

II CORPORATE GOVERNANCE

In accordance with § 91(5)(4) of the Regulation of the Minister of Finance of 19 February 2009 concerning current and periodic information provided by securities Issuers and conditions of recognizing as equivalent information required under the regulations of a state not being a member state (Journal of Laws No 259 item 133), the Management Board of Fabryki Mebli "FORTE" S.A. (hereinafter: "Company" or "FORTE") with its registered seat in Warsaw submits the statement regarding the Company's application of the principles of corporate governance in 2016. Declaration of application of principles of corporate governance by the Company in 2015 constitutes a separate part of the report on Issuer's activities and is published on the internet website of the Company.

1. Set of corporate governance principles observed by the Issuer and the place where their content is available for the public

Starting on 1 January 2016 the Company applied principles of corporate governance included in the document of „Good Practices of Companies Noted on WSE 2016”, which constitutes appendix to the Agreement no. 26/1413/2015 of the WSE Council from 13 October 2015. The above noted document is publically available on the website of Warsaw Stock Exchange S.A. under address https://www.gpw.pl/lad_korporacyjny_na_gpw.

1. In the scope in which the Issuer withdraws from provisions of corporate governance rules, indication of those provisions and explanation of the reasons of this withdrawal

In 2016 the Company did not comply with the indicated below recommendations and specific rules of corporate governance:

Part I

Specific rule I. Z. 1.20

"The record of the proceeding of the General Meeting of Shareholders in the audio or video form"

The Company does not apply this rule. In the assessment of the Management Board so far course of the General Meetings of Shareholders of Fabryki Mebli "FORTE" S.A. does not create the need of making and putting on the website the recording in the audio or video form. The General Meetings take place in the headquarters of the Company and therefore participation in them is not difficult for the shareholders who are interested in them. Apart from that, the Company, according to valid laws, is putting on the website an announcement about the Meeting together with agenda, resolution projects, any required documents as well as provides the public with adequate information in the form of current reports. Each course of the meetings is preserved via a specific record in the form of notarial protocol. What is more, publishing required current reports and sharing relevant information on the Company's website ensures shareholders' access to all important information concerning the General Meetings. These rules guarantee transparency of the General Meetings as well as their full and real course. The Company does not preclude the possibility to use the abovementioned rule in the future time.

Part IV

Recommendation No. IV R. 2

"If justified due to shareholding structure or reported to the Company as shareholder's expectations, as long as the Company is capable of providing the technical infrastructures necessary to efficient conduct the General Meeting of Shareholders with the use of electronic means, it shall enable the shareholders to participate in General Meeting of Shareholders with the use of such means, especially through:

- 1) *The General Meeting's transmission in real time*
- 2) *two-way communication in real time, under which the shareholders can express their stands during the General Meetings while being in the place other than the General Meeting*
- 3) *carrying out personally or by representative the right to speak during the General Meeting"*

According to the Company, the manner of holding previous General Meetings sufficiently enables shareholders to participate in the General Meeting and to exercise their rights in this scope. Taking into consideration the costs related to ensuring the participation of shareholders in the General Meeting with the use of means of electronic communication as well as the risks and scarce experience of the market in the scope, the Parent Company decided in 2015 not to enable its shareholders to participate in the General Meeting with the use of electronic means of communication. As the use of modern technology becomes more widespread and adequate safety level of their application is ensured, the Parent Company will consider applying this principle in practice.

Specific rule No IV. Z.2

"If justified due to shareholding structure of the Company, the Company ensures widely available transmission of the General Meetings in real time"

The Company does not apply this rule. In the opinion of the Management Board the current, concentrated structure of the shareholding of the Company does not justify bearing the additional, significant costs connected with organization of the transmission. Currently used rules of participating in General Meetings comply with existing regulations of Commercial Companies Code, Status of the Company and other legislations. Organization of the course of the General Meetings in the sufficient way secures the business of all shareholders. The Company shall consider the possibility and desirability of using this rule.

Part V

Specific rule No. V. Z.6

"The Company specifies in internal regulations the criteria and circumstances in which the conflict of interest may occur in the Company and also the rules of procedure in case of conflict of interest or possibility of its occurrence. Internal regulations of the Company also take into account inter alia prevention of identification and solving the conflicts of interest and, what is more, rules of excluding a member of the Management Board or Supervisory Board from participation in considering the case falling within the scope of or in danger of conflict of interest."

the Company currently partly applies this principle. Within internal regulations of the Company (Management Board Regulations, Regulation of the Supervisory Board) principles of proceedings related to the occurrence of conflict of interests have been described, however, they are not described in such detail as they are within the above principle.

Part IV

Specific rule No. VI.Z.4

"The Company in the management report shall provide the report of remuneration policy containing at least:

- 1) general information on the accepted in the company remuneration system,***
- 2) information on terms and level of the remuneration for each of the Board members with division into fixed and variable components of the remuneration indicating key parameters for determining variable remuneration components and severance payment policy together with other payments made on account of termination of service, contract or other legal relationships of similar nature - separately for the Company and each individual present in membership of the Group,***
- 3) information on granted for particular members of the Board and crucial managers apart-financed components of remuneration,***
- 4) indication of substantial changes which within last financial year have occurred in the remuneration policy or information about lack of them,***
- 5) performance evaluation on the remuneration policy in order to achieve its aims, especially long-term increase in value for shareholders and stable viability of the company***

The Company applies Remuneration Regulations determining the principles of remunerating and granting cash benefits to FORTE employees. In accordance with the valid provisions of law and the Parent Company's Articles of Association, the principles of granting remuneration and the amount of remuneration for Members of the Supervisory Board are determined by the General Meeting, and the decision on the amount of remuneration for the Parent Company's Management Board is made by the Supervisory Board.

The amount of remuneration of members of the Parent Company's bodies and other benefits granted to these individuals during a given financial year are presented in the annual financial statements of the Company.

1. Description of the basic characteristics of internal control and risk management systems applied by the Issuer with respect to the process of preparing financial statements and consolidated financial statements

Management Board of the Company is responsible for the conduct of Company accounts in accordance with the Act of 29 September 1994 on accounts (Journal of Law, no. from 2016, item 1047 as amended) and the internal control system and efficiency of its functioning in the process of creating financial reports.

A Member of the Management Board responsible for financial matters supervises the process of preparing the Company's financial statements and interim reports. Both separate and consolidated statements are prepared by the employees of the Finance Office controlled by the Chief Accountant and the Member of the Management Board responsible for the Company's finances.

In order to provide reliability and correctness of the process of elaboration of financial reports a number of control mechanisms have been designed and implemented which are an integral part of the reporting system. These mechanisms consist, above all, in applying on an ongoing basis verification of reported data with accounting books, analytical data and other documents constituting the basis for elaboration of financial reports and the provisions of law in force in the scope of accounting rules and principles of elaboration of financial reports.

The process of preparing financial data for the purpose of reporting is automated, and subject to formalised operational and acceptance procedures.

The Company possesses relevant procedures for preparing financial statements which payment ensuring the complete and correct recognition of all business transactions in a given scope. These procedures include in particular:

- adequate internal communication in the scope of preparing the process of preparing financial statements,
- detailed planning of all activities related to the preparation of the financial statements and determining a detailed activity scheduled together with assigning responsibility of individual persons for given actions.

The monitoring of the completeness of economic events is additionally supported by the V-desk electronic document circulation system. This system records in particular all incoming invoices, as well as all agreements concluded by the Issuer. Access to electronic circulation of documents is grounded in the scope of their competence to authorised Company staff. The V-desk system covers the registration, factual description, boasting and acceptance of invoices – in accordance with competences assigned by the Management Board. Accepted invoices are imported to the SAP R3 operating system after prior verification of the correctness of accounting descriptions by the Accounting Office employees.

FABRYKI MEBLI "FORTE" S.A. keeps accounting books in the integrated SAP R/3 system, in accordance with the accounting policy of the Company approved by the Management Board, based on the International Accounting Standards. The structure of the system ensures clear division of competences, consistency of accounting entries and control between the general ledger and sub-ledgers. High flexibility of the system allows for its ongoing adjustment to the changing accounting principles and other legal regulations.

The company uses investment procedure the key objective of which is to enable full supervision over every stage of planning and realization of an investment. The ongoing analysis of investment processes ensures reliable financial, material and tangible information of an investment. It allows to identify potential errors, deviations or any irregularities within the realization of individual stages of an investment immediately. Thanks to this it is possible to implement necessary corrections related to the investment processes on an ongoing basis and, in particular, to perform correct and reliable calculations.

The company manages risk in relation to the process of preparing financial statements also through current monitoring of changes in external provisions and regulations regarding reporting requirements and through preparing for their implementation significantly in advance.

A certified auditor is appointed by the Supervisory Board after obtaining recommendation from Company's Management Board. A certified auditor is appointed by the Supervisory Board after consulting the Company's Management Board. The results of the audit are presented by the auditor to the management of the Company at closing meetings.

2. Shareholders holding directly or indirectly significant stakes of shares.

In accordance with the most current information possessed by the Company, the shareholding structure as at 31 December 2016 was as follows:

Item	Shareholder	Number of held shares and votes	% stake in share capital	% share in the overall number of votes
1.	MaForm SARL	762 890	32,48%	32,48%
2.	Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	2 300 000	9,62%	9,62%
3.	Skarbiec Towarzystwo Funduszy Inwestycyjnych S.A.*	2 149 448	8,99%	8,99%
4.	ING Otwarty Fundusz Emerytalny	1 200 000	5,02%	5,02%

* including Bentham Sp. z o.o. 2 050 000 shares 8.58% of shares in company capital and general number of votes

3. Holders of any securities which provide special control rights with description of these entitlements

The Parent Company did not issue securities which provide special control rights.

4. Restrictions on voting rights, such as restrictions on the execution of voting rights by a shareholder of a defined part or amount of votes, time-related restrictions on the execution of voting rights or subscriptions, in accordance with which, in cooperation with the Parent Company, equity rights related to securities are separate from the ownership of securities.

The Company does not provide for any restrictions regarding exercising the right to vote.

5. Limitations in transferring the ownership right to the Issuer's securities

There are no limitations in transferring the ownership right to the Parent Company's securities.

6. Description of principles concerning the appointment and dismissal of managers and their

entitlements in particular the right to decide on the issuance or redemption of shares

In accordance with the Company's Articles of Association, the Management Board consists of between one and seven members appointed for a joint term of office. The number of Management Board Members is determined by the Supervisory Board which also appoints the President of the Management Board and other Members of the Management Board. The Management Board is appointed for a joint five-year term of office. In accordance with the Code of Commercial Companies, Members of the Management Board may be dismissed by the Supervisory Board at any moment. The Supervisory Board determines the terms and conditions of remunerating Members of the Management Board, including the provisions of agreements and appointment letters binding Members of the Management Board with the Company. In accordance with the Articles of Association of the Company, the Management Board directs the activities of the Company and represents it before third parties. The work of the Management Board is managed by the President of the Management Board. The scope of activities of the Management Board includes all matters related to managing the Company not restricted to the competencies of the Company's other bodies.

The powers of the Management Board of the Company related to the right to decide on redeeming shares do not deviate from the regulations contained in the Code of Commercial Companies.

7. Principles of introducing amendments to the articles of association or memorandum of association of the Issuer's Parent Company.

The Company's Articles of Association are amended in accordance with mandatory provisions of the Code of Commercial Companies, i.e. Art. 430 et seq., by way of a resolution of the General Meeting of the Company.

The General Meeting of the Company may authorise the Supervisory Board to establish the consolidated text of the amended Company's Articles of Association.

Company Management, acting pursuant to the Regulation of the Ministry of Finance regarding current information and periodical information submitted by the Issuers of stocks and the conditions for considering as equivalent the information required by the provisions of law of non-member country as of 19 February 2009 (Journal of Laws no. 33, item 259 as amended) informs the shareholders of the intended, , conducted changes to the content of the Company Statute and regarding elaboration of the unified text of the Statute including the changes made, by publishing current reports and by placing the current text of the Statute on the internet website of the Company.

8. The manner of functioning of the General Meeting and its principal powers and a description of the rights of shareholders and the manner of their execution, in particular the principles arising from regulations of the general meeting, if such regulations have been adopted and are not a direct result of the existing law

The manner of functioning of the General Meeting of Fabryki Mebli "FORTE" S.A. and its powers, as well as the rights of shareholders and the manner of their execution are determined by the following documents:

1. the Commercial Companies Code,
2. The Company's Articles of Association,
3. Regulations of General Meetings.

The schedule of works regarding organising General Meetings is planned in such a way as to duly perform obligations towards shareholders and allow them to execute their rights.

On 19 April 2016, the General Meeting was convened by the Parent Company's Management Board through a notice published on the Parent Company's website at least 26 days prior to the date of the General Meeting, and in a manner specified for transmitting current information according to the provisions on public offering and conditions governing the introduction of financial instruments to organised trading and on public companies. Resolutions adopted by the General Meeting were published on the Company's website.

Resolutions of the General Meeting are adopted by a simple majority of the votes cast, unless the provisions of law or the Company's Articles of Association provide otherwise. Votes in favour of or against a resolution are considered votes cast.

The following matters were reserved in the Articles of Association to the exclusive decision of the General Meeting: terms and conditions and manner of redeeming shares of the Company ,terms and conditions of issuing utility certificates in exchange for redeemed shares, creating reserve capital and earmarked funds, allocating reserve capital, allocating pure profit earned by the Company.

A resolution of the General Meeting is not required for the purchase and sale of real property, perpetual usufruct, and a share in real property, sale and transfer of rights of property use, property encumbrance, establishing tail property rights on the Company property (decisions on such matters are reserved for the Parent Company's Supervisory Board). Representatives of the media may be present during the General Meeting. The participants of the Annual General Meeting of the Parent Company always include Members of the Management Board and the Supervisory Board and the Company's certified auditor. The course of the Annual General Meeting in 2016 was compliant with the provisions of the Code of Commercial Companies and

the Company's Regulations of General Meetings. Members of the Management Board, Supervisory Board and the certified auditor of the Company present during the Meeting were ready to give any explanations and respond to the shareholders' questions in the scope of their competencies in accordance with the binding provisions of law.

Shareholders can participate in the General Meeting and exercise the voting right in person or through a proxy.

9. Composition of issuer's managing, supervising and administering bodies, changes they underwent during the last financial year and description of their activities emitenta and their committees

SUPERVISORY BOARD

The Company's Supervisory Board acts on the basis of the provisions of the Code of Commercial Companies, the Company's Articles of Association and the Regulations of the Supervisory Board of Fabryki Mebli "FORTE" S.A. with its registered seat in Ostrów Mazowiecka. The Supervisory Board consists of between five and seven members. The Chairman of the Supervisory Board is appointed by the General Meeting during which also the number of Supervisory Board members is established. From among its members, the Supervisory Board appoints the Vice-chairman and, if necessary, the secretary. If the number of members of the Supervisory Board falls below the minimum number set out in the Code of Commercial Companies, the General Meeting supplements /appoints/ Members of the Supervisory Board for the remaining part of the term of office.

The term of office of the Supervisory Board is four years. General Meeting of Fabryki Mebli "FORTE" S.A. established on 10 June 2014 a five-person Supervisory Board of the Company in the present term of office.

In 2016, the Supervisory Board of Fabryki Mebli "FORTE" S.A. was composed of:

Zbigniew Sebastian – Chairman,
Stefan Golonka – Vice-chairman,
Tomasz Domagalski-Member,
Stanisław Krauz - Member,
Jerzy Smardzewski - Member,

The competence of the Supervisory Board includes in particular adopting resolutions on matters regarding:

- a) purchasing and selling real property, perpetual usufruct or a share in real property, selling and transferring rights to use real property, encumbrance on real property, establishing limited property rights on the property of the Company,
- b) taking out loans exceeding the Company's financial plan,
- c) granting sureties to the amount exceeding in total the equivalent of EURO 150 000,
- d) taking over the obligations of third parties,
- e) accepting and establishing pledges and other collaterals, except for a pledge and collaterals related to the ordinary business of the Company in the amount not exceeding in total the equivalent of EURO 150 000,
- f) concluding, terminating and amending lease agreements and other such agreements, if they are concluded for a period longer than three years and when the annual lease rent paid by the Company exceeds the equivalent of EUR 150 000,
- g) lease of enterprise or its part,
- h) purchasing and selling establishments and branches of the Company,
- i) selling the Company's enterprise or its part,
- j) approving employee participation in profits and granting special pension rights,
- k) establishing the annual plan for the enterprise (in particular investment and financial plans), as well as strategic plans,
- l) granting borrowings outside the ordinary course of trade to a total amount exceeding the equivalent of EURO 50 000.

Meetings of the Supervisory Board are held when necessary, but at least three times within a financial year.

The Members of the Supervisory Board may cast their vote in writing via another Member of the Supervisory Board. The Supervisory Board may also adopt resolutions in writing or through direct remote communication means. A resolution is valid if all Members of the Supervisory Board have been notified of the content of the draft resolution.

Taking into consideration the fact that in the current term of office the Supervisory Board is composed of five persons, the functions of the Audit Committee are performed by the whole Supervisory Board.

No other committees were established in the Company.

MANAGEMENT BOARD

The Company's Management Board acts on the basis of the provisions of the Code of Commercial Companies, the Company's Articles of Association and the Regulations of the Management Board of Fabryki Mebli "FORTE" S.A. with its registered seat in Ostrów Mazowiecka. The Management Board consists of between one and seven members appointed for a joint term of office. The Management Board of FABRYKI MEBLI „FORTE” S.A. was appointed for joint 5-year term of office for the years 2014-2019. Within the period from 1 January to 31 December 2016 the Management Board of the Company consisted of:

Maciej Formanowicz – President of the Management Board,
Gert Coopmann – Member of the Management Board,
Klaus Dieter Dahlem – Member of the Management Board,
Maria Florczyk – Member of the Management Board.
Mariusz Gazda – Member of the Management Board.

In accordance with the Articles of Association of the Company, the Management Board directs the activities of the Company and represents it before third parties. The work of the Management Board is managed by the President of the Management Board. The scope of activities of the Management Board includes all matters related to managing the Company not restricted to the competencies of the Company's other bodies. Resolutions of the Management Board are adopted by a simple majority of votes cast. In the event of equal split of votes, the Management Board President's vote prevails.

The following persons are authorised to make declarations of will and contract obligations on behalf of the Company: the President of the Management Board acting independently, two Members of the Management Board acting jointly, one Member of the Management Board acting jointly with a registered signatory.

2. Description of diversity policy applied for administrative bodies, managing and supervising the Issuer as regards the aspects such as, for example, age, gender or education and experience, aims of this policy, ways of its realization and results in the particular reporting period

The Management Board on 16 March 2016 adopted a resolution on the acceptance of the diversity policy used in FABRYKI MEBLI "FORTE" S.A. (hereinafter referred to as diversity policy). Diversity policy shall specify the strategy of company as regard to managing the diversity in respect of business activities of the Company and its remuneration policy. It represents a commitment of the Company to use universal rules of respect and tolerance towards other people together with effective use of each employee's potential. Diversity policy shall provide elimination of any form of discrimination both due to origin, age, gender, nationality, ethnic origin, political beliefs, health status, disability, religion, lifestyle, sexual orientation or any other criteria or basics prohibited by law.

The aim of adopted diversity policy is to build awareness and culture of the Company open to diversity, which contributes to success of the organisation, leads to enhancing the effectiveness and counteracts any form of discrimination and mobbing as well as has an influence on improving the results gained by the Company.

The diversity policy includes the following areas of Company's operations:

- 1) **managing the diversity in the work place**
- 2) **education, training and personal development,**
- 3) **breaking down the boundaries in the work place,**
- 4) **working towards prevent discrimination and mobbing in the work place,**
- 5) **intergenerational dialogue**
- 6) **creating proper atmosphere in the work place**
- 7) **monitoring and controlling use of adopted diversity policy**

Adopted by the Company diversity policy is currently implemented in particular areas of its activity, thus it is hard in such short period of time to assess its results. However, the Management Board presumes that implementation, realization and monitoring of use of this diversity policy in longer perspective will provide profits for the Company, its employees and counterparties. The implementation of this policy is constantly and up to date monitored by the Management Board.

President of the Management Board
Maciej Formanowicz

Member of the Management Board
Gert Coopmann

.....

.....

Member of the Management Board
Klaus Dieter Dahlem

Member of the Management Board
Maria Florczyk

.....

.....

Member of the Management Board

Mariusz Gazda

.....

Ostrów Mazowiecka, 20 March 2017