, as set out in the Regulations of the Warsaw Stock Exchange and provisions regarding current and periodic information provided by issuers of securities.

FABRYKI MEBLI „FORTE” S.A. adheres to the principles of corporate governance and fulfils its disclosure obligations, as set out in the provisions regarding current and periodic information provided by issuers of securities. The Company published in the EBI system a report concerning the extent of application of the „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 2016” which is an integral part of the annual report for 2018, the Management Board of the Company acting in accordance with the requirements of corporate governance principles defined and described which recommendations and detailed principles of the „Best Practice for WSE Listed Companies 2016” are not applied.

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

All current and periodic reports are transferred using the ESPI and EBI systems and 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 regarding the application of corporate governance principles, as set out in the Regulations of the Warsaw Stock Exchange and regulations regarding current and periodic information provided by issuers of securities.

IV. ASSESSMENT OF THE RATIONALITY OF SPONSORSHIP AND CHARITY ACTIVITIES CONDUCTED BY THE COMPANY

The Management Board adopted a Policy of FABRYKI MEBLI „FORTE” S.A. relating to charity and sponsorship activities (hereinafter: Charity Policy). As part of the Charity Policy, the Company’s sponsorship and charity activities are focused on supporting initiatives aimed at levelling social differences and combating social exclusion of talented children and youth, in need of help and in a difficult life situation.

The Company implements numerous initiatives and activities which support broadly understood education and comprehensive development of young people. Its commitment to the development of culture and art is demonstrated by supporting initiatives related to the development of culture, preservation of cultural achievements and national heritage as well as cultural institutions and events, located primarily in places where the Company's business activities are conducted. Particularly noteworthy is the fact that the Company supports events such as the Hajnówka Orthodox Music Festival or the Suwałki Blues Festival. FORTE has provided financial support for these events for years, understanding their contribution to the development of culture.

FABRYKI MEBLI „FORTE” S.A. actively works to support education and upbringing by cooperating with universities and secondary schools educating future staff of the Company,

as well as by providing an in-kind assistance in equipping educational institutions or supporting research, teaching and scientific activities aimed at the development of wood and furniture industries. 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 the "FORMS" project - an employee initiatives programme carried out cyclically. It is an employee volunteering programme, activating employees in local communities and integrating them around a joint activity. As part of the "FORMS" project, each employee may apply for financial or material support for their own project aimed at local communities where FORTE conducts its business. In 2018, twelve projects targeted at local communities in the area of the Company's business activities were implemented under the "FORMS" programme.

A permanent element of our charity activity is the long-term cooperation with the AMF "NASZA DROGA" FOUNDATION, whose activity focuses on highly talented youth from the area of Ostrów district. Thanks to the support from the Company, it is possible to implement a scholarship programme adopted by the Foundation and targeted at gifted secondary school pupils and university students.

In 2018, FORTE allocated over one hundred and sixty thousand zlotys to sponsorship activities alone, and over eighty thousand zlotys to support employee initiatives.

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

Signature:

Zbigniew Sebastian

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