

VISTULA

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VRG

VISTULA RETAIL GROUP

www.vrg.pl

CONSOLIDATED FINANCIAL STATEMENTS OF VRG S.A. FOR FISCAL YEAR 2018

Prepared in accordance with IFRS approved by the European Union

Cracow, March 18, 2019

TABLE OF CONTENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME.....	3
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	5
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	7
CONSOLIDATED STATEMENT OF CASH FLOWS.....	8
SUPPLEMENTARY INFORMATION TO CONSOLIDATED FINANCIAL STATEMENTS	10
1. GENERAL INFORMATION	10
2. PRINCIPLES FOR PREPARATION OF THE FINANCIAL STATEMENTS.....	15
3. ACCOUNTING PRINCIPLES	23
4. SUPPLEMENTARY NOTES TO FINANCIAL STATEMENTS.....	38
NOTE 1. REVENUES FROM CONTINUING OPERATIONS.....	38
NOTE 2. SEGMENTS BY TYPE OF ACTIVITY AND GEOGRAPHICAL BREAKDOWN	38
NOTE 3. OPERATING EXPENSES AND OTHER OPERATING COSTS.....	41
NOTE 4. REMUNERATION AND EMPLOYEE BENEFITS	41
NOTE 5. FINANCIAL INCOME.....	41
NOTE 6. FINANCIAL COSTS	42
NOTE 7. INCOME TAX	42
NOTE 8. EARNINGS PER SHARE.....	43
NOTE 9. GOODWILL	44
NOTE 10. OTHER INTANGIBLE ASSETS	45
NOTE 11. FIXED ASSETS	47
NOTE 12. INVESTMENT PROPERTY	48
NOTE 13. SHARES.....	49
NOTE 14. OTHER LONG-TERM INVESTMENTS.....	49
NOTE 15. INVENTORY	49
NOTE 16. LONG-TERM RECEIVABLES.....	50
NOTE 17. TRADE AND OTHER RECEIVABLES	50
NOTE 18. CASH AND CASH EQUIVALENTS.....	52
NOTE 19. BANK LOANS AND BORROWINGS	53
NOTE 20. FAIR VALUE OF FINANCIAL INSTRUMENTS.....	57
NOTE 20A. FINANCIAL INSTRUMENTS BY TYPE.....	58
NOTE 20B. FINANCIAL INSTRUMENTS - REVENUES AND COSTS, GAINS AND LOSSES FROM CHANGE IN VALUE	58
NOTE 21. OTHER NON-CURRENT ASSETS.....	59
NOTE 21A. OTHER CURRENT ASSETS.....	59
NOTE 22. DEFERRED INCOME TAX.....	59
NOTE 23. FINANCE LEASE LIABILITIES	60
NOTE 24. TRADE AND OTHER LIABILITIES	61
NOTE 25. PROVISIONS	62
NOTE 26. SHARE CAPITAL	63
NOTE 27. RESERVE CAPITAL	64
NOTE 28. RETAINED EARNINGS.....	64
NOTE 29. CONTINGENT RECEIVABLES AND LIABILITIES	65
NOTE 29A. OPERATING LEASES.....	65
NOTE 30. SHARE-BASED COMPENSATION	65
NOTE 31. SIGNIFICANT EVENTS IN 2018.....	67
NOTE 31A. EVENTS AFTER THE BALANCE SHEET DATE	76
NOTE 32. RELATED PARTY TRANSACTIONS	76
NOTE 33. COMPARABLE DATA - PREVIOUS YEARS ADJUSTMENTS AND PRESENTATION CHANGES	78
NOTE 34. ACQUISITION OF BYTOM AS A RESULT OF THE MERGER.....	79
NOTE 34A. ACQUISITION OF BTM 2 AS A RESULT OF A MERGER WITH BYTOM	80
NOTE 35. ACCOUNTING POLICY	81
5. ISSUANCE, REDEMPTION AND REPAYMENT OF DEBT AND CAPITAL SECURITIES.....	83
6. PAID AND DECLARED DIVIDENDS.....	84
7. PENDING COURT OR PUBLIC ADMINISTRATION PROCEEDINGS	84
8. CREDIT OR LOAN GUARANTEES GRANTED.....	85
9. REMUNERATION OF PARENT COMPANY MANAGEMENT AND SUPERVISORY BOARD FOR 2018.....	85
10. SIGNIFICANT RISK FACTORS	86
11. OTHER INFORMATION RELEVANT TO ASSESSMENT OF GROUP'S SITUATION.....	92

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR 12 MONTHS ENDING DECEMBER 31, 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	PLN ths			
		2018	2017	4Q18	4Q17
Revenues	1, 2	805,674	688,513	272,141	223,075
Cost of sales	3	393,383	329,133	128,304	102,915
Gross profit on sales		412,291	359,380	143,837	120,160
Other operating income	1	4,663	1,466	3,530	543
Profit from sale of non-financial non-current assets	1	-	-	-	-
Selling costs	3	272,828	230,528	82,866	68,246
Administrative expenses	3	67,311	62,775	20,575	18,921
Other operating costs	3	4,610	4,080	2,901	1,481
Loss from sale of non-financial non-current assets		288	631	260	627
Profit (loss) from operations		71,917	62,832	40,765	31,428
Financial income	1, 5	208	74	168	477
Profit from sale of subsidiaries		-	-	-	-
Financial costs	6	6,397	7,921	2,077	2,108
Loss from sale of subsidiaries		-	-	-	-
Pre-tax profit (loss)		65,728	54,985	38,856	29,797
Income tax	7	12,156	11,777	6,423	6,112
Net profit (loss) for the period		53,572	43,208	32,433	23,685
Attributed to dominating entity		53,572	43,208	32,433	23,685
Attributed to non-controlling interest		-	-	-	-
Weighted average number of ordinary shares		185,829,119	178,641,539	183,510,654	179,194,964
Diluted weighted average number of ordinary shares		192,879,119	180,641,539	190,560,654	181,194,964
Earnings per share:					
- basic		0.29	0.24	0.18	0.13
- diluted		0.28	0.24	0.17	0.13

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	PLN ths			
		2018	2017	4Q18	4Q17
Net profit for the period		53,572	43,208	32,433	23,685
Other comprehensive income, including:		-	-	-	-
Revaluation of financial assets available for sale		-	-	-	-
Income tax related to other comprehensive income		-	-	-	-
Total comprehensive income		53,572	43,208	32,433	23,685



**PLN 805.7m
revenues
in 2018**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2018

	Notes	PLN ths	
		2018	2017
Assets			
Non-current assets		593,249	425,471
Goodwill	9	324,033	242,590
Other intangible assets	10	183,220	116,208
Fixed assets	11	78,046	59,380
Investment property	12	874	874
Assets held for sale		-	-
Long-term receivables	16	586	518
Shares and stakes	13	27	31
Other long-term investments	14	4	4
Deferred tax assets	22	6,429	5,831
Other non-current assets	21	30	35
Current assets		520,102	353 354
Inventory	15	460,781	315,282
Trade and other receivables	17	23,907	20,204
<i>of which corporate income tax receivables</i>		-	-
Short-term loans	17a	-	-
Cash and cash equivalents	18	33,523	16,420
Other short-term assets	21a	8	-
Other current assets	21a	1,883	1,448
Total assets		1,113,351	778,825
Equity and liabilities			
Dominating entity's equity		805,097	542,491
Share capital	26	49,122	38,070
Capital reserves		-	-
Other reserves	27	13,968	13,729
Foreign entities translation reserve		-	-
Retained earnings	28	688,435	447,484
Net profit (loss) for the current period	28	53,572	43,208
Non-controlling interest		-	-
Total equity		805,097	542,491

VRG S.A. Capital Group

	Notes	PLN ths	
		2018	2017
Long-term liabilities		74,561	83,973
Liabilities due to purchase of fixed assets		176	111
Lease liabilities	23	3,627	1,737
Loans and borrowings	19	70,758	82,125
Deferred tax liabilities	22	1,320	795
Long-term provisions	25	907	536
Total long-term liabilities and provisions		76,788	85,304
Short-term liabilities		220,440	143,335
Lease liabilities	23	1,739	548
Trade and other liabilities	24	192,820	109,854
<i>of which corporate income tax liabilities</i>	24	<i>4,897</i>	<i>2,618</i>
Loans and borrowings	19	14,627	20,446
Short-term part of long-term loans and borrowings	19	11,254	12,487
Short-term provisions	25	11,026	7,695
Total short-term liabilities and provisions		231,466	151,030
Total liabilities and provisions		308,254	236,334
Total equity and liabilities		1,113,351	778,825
Book value of equity		805,097	542,491
Shares outstanding		234,455,840	179,194,964
Book value per share		3.43	3.03
Diluted number of shares		241,505,840	181,194,964
Diluted book value per share		3.33	2.99

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR 12 MONTHS ENDING DECEMBER 31, 2018

	PLN ths			
	Share capital	Capital reserves	Retained earnings	Total equity
Balance at 01.01.2017	37,666	12,872	443,849	494,387
Changes in equity in 2017				
Sale of fixed assets	-	-	-	-
Subscription of shares	-	-	-	-
Distribution of net profit	-	-	-	-
Net profit (loss) for the period	-	-	43,208	43,208
Stock-option program valuation	-	857	-	857
Share issuance	404	-	3,635	4,039
Stock options issued	-	-	-	-
Balance at 31.12.2017	38,070	13,729	490,692	542,491
Balance at 01.01.2018	38,070	13,729	490,692	542,491
Changes in equity in 2018				
Merger of VRG S.A. and Bytom S.A.	-	-	2,547	2,547
Sale of fixed assets	-	-	-	-
Subscription of shares	-	-	-	-
Distribution of net profit	-	-	- 141	- 141
Net profit (loss) for the period	-	-	53,572	53,572
Stock-option program valuation	-	239	-	239
Share issuance	11,052	-	195,337	206,389
Stock options issued	-	-	-	-
Balance at 31.12.2018	49,122	13,968	742,007	805,097

Information and explanations regarding the consolidated statement of changes in equity are included in notes 26, 27, 27a and 28.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR 12 MONTHS ENDING DECEMBER 31, 2018

	Notes	PLN ths	
		2018	2017
Cash flows from operating activities			
Pre-tax profit (loss)		65,728	54,985
Adjustments:			
Amortization and depreciation		17,349	15,542
Profit (loss) on investing activities		288	631
Income tax paid		- 10,440	- 12,359
Interest costs		4,714	5,621
Change in provisions		- 2,916	873
Change in inventories		- 48,202	- 40,092
Change in receivables		2,257	729
Change in short-term liabilities, excluding bank loans and borrowings		24,851	184
Other adjustments		- 125	- 23
Net cash flows from operating activities		53,504	26,091
Cash flows from investing activities			
Interest received		12	3
Dividends received from investments held for sale		-	-
Disposal of investments held for trading		-	-
Disposal of investments available for sale		-	-
Disposal of subsidiaries		-	-
Disposal of fixed assets		1,348	4,936
Repayment of loans granted		-	-
Purchase of investments available for sale		-	-
Purchase of subsidiary		-	-
Purchase of intangible assets		- 1,761	- 1,543
Purchase of fixed assets		- 18,244	- 18,664
Purchase of investment property		-	-
Purchase of financial assets in other entities		-	-
Purchase of financial assets in subsidiaries		-	-
Expenditures related to sale of subsidiary		-	-
Net cash flows from investing activities		- 18,645	- 15,268

VRG S.A. Capital Group

Cash flows from financing activities			
Proceeds from issuance of shares and other capital instruments and additional payments to capital		3,998	4,039
Inflows from loans and borrowings		8,000	19,745
Cash received		2,336	-
Repayment of bank loans and borrowings		- 26,593	- 28,172
Redemption of debt securities		-	-
Finance lease payments		- 783	- 599
Interest paid		- 4,714	- 5,621
Merger of VRG S.A. and Bytom S.A.		-	-
Net cash flows from financing activity		- 17,756	- 10,608
Change in cash and cash equivalents in the balance sheet		17,103	215
Opening balance of cash		16,420	16,205
change in cash due to foreign currency translation		-	1
Closing balance of cash	18	33,523	16,420

The value shown under "Other adjustments" consists of:	PLN ths	PLN ths
- capital reserves increase – valuation of stock options	239	857
- correction of previous years' earnings	-	-
- fixed assets - impairment - liquidation	- 356	- 881
- interest received	- 12	- 3
- valuation of shares and stakes	4	4
Total	- 125	- 23

SUPPLEMENTARY INFORMATION TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

1.1. Name, registered office, business activity

VRG Spółka Akcyjna (also as "Parent Company" or "Issuer") based in Cracow, Pilotów 10 St., post code: 31-462.

The company was registered in the Cracow Śródmieście District Court, XI Commercial Division of the National Court Register (KRS) under number KRS 0000047082.

The predominant activity of the Company according to the Polish Classification of Activities (PKD) is the retail sale of clothing in specialized stores (PKD 47.71.Z).

For the date of the creation of an independent enterprise, the legal successor of which is VRG S.A., one can acknowledge October 10, 1948 - the date of issuance of the Minister of Industry and Trade ordinance on the creation a state-owned enterprise named "Krakowskie Zakłady Przemysłu Odzieżowego" (Cracow Clothing Production Industry). On April 30, 1991, the District Court for Cracow Śródmieście in Cracow, V Commercial Division, registered the transformation from a state-owned enterprise into a sole-shareholder company of the State Treasury.

The company is one of the first companies that were listed on the Warsaw Stock Exchange S.A. First listing of VRG S.A. took place on September 30, 1993.

The lifespan of the Issuer is indefinite.

1.2. Structure of the VRG S.A. Capital Group

As at the end of 2018 VRG S.A. Capital Group consisted of the following entities:

- VRG S.A.** – Parent Company
- W.KRUK S.A.** based in Cracow, Pilotów 10 St.; post code 31-462. The company was registered in the District Court for Cracow Śródmieście, XI Commercial Division of the National Court Register (KRS) under number KRS 0000500269.
The company specialises in design, manufacturing and retail sales of brand luxury products such as jewellery, watches and accessories.
Share in equity: 100.0%. Share in votes at the General Shareholder Meeting: 100.0%
- DCG S.A.** based in Warsaw, Bystrzycka 81a St., post code 04-907. The company was registered in the District Court for Warsaw, the XXI Commercial Division of the National Court Register (KRS) under number KRS 0000285675.
The company specialises in retail sale of clothing.
Share in equity: 100.0%. Share in votes at the General Shareholder Meeting: 100.0%

VRG S.A. Capital Group

4. **Wólczanka Shirts Manufacturing Sp. z o.o.** based in Cracow, Pilotów 10 St., post code: 31-462. The company was registered in the District Court for Cracow Śródmieście, XI Commercial Division of the National Court Register (KRS) under number KRS 0000538836.

The company specialises in confectioning of clothing at the request of the parent company, in particular including shirts branded Wólczanka, Lambert, Vistula and Lantier. The company also conducts confectioning of women's shirts and blouses under export contracts concluded by VRG S.A.

Share in equity: 100.0%. Share in votes at the General Shareholder Meeting: 100.0%

5. **VG Property Sp. z o.o.** based in Cracow, Pilotów 10 St., post code: 31-462. The company was registered in the District Court for Cracow Śródmieście, XI Commercial Division of the National Court Register (KRS) under number KRS 0000505973.

The company specialises in renting and managing of own or leased real estate.

Share in equity: 100.0%. Share in votes at the General Shareholder Meeting: 100.0%

6. **BTM 2 Sp. z o.o.** based in Cracow, Pilotów 10 St., post code: 31-462. The company was registered in the District Court for Cracow Śródmieście, the XI Commercial Division of the National Court Register (KRS) under number KRS 0000605215.

The company obtains intellectual property rights and undertakes activities related to the management of such rights (including their legal protection).

Share in equity: 100.0%. Share in votes at the General Shareholder Meeting: 100.0%

In addition to above mentioned subsidiaries that are part of the capital group, VRG S.A. holds 100% shares in Vistula Market Sp. z o.o. based in Cracow (a related entity) over which it does not exercise control - loss of control following bankruptcy filing and lack of management.

The consolidated financial statements for 2018 include data of the Parent Company and subsidiaries: W.KRUK S.A., DCG S.A., Wólczanka Shirts Manufacturing Sp. z o.o., VG Property Sp. z o.o., BTM 2 Sp. z o.o.

Changes in the structure of the Capital Group in 2018:

- On November 30, 2018 as a result of the merger of VRG S.A. and Bytom S.A. the Capital Group obtained control over BTM 2 Sp. z o.o. based in Cracow (subsidiary).

The consolidated financial statements include the financial result of BTM 2 Sp. z o.o. for a period of one month, i.e. from December 1, 2018 to December 31, 2018.

1.3. Composition of the Management and Supervisory Boards of the Company

The Management Board

As at 31 December 2018, the composition of the Management Board of VRG S.A. was the following:

Management Board	Grzegorz Pilch President of the Management Board	Mateusz Żmijewski Vice-President of the Management Board	Michał Wójcik Vice-President of the Management Board	Erwin Bakalarz Member of the Management Board
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The following changes took place in the composition of the Company's Management Board in 2018:

In the period from 01.01.2018 to 30.11.2018, the composition of the Company's Management Board was the following:

VRG S.A. Capital Group

- Grzegorz Pilch – President of the Management Board
- Mateusz Żmijewski – Vice-President of the Management Board
- Erwin Bakalarz – Member of the Management Board

On November 16, 2018, the Company's Supervisory Board adopted a resolution regarding the conditional appointment of Mr. Michał Wójcik to the Management Board of the Company and entrusting him the function of the Vice-President of the Management Board. Coming into force of the above mentioned resolution was conditional on the registration of merger between the Company and Bytom S.A. based in Cracow at the registrar of entrepreneurs of the National Court Register based on the Resolution No. 03/10/2018 of the Company's Extraordinary Shareholder Meeting dated October 31, 2018 regarding the merger of the Company and Bytom S.A. The above condition was met on 30.11.2018, in which the District Court for Cracow - Śródmieście in Cracow, XI Commercial Division of the National Court Register, registered the merger between the Company (the acquiring company) with and Bytom S.A. (company being acquired) in the registrar of entrepreneurs of the National Court Register.

In connection with the above, in the period from 30.11.2018 to 31.12.2018, the composition of the Company's Management Board was as follows:

- Grzegorz Pilch – President of the Management Board
- Michał Wójcik – Vice-President of the Management Board
- Mateusz Żmijewski – Vice-President of the Management Board
- Erwin Bakalarz – Member of the Management Board

In the period from the balance sheet date, i.e. from December 31, 2018 to the date of approval of these financial statements, the composition of the Management Board has not changed.

The Supervisory Board

As at 31 December 2018, the composition of the Supervisory Board of VRG S.A. was the following:

Supervisory Board	Jerzy Mazgaj Chairman of the Supervisory Board	Katarzyna Basiak-Gała Member of the Supervisory Board	Artur Małek Member of the Supervisory Board
	Maciej Matusiak Member of the Supervisory Board	Jan Pilch Member of the Supervisory Board	Grażyna Sudzińska-Amroziewicz Member of the Supervisory Board

The composition of the Company's Supervisory Board during 2018 was subject to the following changes:

In the period from 01.01.2018 to 27.06.2018, the composition of the Company's Supervisory Board was as follows:

- Jerzy Mazgaj - Chairman of the Supervisory Board
- Katarzyna Basiak-Gała - Member of the Supervisory Board
- Artur Małek - Member of the Supervisory Board
- Beata Pawłowska-Czerwińska - Member of the Supervisory Board
- Ryszard Petru - Member of the Supervisory Board
- Grażyna Sudzińska-Amroziewicz - Member of the Supervisory Board.

On June 27, 2018, the Ordinary Shareholder Meeting, on the basis of the adopted resolutions, elected the Supervisory Board for the new joint term. The composition of the Supervisory Board for a new joint term is the following:

VRG S.A. Capital Group

- Jerzy Mazgaj
- Katarzyna Basiak-Gała
- Artur Małek
- Maciej Matusiak
- Grażyna Sudzińska - Amroziewicz
- Andrzej Szumański.

The new Supervisory Board appointed Mr. Jerzy Mazgaj for the position of the Chairman of the Supervisory Board.

In the period from 27.06.2018 to 30.11.2018, the composition of the Company's Supervisory Board was as follows:

- Jerzy Mazgaj - Chairman of the Supervisory Board
- Katarzyna Basiak-Gała - Member of the Supervisory Board
- Artur Małek - Member of the Supervisory Board
- Maciej Matusiak - Member of the Supervisory Board
- Grażyna Sudzińska-Amroziewicz - Member of the Supervisory Board
- Andrzej Szumański - Member of the Supervisory Board.

On the basis of resolution no. 05/10/2018 of the Extraordinary Shareholder Meeting dated October 31, 2018 regarding increasing the number of Supervisory Board members of the current joint term and appointing an additional member to the Company's Supervisory Board, Mr. Jan Pilch was conditionally appointed to the Supervisory Board and its composition for the joint term was increased to 7 people.

The above-mentioned resolution no. 05/10/2018 of the Extraordinary Shareholder Meeting dated October 31, 2018 came into force on 30.11.2018, i.e. the day the registrar of entrepreneurs of the National Court Register registered amendments to the Articles of Association resulting from resolution No. 04/10/2018 of the Extraordinary Shareholder Meeting dated 31 October 2018 and the merger of the Company with Bytom S.A. resulting from resolution no. 03/10/2018 of the Extraordinary Shareholder Meeting dated October 31, 2018.

As a result of the above, in the period from 30.11.2018 to 31.12.2018, the composition of the Company's Supervisory Board was the following:

- Jerzy Mazgaj - Chairman of the Supervisory Board
- Katarzyna Basiak-Gała - Member of the Supervisory Board
- Artur Małek - Member of the Supervisory Board
- Maciej Matusiak - Member of the Supervisory Board
- Jan Pilch - Member of the Supervisory Board
- Grażyna Sudzińska-Amroziewicz - Member of the Supervisory Board
- Andrzej Szumański - Member of the Supervisory Board

In the period from the balance sheet date, i.e. from December 31, 2018 to the date of approval of these financial statements, the composition of the Supervisory Board has not changed.

1.4. Approval of the financial statements

These consolidated financial statements have been approved for publication and signed by the Management Board of the Parent Company on March 18, 2019.

1.5. Going concern

Consolidated financial statements of the VRG S.A. Capital Group (hereinafter also referred to as the "Capital Group" or "VRG Group"), have been prepared assuming a going concern of companies forming the Capital Group in an unchanged form and scope for at least 12 months from the date of the financial statements, i.e. 31 December 2018. In the opinion of the Management Board of the Parent Company as at the date of approval of these consolidated financial statements, there are no indications or circumstances indicating going concern threats to companies of the Group in the foreseeable future.



51.2%

**gross profit
margin in 2018**

2. PRINCIPLES FOR PREPARATION OF THE FINANCIAL STATEMENTS

The basis for preparation of these consolidated financial statements is the Ordinance of Minister of Finance from March 29, 2018 regarding current and periodic information submitted by issuers of securities and conditions for recognizing information required by law of a non-member country as equivalent (Official Journal of Laws of 2018, item 757).

The consolidated financial statements for 2018 have been prepared in accordance with the principles of International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and to the extent not regulated by the above standards in accordance with the requirements of the Accounting Act of September 29, 1994 (Official Journal of Laws from 2019, item 351, as amended) and executive regulations issued based on it, and presents the financial position of the VRG S.A. Capital Group as of December 31, 2018 and December 31, 2017, the results of its operations for the 12 months ended December 31, 2018 and December 31, 2017 and cash flows for the 12 months ended December 31, 2018 and December 31, 2017.

These consolidated financial statements have been prepared based on the concept of fair value, except for items:

- fixed assets, investment property and intangible assets valued at purchase price or costs incurred to manufacture them, net of possible depreciation and amortization and impairments,
- inventory valued at purchase price or costs incurred to manufacture them, net of possible impairments,
- loans, borrowings and financial lease liabilities valued at amortized cost.

The consolidated financial statements for 2018 have been prepared in Polish zloty, rounded up to full thousands (ths).

The consolidated financial statements are presented for the period from January 1, 2018 to December 31, 2018 and as of December 31, 2018. The fiscal year is the calendar year. Comparable financial data are presented for the period from January 1, 2017 to December 31, 2017 and as of December 31, 2017.

Comparable data has been prepared in accordance with the principles of International Financial Reporting Standards (IFRS).

The presented financial data of the Parent Company and of its subsidiaries such as W.KRUK S.A. based in Cracow and DCG S.A. based in Warsaw as at December 31, 2018 and for the twelve-month period ended with that date, were audited by a certified auditor. The independent auditor's report on the audit of the annual consolidated financial statements is attached to this report. Comparable financial data as at December 31, 2017 contained in these financial statements were audited for the purpose of 2017 report.

The entity authorized to audit financial statements in the scope of the separate and consolidated financial statements for 2018 was Mazars Audyt Sp. z o.o., with which on June 19, 2017 a contract was concluded (amended by annex from June 19, 2018) for audit of the separate and consolidated financial statements and for review of the separate condensed interim and consolidated interim financial statements. The entity authorized to audit financial statements in the scope of the separate and consolidated financial statements for 2017 was also Mazars Audyt Sp. z o.o. The total remuneration resulting from contracts concluded for the review and audit of financial statements for 2018 amounted to PLN 100 ths. and for 2017 amounted to PLN 90 ths. In addition, agreements were concluded to verify statements on compliance of financial ratios indicated in the bank loan agreement for A loan with PKO BP for the first half of 2018 for VRG S.A. and for the first half and 2018 for W.KRUK S.A. as well as for the audit of the pro-forma statements attached to the Company's memorandum. The total remuneration for services amounted to PLN 41 ths, and PLN 17 ths for 2017.

VRG S.A. Capital Group

The consolidated financial statements for 2018 and comparable data for the previous year include data on the Parent Company and subsidiaries as entities preparing stand-alone financial statements. Neither the Company nor its subsidiaries have business units required to prepare separate financial statements.

Preparation of a report in accordance with IFRS requires the Company's Management Board to make estimates, assessments and assumptions that affect the accounting principles applied and the presented amounts of assets and liabilities as well as costs and revenues. Estimates and assumptions are made on the basis of available historical data and also on the basis of other factors considered proper in the given circumstances. The results of these activities form the basis for estimates with regard to the balance sheet values of assets and liabilities that cannot be determined unequivocally based on other sources. The validity of the above estimates and assumptions is verified on an ongoing basis.

Adjustments to estimates are recognized in the period in which changes were made to the adopted estimates, provided that the adjustment applies only to that period or in the period in which the changes were made and in the following periods (prospective approach), if the adjustment applies both to the current period and the next periods.

Below please find the list of important estimates and judgments for particular items of the statement of financial position:

Note	9	Goodwill impairment test
Note	10	Other intangible assets (useful lives)
Note	11	Fixed assets (useful lives)
Note	15	Inventory write-offs
Note	17	Receivables write-offs
Note	22	Deferred tax assets and liabilities
Note	24	Liabilities resultant from loyalty program
Note	25	Provisions for liabilities
Note	30	Share-based compensation

The consolidated financial statements are prepared for 2018, i.e. the year in which merger of VRG S.A. and Bytom S.A occurred. Consolidated financial statements are prepared post the merger of companies. The settlement of the merger was conducted using the acquisition method.

The initial recognition of the business combination was conducted in accordance with § 61 and 62 of IFRS 3. Liabilities, current assets and Bytom S.A. trademark were measured at fair value at the merger date. The remaining fixed assets of the acquired company were recognised according to their book values. Due to the above, value of fixed assets and goodwill may change in the final recognition. Detailed information about the merger can be found in note 34.

The accounting principles (policies) adopted in these consolidated financial statements were applied on a continuous basis and they are consistent with the accounting principles applied in the last annual consolidated financial statements, except for changes resulting from the entry into force of IFRS 9 and IFRS 15 from January 1, 2018. These changes are described in the further part of the financial statements.

Based on the provisions of IAS 8 "Accounting principles, changes in estimates and correcting errors", the Group retrospectively restated data for earlier periods (adjustment of comparable data from previous years). The transformation of the data was made retrospectively due to a change in data presentation in the statement of financial position. The impact of adjustments on particular items in the statement of financial position and in the statement of cash flows is presented in note 33 to these consolidated financial statements.

Basis for preparing the financial statements

These consolidated financial statements for the year ended December 31, 2018 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") approved by the European Union ("EU"), effective as at the balance sheet date of these financial statements.

Standards and interpretations that have been published and approved by the EU and entered into force from or after January 1, 2018

IFRS 9 „Financial instruments”

IFRS 9 replaces IAS 39 "Financial Instruments - Recognition and Measurement" standard. The main changes resulting from the new standard include, among others:

- a new breakdown into categories of financial assets,
- new criteria for qualifying assets to a group of financial assets at amortized cost,
- a new model of impairment recognition - a model of expected credit losses,
- new rules for recognizing changes in the fair value of investments in equity financial instruments,
- elimination of the need to separate embedded derivatives from financial assets.

The Group applies IFRS 9 from the effective date of the standard, without changes to the comparable data.

In the Group's opinion, the implementation of the standard has no significant impact on the applied accounting principles (policies) with respect to the Group's operations or its financial results.

The Group has not identified a material impact on the statement of financial position and equity in connection with the application of IFRS 9 in the area of classification and valuation. All financial assets previously measured at fair value are still measured at fair value. Trade receivables are held to generate cash flows, the Group does not sell trade receivables in frames of factoring, they are still measured at amortized cost through profit or loss statement. In case of trade receivables, due to the nature of receivables, an impairment loss determined in accordance with the recommendations of IFRS 9 as at the balance sheet date decreased by PLN 995 ths. As of January 1, 2018, the impact of IFRS 9 on the level of impairment losses was considered to be immaterial.

With respect to impairment, the Group has not identified any increases in impairment losses, with a negative impact on equity. In line with IFRS 9, the Group recognises the write-off for expected credit losses in the amount equal to the 12-month expected credit loss or expected credit loss over the lifetime of the financial instrument. In the case of trade receivables, the Group applies a simplified approach and measures the write-off for expected credit losses in the amount equal to the expected credit losses throughout the life of the asset.

The Group performed an analysis of credit risk for financial assets (including trade receivables, other receivables, cash), which was based on the adopted model for estimating the risk of credit losses. Separate probability weighted risk groups were assigned to separate groups and values of financial assets. On the basis of the conducted analysis, no significant changes were recorded in the levels of impairment losses as compared to the methods used to estimate these write-offs.

As at the balance sheet date (December 31, 2018), the Group performed an update of the credit risk analysis based on IFRS 9. No significant increase in credit risk was noted for individual financial assets as compared to January 1, 2018.

IFRS 15 „Revenues from contracts with customers”

IFRS 15 has been approved for use in European Union Member States and applies to financial statements prepared for fiscal years beginning on or after January 1, 2018. The provisions of IFRS 15 apply to contracts with customers, except for lease agreements covered by IAS 17 "Leases", financial instruments and other contractual rights or obligations covered by IFRS 9 "Financial Instruments", IFRS 10 "Consolidated Financial Statements", IFRS 11

"Joint arrangements", IAS 27 "Individual financial statements", IAS 28 "Investments in associates and joint ventures", insurance contracts covered by IFRS 4 "Insurance contracts". IFRS 15 assumes that revenue recognition should reflect the transfer of promised goods or services to a customer in an amount that corresponds to the remuneration which the Company expects in exchange for the given goods and services. In accordance with IFRS 15, the transfer of goods and services is based on the concept of transferring control to the customer, which may occur at a specific moment (delivery of goods, service) or over time (for example, during the course of the service or during the creation of the ordered goods).

IFRS 15 has been applied since January 1, 2018. Based on the analysis of the impact of the implementation of IFRS 15 (including the analysis of key contracts concluded with customers, broken down into individual business segments, for specific areas of revenue recognition), no contracts were identified for which implementation of IFRS 15 could have a significant impact on the financial statements.

Other standards

- Explanations to IFRS 15 "Revenues from contracts with customers"
- Amendments to IFRS 2 "Share-based payments" - Amendments introduce requirements regarding the recognition of:
 - (a) effects of the vesting conditions and conditions other than the vesting conditions for the valuation of share-based payments settled in cash,
 - (b) share-based payments that have the function of net settlements with tax liabilities,
 - (c) modification of the share-based payment terms which change the classification of transactions from cash-settled to equity-settled instruments.
- Amendments to IFRS 4 "Insurance Contracts" - Amendments were introduced to solve the problems resulting from the implementation of the new IFRS 9 "Financial Instruments" before introducing a new standard replacing IFRS 4.
- Amendments to IAS 40 "Investment Property" - Investment property transfers specify that an entity transfers individual properties to or from investment properties only when there is evidence of a change in the way they are used. A change in the way of use occurs when a particular property meets or ceases to meet the definition of investment property. Changing the intention of the management as to the manner in which the property is used does not in itself constitute a reason to change the way it is used. The changes also specify that the examples in paragraph 57 do not constitute a closed catalogue of examples (before the change, the list was a closed catalogue of examples).
- Interpretation IFRIC 22 "Transactions in Foreign Currencies and Prepayments" - the Interpretation specifies that in order to set the exchange rate, the transaction date is the date when the prepayment is initially recognized as an element of non-cash assets or deferred income liability. If there are multiple payments or down payments, the date of the transaction is determined for each payment or receipt.
- Amendments to IFRS (cycle 2014-2016) - Changes were made as part of the procedure for introducing annual amendments to IFRS. The changes relate to IFRS 1 and IAS 28 and are mainly focused on solving incompatibilities and refining the vocabulary.

In the Group's opinion, the aforementioned Other Standards, interpretations and changes to standards did not have a significant impact on the financial statements in the period of their first application.

Standards and interpretations not valid for the annual period ending December 31, 2018

When approving these consolidated financial statements, the Group did not apply the following standards, amendments to standards and interpretations, which have been published by the IASB and approved for use in the EU, the Group intends to apply them for the periods for which they are binding for the first time:

- Amendments to IFRS 9 "Right of Prepayment with Negative Remuneration" modify the applicable rights requirements for early termination of the contract to enable the valuation at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in case of negative compensation payments. The amendments provide that the sign (plus or minus) of the prepayment amount is not material – i.e., depending on the interest rate applicable at the time of termination of the contract, payment may be made to the party resulting in early repayment. The calculation of this compensation must be the same for both penalty for early repayment and early repayment gains. Date of application - annual periods commencing on January 1, 2019 or after this date.
- IFRS 16 "Leases" - In accordance with IFRS 16, the lessee recognizes the right to use an asset and liability under leasing. The right to use an asset is treated similarly to other non-financial assets and depreciated accordingly. Lease liabilities are initially measured at the present value of lease payments payable during the lease period, discounted at the rate included in the lease, if it is not difficult to determine it, or at the marginal interest rate. IFRS 16 defines the lease period as a total, irrevocable period during which the lessee has the right to use the asset. The leasing period also includes optional periods when the entity is confident of the option of renewing (or not executing the termination option) of the lease. Date of application - annual periods commencing on January 1, 2019 or after this date. Earlier application is permitted for entities that apply IFRS 15 "Revenue from contracts with customers" from or before the date of first application of this standard.
- Interpretation of IFRIC 23 "Uncertainty in income tax settlement" - it may be unclear how the tax law relates to a specific transaction or circumstances or whether the tax authority will accept tax records of the entity. IAS 12 "Income Taxes" defines the method of settling current and deferred taxes, but does not reflect the effects of uncertainty. IFRIC 23 contains guidelines that supplement the requirements of IAS 12, specifying how to reflect the effects of uncertainty when recognizing income tax. Date of application - annual periods commencing on January 1, 2019 or after this date.
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" - long-term stakes in associates and joint ventures were introduced to clarify that an entity applies IFRS 9 (including impairment regulations) to long-term involvement in associates or joint ventures that are included in the net investment in an associate or joint venture, for which the equity method was not applied. The amendments also remove paragraph 41, as it was considered that this paragraph only repeated the requirements contained in IFRS 9 and caused confusion regarding the settlement of long-term stakes. Date of application - annual periods commencing on January 1, 2019 or after this date.
- Amendments to IFRS (cycle 2015-2017) - changes made as part of the process of introducing annual amendments to IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) mainly focused on solving incompatibilities and refinement of vocabulary (valid for annual periods starting on January 1, 2019 or after that date).
- Amendments to IAS 19 "Employee benefits" - change, limitation or settlement of the plan require that after the plan change, updated valuation assumptions are applied to determine current service costs and net interest for the remainder of the reporting period. Date of application - annual periods commencing on January 1, 2019 or after this date.
- Amendments to IFRS 3 "Business Combinations" - the amendment clarifies the definition of a business and aims to distinguish between acquisitions of business and groups of assets for the purpose of settlement of mergers (effective for annual periods beginning on January 1, 2020 or after this date).
- Changes in the scope of references to IFRS Conceptual Framework - they will apply as of January 1, 2020.
- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting principles (policy), changes in estimates and correcting errors" - these clarify the definition of materiality and increase consistency between standards, but are not expected to have a significant impact on the preparation of financial statements. The change is mandatory for annual periods beginning on January 1, 2020 or after that date. As at the date of preparation of these financial statements, these changes have not yet been approved by the European Union.

VRG S.A. Capital Group

- IFRS 14 "Regulatory Deferral Accounts" - this standard allows entities that prepare financial statements in accordance with IFRS for the first time (as of 1 January 2016 or after that date) to recognize amounts resulting from regulated activity, in accordance with accounting principles applied so far. To improve comparability with entities that already apply IFRS and do not show such amounts, according to published IFRS 14, amounts resulting from regulated activity should be presented in a separate item in the statement of financial position as well as in the profit and loss account and statement from other comprehensive income. By the decision of the European Union, IFRS 14 will not be approved.
- Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its affiliates or joint ventures. The changes solve the problem of the current inconsistency between IFRS 10 and IAS 28. The accounting treatment depends on whether non-cash assets sold or contributed to an associate or joint venture constitute a "business". In the event that non-monetary assets constitute a "business", the investor will show a full profit or loss on the transaction. If, however, assets do not meet the definition of a business, the investor recognizes a gain or loss excluding the part constituting shares of other investors. The changes were published on September 11, 2014. The date of application of the amended regulations has not been determined by the International Accounting Standards Board. As at the date of preparation of these financial statements, the approval of this change is postponed by the European Union.
- IFRS 17 "Insurance Contracts" - was issued by the International Accounting Standards Board on May 18, 2017 and is effective for annual periods beginning on January 1, 2021 or after that date. The new IFRS 17 Insurance Contracts will replace the current IFRS 4, which allows for a variety of practices in the field of settlement of insurance contracts. IFRS 17 will fundamentally change the accounting for all entities that deal with insurance contracts and investment contracts. The Group will apply IFRS 17 after its approval by the European Union. As at the date of preparation of these financial statements, the new standard has not yet been approved by the European Union.

The Group has decided to implement IFRS 16 Leasing from January 1, 2019.

This standard establishes principles for recognition, valuation, presentation and disclosures about leasing. All lease transactions result in the lessee obtaining the right to use the asset and liability i.e. obligation to pay. Thus, IFRS 16 eliminates the classification of operating leases and finance leases defined so far by IAS 17 for the lessee.

IFRS 16 Leasing has a material impact on the Group's financial statements, as the Group is a party in lease agreements for premises in which it sells goods and leases office space. These contracts have so far been classified in accordance with IAS 17 as operating lease, therefore, the fees were included in operating costs in amounts resulting from invoices. In accordance with IFRS 16 Leases, the Group from January 1, 2019 has implemented a unified accounting approach that require lessees to recognize assets and liabilities for all lease agreements, taking into account the exceptions listed in the standard. The Group recognizes an asset component from the right of use together with an appropriate leasing liability determined in the amount of discounted future payments during the leasing period. Since 2019, lease payments related to use of leased assets, previously included in selling costs (operating costs of the stores: "lease costs"), will now be presented in selling costs (costs of stores functioning under "depreciation") and in financial costs as interest costs. From January 1, 2019, assets under the right of use are amortized on a straight-line basis, while liabilities under lease contracts are recognised at amortized cost.

The application of IFRS 16 requires the Group to analyse data and make estimates and calculations that affect the measurement of lease liabilities and the valuation of assets under the right of use. These include: assessing whether the contract includes leasing in accordance with IFRS 16 and determining the period of application. The Group performs a detailed analysis of the duration of its contracts, in particular in terms of extension options that are available to it in selected contracts. The described analysis concerns contracts that end with a 12-month period. If the Management Board decides to extend such a lease agreement, its length used for valuation purposes is extended by the activated period of the extension option resulting from the contract.

VRG S.A. Capital Group

The current value of the lease payment is determined using the marginal interest rate. For each type of contracts, the Group estimated the discount rate, which will affect the final value of the valuation of these contracts (discount rate adopted at the level of 1.5% -3.37%). The Group took into account the type of contract, the length of the contract, the currency of the contract and the potential margin it would have to pay in favour of external financial institutions if it were to enter into such a transaction on the financial market. In the calculation of interest rates, the length of the contract was taken into account.

The Group decided to implement IFRS 16 using a simplified approach, i.e. retrospectively with the combined effect of the first application of this standard recognized on the first application date. In the opinion of the Management Board, the implementation of IFRS 16 will have a significant impact on the financial statements, because it will increase the total value of assets and liabilities and thus the levels and values of financial ratios, including debt ratio, EBITDA, net profit, profit per share, operating cash flow. At the same time, the implementation of the new standard will increase depreciation and financial costs (interest on discounted leasing liabilities and exchange rate differences due to the valuation of these liabilities) while reducing third-party costs of services (i.e. rental costs of premises previously presented in selling costs) and, hence, will improve EBITDA.

The Group plans to take advantage of the exemption from applying the standard requirements for short-term leasing and leasing of low-value assets.

The impact of applying IFRS 16 for the first time on January 1, 2019 is presented in the table below:

Balance at 01.01.2019	PLN ths]
Fixed assets – right of use of asset	299,580
Lease liability – long-term part	222,291
Lease liability – short-term part	77,289

According to the Group's estimates, changes in other above-mentioned standards will not have a significant impact on the consolidated financial statements in the period of their first application.

PLN 89.3m
EBITDA
in 2018



3. ACCOUNTING PRINCIPLES

3.1. Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Parent Company.

Control takes place when the Company has the ability to manage the financial and operating policy of a given entity in order to obtain benefits from its activity.

The acquisition of subsidiaries by the Group is accounted for using the acquisition method.

The acquisition cost is determined as fair value of assets transferred, equity instruments issued and liabilities contracted or taken over as at the exchange date, grossed up by the costs directly related to the takeover. Identifiable acquired assets and liabilities and contingent liabilities taken over as part of business combinations are initially measured at their fair values at the acquisition date, irrespective of the extent of any minority interest. The surplus of the acquisition cost over the fair value of the Group's share in identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is lower than the fair value of net assets of the subsidiary acquired, the difference is recognized directly in the profit and loss account.

The subsidiaries' financial data are included in the consolidated financial statements using the full method from the moment control is taken over the entity up to the date on which the Company ceases to exercise control.

The financial statements of subsidiaries are prepared for the same period as financial statements of the parent company. Accounting principles applied by subsidiaries have been changed, where it was necessary to ensure compliance with the Capital Group's accounting principles.

Consolidation exclusions

Balances of internal settlements between the Group's entities, transactions concluded within the Group and any unrealized profits of the Group resulting from these, are excluded in full when preparing the consolidated financial statements.

3.2. Transactions in foreign currencies

During the year, a foreign currency transaction is initially recognized in Polish zloty by applying average exchange rate of the National Bank of Poland as at the date of the transaction to the foreign currency amount the, recognizing it as an immediate exchange rate.

At each balance sheet date, monetary items in foreign currency are converted using the average exchange rate of the National Bank of Poland as at the balance sheet date, recognizing it as the closing rate. Non-monetary items measured at historical cost expressed in a foreign currency are translated using the exchange rate as at the transaction date and non-monetary items measured at fair value expressed in a foreign currency are translated using the exchange rates that were in force at the date at which the fair value was determined.

Exchange differences arising from the recognition of monetary items or from the translation of monetary items at rates other than those at which they were converted at the moment of their initial recognition in a given period or in previous financial statements, are recognized in profit or loss in the period in which they arise, as financial revenues or costs.

However, if the transaction is settled in the next financial period, exchange differences recognized in each of the following periods, until the transaction is settled, are determined based on changes in exchange rates that have occurred in each subsequent period.

In the event that gains or losses on non-monetary items are recognized directly in equity, all elements of these gains or losses related to exchange differences are recognized directly in equity.

In the event that gains or losses from non-monetary items are recognized in profit or loss, all elements of these gains or losses relating to exchange differences are recognized in profit or loss.

3.3. Financial instruments

Classification of financial instruments

The Group classifies financial instruments in accordance with the requirements of IFRS 9. The classification of financial instruments is based on the business model of managing groups of financial assets and the characteristics of contractual cash flows for a given financial asset and financial liability.

Classification is made at the moment of initial recognition, except for items recognized at the time of the first application of IFRS 9. The classification of derivative instruments depends on their intended use and compliance with the requirements contained in IFRS 9.

Financial instruments are classified into the following categories:

- § Assets / liabilities measured at amortized cost
- § Assets / liabilities at fair value through profit or loss
- § Assets / liabilities measured at fair value through other comprehensive income.

Financial assets measured at amortized cost

An asset is recognized as measured at amortized cost if it meets the following conditions:

- § It is maintained in accordance with the business model, the purpose of which is to maintain financial assets to obtain cash flows resulting from the contract,
- § The terms and conditions of the contract relating to a financial asset cause cash flows to occur at certain times, which are only repayment of the principal amount and interest on the principal amount still to be repaid,
- § It is not intended for trading.

Financial assets at amortized cost include loans granted, trade receivables and other receivables falling under the scope of IFRS 9. Income from interest on investments in debt instruments is recognized by the Group in profit or loss. At the moment of disposal of investments in debt instruments, the Group recognizes cumulative profits / losses from measurement in the financial result.

Loans and trade receivables and other receivables are measured at amortized cost using the effective interest rate. Loans and long-term receivables are discounted as at the balance sheet date. Loans and receivables with maturities not exceeding 12 months from the balance sheet date classified as current assets are valued at their nominal value after being decreased by the value of expected loan losses.

Financial assets valued at amortized cost are recognised taking into account expected credit losses

Financial assets at fair value through profit or loss

The Group classifies into this category financial assets held for trading, investments in equity instruments listed on an active market, as well as financial assets not classified as financial assets at amortized cost or at fair value through other comprehensive income. Due to the classification, changes in the fair value of financial assets classified to this category of financial assets (fair value through profit or loss) are recognized in the financial result in the period in which they arose.

The financial result also includes interest income and dividends received from capital instruments listed on an active market.

Financial assets measured at fair value through other comprehensive income

This category includes investments in equity instruments measured at fair value (other than those related to investments in subsidiaries and associates) that are not intended for trading and are not quoted on an active market and debt financial assets that meet the criteria of a basic loan agreement that the entity maintains in accordance with a business model for cash flow or sales. Gains / losses from the valuation of investments in debt instruments and in equity instruments classified in this category are recognized in other comprehensive income. Interest income on investments in debt instruments is recognized in profit or loss. Dividends from equity instruments measured at fair value through other comprehensive income are recognized as revenue in profit or loss. In the case of disposal of equity instruments classified as fair value through other comprehensive income, revaluations recognized in equity are accounted for under equity (they do not affect the financial result for the period). In the case of sale of debt financial assets included in the valuation at fair value in other comprehensive income, gains or losses accumulated in equity are recognized (reclassified) in profit or loss.

Financial liabilities measured at amortized cost

The Group classifies for amortized cost measurement loans received, loans taken, liabilities due to debt securities, trade liabilities (for deliveries and services) and other liabilities subject to IFRS 9. Interest expenses are recognized by the company in profit or loss, except for the situation when they qualify for recognition in the initial value of assets.

Financial liabilities are measured at amortized cost using the effective interest rate.

Impairment of financial assets

IFRS 9 introduces a new concept for estimating impairment losses on financial assets - expected losses model.

The Group establishes revaluation write-offs in accordance with the model of expected credit losses for items subject to IFRS 9 in respect of impairment losses.

The expected loss model applies to financial assets at amortized cost and to debt financial assets measured at fair value through other comprehensive income, as well as to financial guarantees and loan commitments granted (except for those measured at fair value).

In the case of trade receivables, the Group applies a simplified approach to determining the write-off and establishes a write-off for expected credit losses in the amount equal to the expected credit losses throughout the lifetime of the receivables. The Group uses the provisions matrix to calculate the value of the impairment charge for trade receivables based on historical data regarding the repayment of receivables by counterparties adjusted, if appropriate, for the impact of information concerning the future. The impairment is analysed for each reporting day. An impairment loss is recognized in the profit and loss account.

In the case of other financial assets, the Group measures the write-off for expected credit losses in the amount equal to 12-month expected credit losses, unless there was a significant deterioration of credit risk or default. If the credit risk related to a given financial instrument has significantly increased since the initial recognition, the Group

measures the write-off for expected credit losses from the financial instrument in an amount equal to the expected credit loss over the whole life. On each reporting day, the Group analyses whether there were any reasons indicating a significant increase in the credit risk of owned financial assets.

Fair value of derivatives and other financial instruments

The Management Board makes a judgment by choosing an appropriate method of valuation of financial instruments not quoted on an active market. Valuation methods commonly used by market practitioners are applied. In the case of financial derivative instruments, the assumptions are based on quoted market rates adjusted by specific features of the instrument. Other financial instruments are valued using discounted cash flows based on assumptions confirmed as much as possible with observable prices or market rates.

3.4. Non-current assets available for sale

Non-current assets available for sale are assets or groups of assets classified in this category are recognized in the financial statements at an amount lower of their carrying amount or fair value less costs to sell.

A condition for including assets in this group is an active search for a buyer and a high probability of selling these assets within one year from the date of their qualification as well as availability of these assets for immediate sale.

3.5. Investment property

Property kept by the Company to benefit from rental income, rents or increase in their value are valued at the acquisition date at their purchase price (production cost), at the balance sheet date they are valued at their purchase price or production cost less accumulated depreciation and accumulated impairments.

Depreciation and impairment losses principles relating to investment properties are similar to those applied to property, plant and equipment.

3.6. Fixed assets

Tangible fixed assets constitute buildings, machines and devices used for production, product delivery and provision of services or for management purposes, were valued as of the day of initial recognition at purchase price or production cost.

As at the balance sheet date, property, plant and equipment are valued at the purchase price or manufacturing cost less accumulated depreciation and impairment losses.

Fixed assets are depreciated using the straight-line method, according to the estimated useful life of particular groups of fixed assets. The depreciation method and rate are subject to verification as at each balance sheet date. Land is not depreciated.

For individual groups of fixed assets the following ranges of useful lives were adopted:

Buildings and structures	Machines and devices	Other fixed assets
2.5%	10-14%	20%

40 years

8.5 years

5 years

Depreciation begins when the fixed asset is ready for use. The basis for calculating amortization charges is the purchase price less its residual value. Amortization ceases when a fixed asset is classified as available for sale or when it is removed from the balance sheet due to liquidation, sale or withdrawal (whichever occurs first).

The carrying amount of a fixed asset is subject to impairment to its recoverable amount if the carrying amount of a given asset exceeds its estimated recoverable amount.

At the later time, expenditure on property, plant and equipment is included in the carrying amount of a given fixed asset only if it is probable that the item will receive economic benefits and the cost of the item can be reliably assessed.

Costs incurred after the date of putting the fixed asset into use, such as maintenance and repair costs, are charged to the costs of the period in which they were incurred.

Non-current assets under financial leases have been shown on the balance sheet equally with other components of fixed assets and are subject to depreciation according to the same principles. The adopted period of use equals to their useful lives or length of the lease contract.

The initial value of fixed assets being the subject of finance lease and corresponding liabilities were determined in the amount equal to the value of lease payments (initial fees included in the valuation). Lease payments incurred in the reporting period decreased financial lease liability in an amount equal to capital instalments, the surplus being financial costs was charged in full the financial costs of the period.

3.7. Goodwill

If recognised as asset at the acquisition date, goodwill is the excess of the purchase price over the fair value of the assets, liabilities and contingent liabilities of the acquired enterprise.

Goodwill is tested annually for impairment and is recognised in the balance sheet at its initial value less accumulated impairment losses. The impairment determined as a result of the tests is immediately recognized in the profit and loss account and is not subject to subsequent adjustment.

The goodwill recognized in the financial statements regarding the acquisition of an enterprise is subject to impairment tests carried out as at the balance sheet date.

The surplus of acquired net assets over the purchase price is recognised in the profit and loss account for the accounting year in which the acquisition took place.

3.8. Other intangible assets

Other intangible assets acquired as part of a separate transaction are capitalized at purchase price or manufacturing cost. Intangible assets acquired as part of a business combination or takeover transaction are recognized as assets separately from goodwill, if their fair value can be determined reliably at the initial recognition.

As at the balance sheet date, intangible assets are measured at the purchase price less the accumulated depreciation and accumulated amount of impairment losses.

Intangible assets with a definite useful life are amortized using the straight-line method. The depreciation method and rate are subject to verification as at each balance sheet date. Intangible assets with an indefinite useful life (trademarks) are not subject to amortization. The value of components with an indefinite useful life is tested for permanent impairment for each balance sheet date.

Intangible assets with a definite useful life are depreciated using the straight-line method for the period of their estimated usability, which is 5 years on average.

3.9. Shares and stakes in controlled entities

Shares and stocks in controlled entities (subsidiaries, joint ventures and associates) are valued at their purchase price less write-offs for permanent impairment.

3.10. Impairment of non-financial assets

In the event of indications of possible impairment of property, plant and equipment, intangible assets and goodwill, an impairment test is performed and the amount of revaluation write-offs reduces the carrying amount of the asset to which it relates and are recognized in the profit or loss account.

Impairment losses on assets subject to a previous revaluation adjust the revaluation reserve to the amounts recognized in equity, and if they fall below the purchase price, they are recognized in the profit or loss account.

The amount of revaluation write-offs is determined as the surplus of the carrying amount of these components over their recoverable amount. The recoverable amount is the higher of the following: net realisable value or value in use.

Non-financial assets (except goodwill) from which previously revaluation write-offs were made are tested for each balance sheet day in view of the existence of premises indicating the possibility of reversal of a previously made impairment. The effects of the reversal of write-offs are recognized in the profit or loss account, except for amounts previously reducing the revaluation reserve, which adjust this capital to the amount of its decreases.

3.11. Inventory

Inventories include raw materials, materials, work in progress, finished goods and trade goods.

The costs incurred to bring each of the components of the inventory to its current location are valued as follows:

- raw materials, materials and trade goods - purchase price
- semi-finished products, work in progress and finished products - actual production cost

The distribution of inventories is accounted as follows:

- raw materials, materials and goods - "first in - first out"
- semi-finished products, work in progress and finished products - according to the actual production cost

Inventories are valued as at the balance sheet date according to the purchase price or production cost, however, at a level not higher than the realizable value.

If the purchase price of goods or the technical cost of manufacturing finished goods is higher than the expected sale price, the entity makes write-offs, which adjust the other operating costs. The sale price is the selling price in the ordinary course of business, less the estimated costs of completion of production and the costs necessary to make the sale.

3.12. Trade and other receivables

As at the moment of initial recognition, trade receivables whose maturity ranged typically from 7 to 75 days, are recognised at the transaction price (the amount requiring payment). As at the balance sheet date, receivables are valued at the initial value, taking into account impairment losses. Write-offs are made at the level of expected credit losses.

The Group uses the provisions matrix to calculate the value of the impairment charge for trade receivables based on historical data regarding the repayment of receivables by counterparties adjusted, if appropriate, for the impact of information concerning the future. The write-off is analysed for each reporting day.

Amounts of receivables write-offs created are charged to the profit or loss account as selling expenses. Amounts of write-offs reversals for receivables adjust costs of sales.

Receivables with maturities over 12 months from the balance sheet date are classified as non-current assets. Current assets include receivables with a maturity period of up to 12 months from the balance sheet date.

3.13. Cash and cash equivalents

Cash and cash equivalents include cash at bank and cash and short-term deposits with an initial maturity of up to three months.

The balance of cash in the cash flow statement consists of cash and cash equivalents specified above, less any unpaid loans in current accounts.



PLN 71.9m
operating profit
in 2018

3.14. Equity

Share capital	The share capital is shown in the amount specified in the Articles of Association and registered by the court.
Capital reserves	The value presented in the Capital reserves consists of: <ul style="list-style-type: none"> ■ share premium from issuance of shares at a price that exceeds their nominal value, reduced by issue costs, ■ amounts of profits from previous years, classified on the basis of decisions of the General Shareholders Meetings.
Revaluation reserve	The revaluation reserve was created from the surplus achieved with the revaluation of tangible fixed assets as at 1 January 1995.
Other reserves	Other reserves capital is created from the valuation of stock option plan in proportion to the duration of the program.
Retained earnings	This item presents the net financial result of the previous financial years until the decision on its distribution (or other usage) has been made, as well as the adjustment of the financial result from previous years, resulting from errors in previous years or changes in accounting principles.
Capital management	<p>The Group's capital management is aimed at maintaining the ability to continue operations, with consideration of planned investments, so that the Capital Group could generate returns and economic benefits for shareholders/investors in the future.</p> <p>The use of capital is monitored on an ongoing basis by analysing indicators and comparing the situation of the Capital Group against the industry in which the Capital Group operates.</p> <p>The Capital Group does not have externally imposed capital restrictions. In relation to the previous reporting period there were no changes in terms of rules and processes for capital management.</p>

The table below presents the long-term debt to equity ratio.

Debt ratio	PLN ths	
	31.12.2018	31.12.2017
Equity	805,097	542,491
Long-term debt	82,012	94,612
Long-term debt and borrowings	70,758	82,125
Short-term part of long-term debt and borrowings	11,254	12,487
Long-term debt / Equity	10.2%	17.4%

The change in the ratio is consistent with the actions taken by the Group and the ratio is at the level expected by the Management Board of the dominating entity.

3.15. Liabilities

Liabilities include: liabilities due to loans, borrowings and finance leases, trade payables, other financial liabilities and other non-financial liabilities.

Trade and other liabilities are recognized at fair value.

3.16. Provisions

Provisions are created when the Capital Group is under an existing obligation (legal or constructive) resulting from past events and when it is probable that fulfilment of this obligation will result in a necessary outflow of resources and when a reliable estimate of the liability's amount can be made.

Provisions reflect the best possible estimate of outlays necessary to fulfil the current obligation at the balance sheet date. In case of a significant time value of money, the amount of the provision corresponds to the present value of expenditures necessary to fulfil the obligation.

Adequacy of provisions is assessed at each balance sheet date.

3.17. Leases

Financial lease contracts that transfer substantially all risk and all benefits resulting from ownership of the leased asset to the Company are capitalized as of the lease commencement date at the lower of the following two values: fair value of the asset being the subject of the lease or present value of the minimum lease payments. Lease payments are divided between financial costs and repayment of principal instalments in relation to the liability. Financial costs are recognized directly in the profit or loss account.

The fixed assets used based on finance lease contracts are subject to depreciation according to the rules applied to own assets. If there is no reliable certainty that after the end of the lease agreement the Company will obtain ownership, the assets are depreciated over the shorter of the lease term and useful economic life.

Lease agreements, according to which a significant part of the risk and benefits of ownership remains with the lessor, relate to operating lease.

3.18. Revenues

Revenues are recognized in the amount in which it is probable that the Group will obtain economic benefits associated with a given transaction and when the amount of revenues can be measured in a reliable manner. Revenues from sales are recognized in the transaction price of the payment received or due, less VAT, rebates and discounts. Revenues from ordinary operations of the Group, i.e. sales of products, goods and materials, including rebates and other decreases in sale prices, are recognized as sales revenue.

<p style="text-align: center;">Costs of external financing</p> <p style="text-align: center;">-----</p> <p>Costs of external financing (interest and other costs related to the financing obtained) are recognised in costs of the period to which they relate.</p>	<p style="text-align: center;">Interest</p> <p style="text-align: center;">-----</p> <p>Revenue from interest is recognised on an accrual basis using the effective interest rate method.</p>
<p style="text-align: center;">Dividends</p> <p style="text-align: center;">-----</p> <p>Dividends are recognized when the right to receive them is granted.</p>	<p style="text-align: center;">Rental income</p> <p style="text-align: center;">-----</p> <p>Revenue from lease of investment property is recognized on a straight-line basis over the lease period in relation to ongoing contracts.</p>

3.19. Costs

Costs are recognized in the profit or loss statement if there is a probable reduction in future economic benefits associated with a decrease in assets or an increase in liabilities whose size can be measured reliably.

Costs are recognized in the profit or loss statement on the basis of a direct relationship between the incurred costs and the achievement of specific revenues, i.e. using the principle of commensurability.

If it is expected that economic benefits will be achieved over several financial periods, and their relationship with revenues may only be determined in general and indirectly, costs are recognized in the profit or loss account by way of systematic and rational distribution over time.

3.19a Costs of employee benefits

Remeasurement of retirement benefits provision takes place at the end of each reporting period based on valuation prepared by an actuary, while the provision for unused holidays is created based on number of unused days and average salary. Costs are recognized in the profit or loss statement in the reporting period.

3.20. Income tax

Income tax recognized in the profit or loss statement includes current and deferred income tax.

Current income tax is the expected tax liability due to taxation of income for a given fiscal year, calculated using tax rates applicable at a given balance sheet date, and possible adjustments of income tax relating to previous years. The current income tax liability is calculated in accordance with tax regulations.

Deferred tax is recognized in the profit or loss statement for a given period, except for items settled directly with equity. In such a situation, the deferred tax is also recognised in the appropriate value in equity.

Deferred income tax is determined using the balance sheet method, based on temporary differences between the value of assets and liabilities shown in the accounting books and their taxable value. The amount of the deferred income tax recognised takes into account the planned manner of implementation of temporary differences, using income tax rates that will apply when the differences are realized, based on tax rates that were legally valid or were generally adopted as at the balance sheet date.

Deferred tax assets are determined in the amount anticipated to be deducted from income tax in future, due to negative temporary differences that will cause a reduction in the basis for calculating income tax in the future. The carrying amount of the deferred tax asset is verified at each balance sheet date and is subject to write-off in the event that there is doubt about the Company's economic benefits related to the use of deferred tax assets.

The provision for deferred income tax is created from positive temporary differences between the taxable value of assets and liabilities and their carrying amounts in financial statements.

3.21. Share-based compensation (stock options)

The share options (warrants) granted to members of the Management Board and key managers are transactions settled in equity instruments. The cost of equity-settled transactions is measured in reference to fair value at the grant date. The valuation does not include any conditions regarding the effectiveness of results, except for those related to share price.

VRG S.A. Capital Group

The cost of transactions settled in equity instruments is recognized along with the corresponding increase in the equity in the period to which the vesting conditions regarding the effectiveness of results refer, ending on the day when Management Board members and key managers acquire full entitlement to benefits (vesting date). The cumulated cost recognised for equity-settled transactions at each balance sheet date until the date of the vesting date of rights reflects the degree of expiration of the vesting period and the number of options to which the rights will eventually be acquired.

The fair value of the options granted is recognized in the profit or loss statement in correspondence with reserve capital. The options fair value is measured as of the grant date and is recognized in the vesting period. This value is measured based on Monte Carlo valuation model, which is an extension of Black - Scholes valuation model, including the terms and conditions for granting stock options.

The diluting effect of issued options is taken into account when determining the amount of profit per share as an additional dilution of shares.

3.22. Operating segments

The VRG Group specialises in design and retail sales of branded clothing for men and women in the medium segment and up-market as well as luxury jewellery and watches. Currently, it is building its revenue base on following brands: Vistula, Lantier, Vistula Red, Vesari, Wólczanka, Lambert, Bytom, Intermoda, W.KRUK (via a subsidiary) and Deni Cler (via a subsidiary). The Group has been in possession of these brands since their inception (except for the Deni Cler brand). From the second quarter of 2015, following a divesture of an organised business unit related to W.KRUK brand, the jewellery activities are carried out by Issuer's a subsidiary, i.e. W.KRUK S.A. based in Cracow. From November 30, 2018, the Group also possesses the Bytom and Intermoda brands.

Leading brands of the Vistula business line:

VISTULA	Operating on the Polish market since 1967, Vistula is the basic line of men formalwear. The brand offers a wide range of suits, jackets, trousers, shirts and other complementary accessories.
LANTIER	The brand was launched in 1998. Its signature products are associated with apparel of French origins. Introduction of the Lantier brand was aimed at broadening the Company's offer to include products aimed at the most demanding customers, using the latest global fashion trends and the highest quality fabrics. Apart from classic suits, Lantier collections, similarly to Vistula brand collections, also include knitwear, shirts, jackets, coats and a wide range of complementary items.
VISTULA RED	A brand introduced in 2009, which offers fashionable and smart casual products. The Vistula Red branded products are characterized by high quality and design consistent with global fashion trends. The brand is addressed at younger customers looking for bolder and more casual outfits.
VESARI	The brand was introduced in 2002. Vesari is a traditional men formalwear brand whose products are inspired by Italian style and elegance. As part of the brand's offering, collections of suits and complementary products are sold. Vesari brand is addressed to wholesalers who sell clothing from various manufacturers in their stores. The brand's clothing is dedicated to customers searching for more affordable products, while maintaining quality parameters.

Leading brands of the Wólczanka business line:

WÓLCZANKA	The brand exists since 1948. The offer of this brand is made of men's shirts, and from the Autumn-Winter 2014 season also women's formal and casual shirts.
LAMBERT	Is an exclusive shirt brand. The brand's signature products include shirts made of the highest quality fabrics, whose design matches the latest fashion trends.

Leading brands of the Bytom business line:

<p>BYTOM</p>	<p>BYTOM is a Polish brand with a history dating back to 1945, in which tradition meets the modern vision of tailoring and men's fashion. Basing on a dozen of years long heritage, the brand offers men formalwear with a flagship product in the form of suits, made from finest Italian fabrics in Polish sewing facilities. BYTOM is not just the art of tailoring. The brand refers to the Polish cultural heritage by creating limited collections inspired by the work of outstanding personalities, inviting people with a significant influence on the development of Polish culture and art.</p>
<p>INTERMODA</p>	<p>The brand is addressed to wholesalers who sell clothing from various manufacturers in their stores. The brand's clothing is dedicated to customers searching for more affordable products, while maintaining quality parameters.</p>

Other own brands in the apparel segment:

<p>DENI CLER</p>	<p>The brand's clothing is dedicated to the upper segment of the women fashion. The brand's products were introduced to the Polish market in the early 90's. Deni Cler offering is sewn from Italian fabrics, with the majority of accessories used being of Italian origins as well. Fabrics used to make branded clothes are mostly cashmere and wool with silk. The brand's assortment includes mostly: skirts, jackets, pants, blouses, coats and dresses. The owner of the Deni Cler brand originating in Milan is DCG S.A. based in Warsaw (the Company's subsidiary). The main activity of DCG S.A. focuses on the design, production and distribution of exclusive women's clothing.</p>
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The VRG Group systematically expands the range of complementary items in its brand stores, including, among other things, the offer of smart casual products, exclusive leather goods and footwear. Offered accessories are currently one of the fastest growing product categories and, at the same time, have a high gross margin.

Own brands in jewellery segment:

<p>W.KRUK</p>	<p>The scope of activity of VRG Group in the area of W.KRUK brand, currently managed by the subsidiary W.KRUK S.A. in Cracow, includes design, manufacturing and retail sales of branded luxury products such as jewellery, watches and accessories. W.KRUK has one of the highest brand recognition in comparison to other competitors operating on the jewellery market in Poland. Every year, under the brand name of W.KRUK, new original jewellery collections are introduced to the market. The main sales market for the W.KRUK brand remains Poland. W.KRUK's offer includes gold and platinum jewellery, in which the basic category of products is jewellery with diamonds and natural stones. The W.KRUK brand also sells jewellery made of silver and other metals. The assortment of this brand is additionally supplemented with gifts and accessories, e.g. cuff links, key rings, etc. In addition to classic jewellery, W.KRUK offers collections under the brand KRUK Fashion following the latest fashion trends. Introduction of the KRUK Fashion collection in 2001 was a breakthrough of many stereotypes prevailing on the Polish jewellery market. At least several times a year, unique brand collections, designed and manufactured by W.KRUK, are launched. The use of innovative solutions in the field of material selection and form distinguishes the brand on the Polish market. Selected jewellery stores of W.KRUK brand also distribute luxury Swiss watches of such brands as ROLEX (VRG S.A. is the sole distributor of this brand in Poland), HUBLOT, GIRARD PERREGAUX, OMEGA, TUDOR, TAG HEUER, LONGINES, RADO, FREDERIQUE CONSTANT, TISSOT, CERTINA, DOXA, EPOS, VICTORINOX, INGERSOLL, CK, SKAGEN, ROTARY, SWATCH and also fashion brands: Gucci, Michael Kors, DKNY, Versace, Diesel, Fossil, E. Armani. Watched of renowned brands sold in W.KRUK stores occupy a strong position on the Polish market and the value of their sales is systematically increasing.</p>
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Manufacturing operations:

Own production activity in the clothing segment was located in a 100% owned subsidiary of the parent company, operating under the name Wólczanka Shirts Manufacturing Sp. z o.o. In addition to its own manufacturing facilities, the parent company cooperates with reliable independent producers who guarantee sewing and confectioning services at the highest level and offer competitive pricing conditions.

Seasonality and cyclicity of operations

Retail sales both in the fashion sector and in the jewellery industry are characterized by significant seasonality of sales. For the apparel market, the most favourable period from the point of view of the generated financial result is the period of the second and fourth quarter, while in the jewellery segment, the period of the fourth quarter (especially the month of December).

In the area of geographical segments, all of the Capital Group's operations are carried out in the Republic of Poland.

3.23. The exchange rates used to value assets and liabilities

Selected items of assets and liabilities were converted into EURO according to the average exchange rate of 31.12.2018 announced by the National Bank of Poland, which amounted to 4.3000 PLN/EUR. Selected items of the profit or loss statement have been converted into EUR at the rate of 4.2699 PLN/EUR, which is the arithmetic average of the average EURO rates set by the National Bank of Poland on the last day of each completed reporting month.

To calculate the average exchange rate, the following EURO rates were adopted: 31.01.2018 – 4.1488 PLN/EUR, 28.02.2018 – 4.1779 PLN/EUR, 31.03.2018 – 4.2085 PLN/EUR, 30.04.2018 – 4.2204 PLN/EUR, 31.05.2018 – 4.3195 PLN/EUR, 30.06.2018 – 4.3616 PLN/EUR, 31.07.2018 – 4,2779 PLN/EUR, 31.08.2018 – 4,2953 PLN/EUR, 29.09.2018 – 4.2714 PLN/EUR, 31.10.2018 – 4.3313 PLN/EUR, 30.11.2018 – 4.2904 PLN/EUR, 31.12.2018 – 4.3000 PLN/EUR.

The lowest exchange rate in the reporting period was 4.1423 PLN/EUR.

The highest exchange rate in the reporting period was 4.3978 PLN /EUR.

PLN 53.6m
net profit
in 2018

4. SUPPLEMENTARY NOTES TO FINANCIAL STATEMENTS

Note 1. Revenues from continuing operations

Analysis of the Group's revenues	PLN ths			
	2018	2017	4Q18	4Q17
Revenues from the sale of products, goods and materials	805,480	688,268	272,141	222,949
Revenue from property lease	194	34	48	9
Revenue from lease of other fixed assets	-	211	-	117
Total revenue	805,674	688,513	272,141	223,075
Result on the sale of fixed assets	-	-	-	-
A one-time negative goodwill write-off	2,356	-	2,356	-
Other operating income, including:	2,307	1,466	1,174	543
- reversal of provisions	239	166	5	2
Financial income	208	74	168	477
Profit on sale of a subsidiary	-	-	-	-
Total	810,545	690,053	275,839	224,095

The increase in sales revenues is related to sales network expansion and increase in sales per square meter.

Due to the nature of the Group's main business activity (retail sales), there is no concentration of sales to customers whose share in the total revenues would exceed 10%.

Note 2 Segments by type of activity and geographical breakdown

The Group's operations can be divided into two operating segments. These segments are the basis for preparing the Group's reports. The criteria for determining the reporting segments of the Group is the type of goods sold.

Basic activities:

- Retailing and wholesale of apparel
- Retailing and wholesale of jewellery and watches

Information about business segments is presented below:

Current year 2018	PLN ths		
	Apparel segment	Jewellery segment	Total
External sales	483,068	322,606	805,674
Gross profit on sales	244,913	167,378	412,291
Segmental operating costs	212,006	128,133	340,139
<i>of which depreciation</i>	9,351	7,998	17,349
Other operating income and costs	- 357	122	- 235
Financial income and costs	- 1,738	- 4,451	- 6,189
<i>of which interest income and costs</i>	- 2,034	- 2,902	- 4,936
Income tax	5,155	7,001	12,156

VRG S.A. Capital Group

Current year 2018	PLN ths		
	Apparel segment	Jewellery segment	Total
Net profit	25,657	27,915	53,572

Previous year 2017	PLN ths		
	Apparel segment	Jewellery segment	Total
External sales	417,272	271,241	688,513
Gross profit on sales	214,106	145,274	359,380
Segmental operating costs	182,629	110,674	293,303
<i>of which depreciation</i>	8,738	6,804	15,542
Other operating income and costs	- 2,685	- 560	- 3,245
Financial income and costs	- 6,249	- 1,598	- 7,847
<i>of which interest income and costs</i>	- 2,414	- 2,992	- 5,406
Income tax	5,244	6,533	11,777
Net profit	17,299	25,909	43,208

Current year 4Q18	PLN ths		
	Apparel segment	Jewellery segment	Total
External sales	161,944	110,197	272,141
Gross profit on sales	84,184	59,653	143,837
Segmental operating costs	64,310	39,131	103,441
<i>of which depreciation</i>	2,832	1,987	4,819
Other operating income and costs	230	139	369
Financial income and costs	- 362	- 1,547	- 1,909
<i>of which interest income and costs</i>	- 539	- 932	- 1,471
Income tax	2,685	3,738	6,423
Net profit	17,057	15,376	32,433

Previous year 4Q17	PLN ths		
	Apparel segment	Jewellery segment	Total
External sales	128,112	94,963	223,075
Gross profit on sales	67,471	52,689	120,160
Segmental operating costs	51,972	35,195	87,167
<i>of which depreciation</i>	2,374	1,802	4,176
Other operating income and costs	- 1,545	- 20	- 1,565
Financial income and costs	- 1,095	- 536	- 1,631
<i>of which interest income and costs</i>	- 648	- 826	- 1,474
Income tax	2,833	3,279	6,112

VRG S.A. Capital Group

Previous year 4Q17	PLN ths		
	Apparel segment	Jewellery segment	Total
Net profit	10,026	13,659	23,685

The value of financial income and costs of both operating segments includes mainly interest costs on bank loans, which were respectively:

- for the apparel segment, PLN 1,970 thousand for 2018 (PLN 2,339 thousand for 2017),
- for the jewellery segment, PLN 2,872 thousand for 2018 (PLN 2,963 thousand for 2017).

Transactions between the operating segments are based on the accounting principles applied by the Group. In comparison to the last annual financial statement, there were no differences in the basis of segment separation or calculation of the segmental results.

As both in 2018 and in the comparable period the value of booked or reversed impairment losses on non-current assets and current assets was not significant, the Group did not disclose these as a separate line in operating segments.

Geographical segments of activity:

Regarding geographical segments, all of the Group's operations are carried out in the Republic of Poland.

Sales revenues in various markets in terms of geographical location	PLN ths			
	2018	2017	4Q18	4Q17
Poland	797,052	667,686	270,779	217,273
EURO area	8,602	20,138	1,362	5,728
USD area	20	689	-	74
GBP area	-	-	-	-
Other	-	-	-	-
Total	805,674	688,513	272,141	223,075

Segmental assets and liabilities as at December 31, 2018 are as follows:

Current year 2018	PLN ths		
	Apparel segment	Jewellery segment	Total
Assets	616,815	496,536	1,113,351
Liabilities	169,518	138,736	308,254

Segmental assets and liabilities as at December 31, 2017 are as follows:

Previous year 2017	PLN ths		
	Apparel segment	Jewellery segment	Total
Assets	327,855	450,970	778,825
Liabilities	115,167	121,167	236,334

Note 3 Operating expenses and other operating costs

Costs of continuing operations	PLN ths			
	2018	2017	4Q18	4Q17
Depreciation of fixed assets	17,349	15,542	4,819	4,176
Materials and energy	103,086	97,508	29,452	22,425
Costs of goods sold	367,229	304,332	122,336	96,487
Change in products and work in progress	- 114,395	- 107,278	- 32,594	- 21,801
Inventory write-offs	2,219	682	1,776	376
Remuneration and employee benefits	130,974	116,843	34,101	30,518
Other costs by type	40,368	34,374	13,529	11,896
Third party costs	188,911	161,115	60,102	46,381
Other operating costs	2,679	4,029	1,385	1,732
Total costs of products sold, goods and materials, distribution, general and administrative expenses and other operating costs	738,420	627,147	234,906	192,190

Note 4 Remuneration and employee benefits

The average number of employees in persons (including the management)	In persons			
	2018	2017	4Q18	4Q17
Employees in persons by categories:	2,450	2,348	2,493	2,422
White-collar employees	2,073	1,969	2,135	2,042
Blue-collar employees	377	379	358	380

General remuneration divided into wages, insurance and other (value):	PLN ths			
	2018	2017	4Q18	4Q17
Total remuneration, including:	130,974	116,843	34,101	30,518
Salaries	109,393	97,246	28,742	25,717
Social security and other benefits	21,581	19,597	5,359	4,801

Note 5 Financial income

Continuing operations	PLN ths			
	2018	2017	4Q18	4Q17
Interest on bank deposits and loans granted	19	8	1	-
Dividends received	-	-	-	-
Discount valuation	-	-	-	-
Result on forward transactions	8	-	-	20
Profit from foreign exchange rate differences	-	-	-	358
Valuation of loans at amortized cost	-	-	-	-

VRG S.A. Capital Group

Continuing operations	PLN ths			
	2018	2017	4Q18	4Q17
Other	181	66	167	99
Total	208	74	168	477

Note 6 Financial costs

Continuing operations	PLN ths			
	2018	2017	4Q18	4Q17
Interest on overdrafts and bank loans	4,842	5,302	1,438	1,447
Interest on bonds	-	-	-	-
Interest on finance lease liabilities	113	112	34	27
Fees on loans and guarantees	867	995	265	138
Loss on foreign exchange rate differences	329	723	114	-
Loss on sale of investments held for sale	-	-	20	-
Investments revaluation	2	4	-	-
Valuation of loans at amortized cost	174	166	174	166
Other	70	619	32	330
Total	6,397	7,921	2,077	2,108

Note 7 Income tax

Continuing operations	PLN ths			
	2018	2017	4Q18	4Q17
Current income tax				
Corporate income tax	12,156	11,777	6,423	6,112
Income tax in in other countries	-	-	-	-
Deferred income tax (note 22)	- 704	2,318	- 1,461	- 25
Current year	12,860	9,459	7,884	6,137

Reconciliation of the tax base and pre-tax profit shown in the profit or loss statement	PLN ths			
	2018	2017	4Q18	4Q17
Profit before tax	65,728	54,985	38,856	29,797
According to the statutory rate 19% (since 2008: 19%)	12,488	10,447	7,383	5,661
Non-taxable income	- 5,558	2,027	- 3,440	- 44
Costs not constituting tax deductible costs	4,516	4,971	- 898	2,415
Research and development relief	- 708	-	- 708	-

VRG S.A. Capital Group

Reconciliation of the tax base and pre-tax profit shown in the profit or loss statement	PLN ths			
	2018	2017	4Q18	4Q17
Tax loss to be settled in future periods	-	-	-	-
Tax loss carryforward	-	-	-	-
Tax base	63,978	61,983	33,810	32,168
Income tax charge	12,156	11,777	6,424	6,112
Effective tax rate	18.49%	21.42%	16.53%	20.51%

The difference between the effective tax rate of 18.49% and the nominal tax rate (19%) in 2018 results mainly from permanent differences due to PFRON, option valuation, expenses from the representation fund, reversal of write-offs for inventories and settlement of research and development relief.

The difference between the effective tax rate (21.4%) and the nominal tax rate (19%) in 2017 is mainly due to permanent differences due to PFRON, option valuation, expenses from the representation fund.

Note 8 Earnings per share

Continuing operations	PLN ths			
	2018	2017	4Q18	4Q17
Net profit attributable to the shareholders of the dominating entity	53,572	43,208	32,433	23,685
Profits from continuing operations for the purpose of calculating earnings per share after excluding discontinued operations	53,572	43,208	32,433	23,685
Weighted average number of ordinary shares	185,829,119	178,641,539	183,510,654	179,194,964
Diluted weighted average number of ordinary shares	192,879,119	180,641,539	190,560,654	181,194,964
Earnings per share				
– basic	0.29	0.24	0.18	0.13
– diluted	0.28	0.24	0.17	0.13

Calculation of the weighted average number of shares	PLN ths	
	2018	2017
Number of shares as at 01.01.2018	179,194,964	177,174,964
Change during the year (issuance)	55,260,876	2,020,000
Number of shares as at 31.12.2018	234,455,840	179,194,964
Number of days with increased equity	269	265
Ratio (number of days with increased equity / number of days in the period)	0.79	0.73
Weighted average number of shares	185,829,119	178,641,539
Scale of potential dilution (ordinary shares)	7,050,000	2,000,000
Diluted weighted average number of ordinary shares	192,879,119	180,641,539

Explanatory information regarding potential dilution in ordinary shares is included in the note 30.

Note 9 Goodwill

	PLN ths
PURCHASE PRICE OR FAIR VALUE	
Balance at January 1, 2017	242,590
Adjustment: disclosure at the time of acquisition	
Derecognition at the moment of disposal	
Balance at December 31, 2017	242,590
Balance at January 1, 2018	242,590
Adjustment: acquisition of Bytom	81,443
Derecognition at the moment of disposal	
Balance at December 31, 2018, including:	324,033
Generated from acquisition of Wólczanka S.A.	60,697
Generated from acquisition of W. KRUK S.A.	181,893
Generated from acquisition of Bytom S.A.	81,443
ACCUMULATED DEPRECIATION AND IMPAIRMENT	
Balance at January 1, 2017	-
Losses due to impairment in the current year	-
Derecognition at the moment of disposal	-
Balance at December 31, 2017	-
Balance at January 1, 2018	-
Losses due to impairment in the current year	-
Derecognition at the moment of disposal	-
Balance at December 31, 2018	-
BOOK VALUE	
At December 31, 2017	242,590
At December 31, 2018	324,033

As at December 31, 2018 the impairment test was carried out for intangible assets with an indefinite useful life, i.e. goodwill.

The value of Wólczanka was assigned to a group of cash generating units in the form of Wólczanka sales network. The following assets of the acquired entity were assigned to the group of cash generating units of Wólczanka sales network:

- Wólczanka brand
- Fixed assets related to the operation of Wólczanka store network (including goodwill)

Goodwill of W.KRUK was assigned to a group of cash generating units in the form of W.KRUK sales network. The following assets of the acquired entity were assigned to the group of cash generating units of W.KRUK sales network:

- W.KRUK brand
- Fixed assets related to the operation of the W.KRUK store network (including goodwill).

VRG S.A. Capital Group

Due to the lack of indications to determine the fair value of cash generating units (which results mostly from lack of an active market), the recoverable amount was determined at the level of the value in use of the cash generating units.

The conducted test for the aforementioned brands was based on forecasted cash flows for the next five years and the residual value, for which the calculation assumed the growth rate at the level of "0%" (for network development after a five-year period).

The WACC discount rate adopted for the above test is 11.0%. An increase in the adopted discount rate by 10 percentage points does not require asset impairment recognition.

In order to determine cash flows and the discount rate in line with traditional accounting practice, the approach was to use a single sequence of estimated cash flows and one discount rate.

As a result of the test, no impairment of intangible assets with an indefinite useful life, i.e. goodwill, was identified. In connection with the above, in the period for which the financial report was prepared, no impairment losses were recognised for intangible assets with an indefinite useful life, i.e. goodwill.

With respect to the goodwill of Bytom, which was assigned to the group of cash generating units in the form of Bytom sales network, the Group did not perform an impairment test.

The asset was valued at fair value as at the merger date of VRG S.A. and Bytom S.A. i.e. on November 30, 2018. As at the balance sheet date, the Management Board of the Parent Company did not find any indications of impairment.

Note 10 Other intangible assets

	PLN ths			
	Costs of develop- ment works	Trademarks	Patents and licenses	Total
GROSS VALUE				
Balance at January 1, 2017	1,219	114,467	19,100	134,786
Additions	-	-	1,543	1,543
Decreases	-	-	-	-
Balance at December 31, 2017	1,219	114,467	20,643	136,329
Balance at January 1, 2018	1,219	114,467	20,643	136,329
Merger of VRG S.A. and Bytom S.A.	-	145	66,841	66,986
Additions	-	-	1,899	1,899
Decreases	-	-	- 13	- 13
Balance at December 31, 2018	1,219	114,612	89,370	205,201
AMORTIZATION				
Balance at January 1, 2017	1,219	23	15,354	16,596
Amortization for the period	-	-	378	378
Disposal	-	-	-	-
Balance at December 31, 2017	1,219	23	15,732	16,974
Balance at January 1, 2018	1,219	23	15,732	16,974

VRG S.A. Capital Group

	PLN ths			
	Costs of develop- ment works	Trademarks	Patents and licenses	Total
Merger of VRG S.A. and Bytom S.A.	-	-	1,095	1,095
Amortization for the period	-	-	778	778
Disposal	-	-	- 13	- 13
Balance at December 31, 2018	1,219	23	17,592	18,834
IMPAIRMENT				
Balance at January 1, 2017	-	-	3,147	3,147
Additions	-	-	-	-
Decreases	-	-	-	-
Balance at December 31, 2017	-	-	3,147	3,147
Balance at January 1, 2018	-	-	3,147	3,147
Additions	-	-	-	-
Decreases	-	-	-	-
Balance at December 31, 2018	-	-	3,147	3,147
BOOK VALUE				
At December 31, 2017	-	114,444	1,764	116,208
At December 31, 2018	-	114,589	66,631	183,220

Patents and licenses are amortised over their useful life, which is 5 years on average, trademarks are not subject to amortisation because they have an indefinite useful life, with the exception of the Bytom trademark acquired under finance lease for a period of use of 60 years.

The write-offs created were charged to other operating costs, while write-offs reversals were recognized in other operating revenues.

Amortization of intangible assets was charged respectively to selling costs, general administrative expenses or the cost of sales in the statement of comprehensive income.

Trademarks Wólczanka, W. KRUK and Intermoda for the total value of PLN 114,589 thousand are the subject of collateral under loan agreements shown in note 19.

As at December 31, 2018, an impairment test was carried out for intangible assets with an indefinite useful life, i.e. trademarks. As a result of this test, no impairment of intangible assets with an indefinite useful life, i.e. trademarks, was identified. Therefore, in the period for which the financial statements were prepared, no impairment losses were recognised for intangible assets with an indefinite useful life, i.e. trademarks.

Assumptions for the impairment test for intangible assets with an indefinite useful life, i.e. trademarks, are the same as in the note 9.

As at December 31, 2018, there were no contractual obligations regarding the purchase of intangible assets.

VRG S.A. Capital Group

Note 11 Fixed assets

	PLN ths			
	Property and plant	Fixed assets under construction	Equipment and other fixed assets	Total
PURCHASE PRICE OR FAIR VALUE				
Balance at January 1, 2017	94,451	960	80,995	176,406
Additions	5,853	19,041	11,248	36,142
Disposals	- 9,536	- 18,157	- 5,189	- 32,882
Balance at December 31, 2017	90,768	1,844	87,054	179,666
Balance at January 1, 2018	90,768	1,844	87,054	179,666
Merger of VRG S.A. and Bytom S.A.	25,610	1,704	15,713	43,027
Additions	4,689	20,805	12,287	37,781
Disposals	- 1,086	- 18,261	- 1,900	- 21,247
Balance at December 31, 2018, including :	119,981	6,092	113,154	239,227
– at purchase price/production cost	119,981	6,092	113,154	239,227
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
Balance at January 1, 2017	57,908	-	56,332	114,240
Depreciation for the period	6,669	-	8,495	15,164
Disposal	- 5,053	-	- 4,910	- 9,963
Balance at December 31, 2017	59,524	-	59,917	119,441
Balance at January 1, 2018	59,524	-	59,917	119,441
Merger of VRG S.A. and Bytom S.A.	15,347	-	9,789	25,136
Depreciation for the period	6,484	-	10,087	16,571
Disposal	- 611	-	- 1,187	- 1,798
Balance at December 31, 2018	80,744	-	78,606	159,350
IMPAIRMENT				
Balance at January 1, 2017	-	650	195	845
Additions	-	-	-	-
Decreases	-	-	-	-
Balance at December 31, 2017	-	650	195	845
Balance at January 1, 2018	-	650	195	845
Merger of VRG S.A. and Bytom S.A.	-	986	-	986
Additions	-	-	-	-
Decreases	-	-	-	-
Balance at December 31, 2018	-	1,636	195	1,831
BOOK VALUE				
At December 31, 2017	31,244	1,194	26,942	59,380
At December 31, 2018	39,237	4,456	34,353	78,046

VRG S.A. Capital Group

The Group does not have off-balance sheet fixed assets.

The carrying amount of the Group's fixed assets under finance lease is PLN 5,605 thousand.

The write-offs created were charged to other operating costs, and write-offs reversals were recognized in other operating revenues.

Land and buildings that are the subject of collateral under loan agreements shown in note 19.

As at 31 December 2018, there were no contractual obligations regarding the purchase of fixed assets.

Note 12 Investment property

	PLN ths
PURCHASE PRICE OR FAIR VALUE	
Balance at January 1, 2017	874
Additions	-
Disposals	-
Balance at December 31, 2017	874
Balance at January 1, 2018	874
Additions	-
Disposals	-
Balance at December 31, 2018 including:	874
– at purchase price/manufacturing cost	874
– at revalued amount	-
ACCUMULATED DEPRECIATION AND IMPAIRMENT	
Balance at January 1, 2017	-
Depreciation for the period	-
Disposals	-
Balance at December 31, 2017	-
Balance at January 1, 2018	-
Depreciation for the period	-
Disposals	-
Balance at December 31, 2018	-
BOOK VALUE	
At December 31, 2017	874
At December 31, 2018	874

The rental income from investment property earned by the Group in 2018 amounted to PLN 194 thousand (in 2017: PLN 25 thousand). The direct operating cost associated with renting an investment property in a given period amounted to PLN 58 thousand (in 2017: PLN 7 thousand).

Investment property is the subject of collateral under loan agreements shown in note 19.

Note 13 Shares and stakes

List of entities in which the Group holds shares / stakes as at December 31, 2017							
Name of entity	Valuation method	Registrar	% of owned shares	% of votes held	Value of shares at purchase price	Valuation adjustments	Book value
Chara Sp. z o.o.	Purchase price	-	19	19	17	-	17
Other	Purchase price	-	-	-	263	253	10
Total			-	-	280	253	27

Investments in subsidiaries concern shares and stakes in entities in which the Group has the ability to control their operational and financial policy, which usually accompanies holding the majority of the total number of votes in the decision-making bodies. When assessing whether the Group controls a given entity, the Group takes into account existence and effect of potential voting rights that can be exercised or converted at a given moment.

Subsidiaries were characterized in point 1 of the consolidated financial statements.

Investments in subsidiaries not classified as held for sale are recognized at the purchase price in accordance with IAS 27 "Separate financial statements" less any impairment losses in accordance with IAS 36 "Impairment of Assets".

Impairment of assets is made by comparing the carrying amount with the higher of two: fair value or value in use.

The value of shares has changed in relation to the previous year by the PLN 4 thousand in connection with the sale of shares in TUW Wielkopolska.

Note 14 Other long-term investments

	PLN ths	
	2018	2017
Other	4	4
Total	4	4

Note 15 Inventory

	PLN ths	
	2018	2017
Materials (at purchase price)	37,419	35,454
Work in progress (at production cost)	7,139	7,332
Finished products (at production cost)	44,813	37,472
Trade goods (at purchase price)	379,769	240,060
Total inventory, at the lower of two values: purchase price (production cost) and net realizable value	469,140	320,318

VRG S.A. Capital Group

	PLN ths	
	2018	2017
Inventory write-offs	- 8,359	- 5,036
Total	460,781	315,282

Write-offs created in the amount of PLN 1,449 thousand were charged to other operating costs, write-off in the amount of PLN 4,420 thousand were taken over due to merger of VRG and BTM, whereas reversed write-offs in the amount of PLN 2,385 thousand were recognized as a decrease of other operating costs due to liquidation of current assets and write-ups in the amount of 161 thousand were booked in other operating income. The reversal of inventories write-offs is related to sale of inventories that had been written-off earlier.

Inventory was covered by a floating charge as collateral under loan agreements shown in note 19.

The value of inventory recognized as an expense during the period was PLN 316,840 thousand.

Note 16 Long-term receivables

	PLN ths	
	2018	2017
- receivables from deposits paid for store leases	586	518
- receivables from sale of fixed assets	-	-
Total	586	518

Note 17 Trade and other receivables

Trade and other receivables	PLN ths	
	2018	2017
Trade receivables from third parties (gross)	23,850	18,366
minus: write-off of trade receivables from third parties	- 8,070	- 7,999
Trade receivables from third parties (net)	15,780	10,367
Trade receivables from related parties (gross)-(note 42)	2,030	1,983
minus: write-off of trade receivables from related parties	- 2,030	- 1,983
Trade receivables from related parties (net)	-	-
Receivables from taxes, subsidies, customs, social security and other benefits	402	829
Other receivables from third parties (gross)	49,373	50,243
minus: write-off of other trade receivables from third parties	- 41,648	- 41,235
Other receivables from third parties (net)	7,725	9,008
Other receivables from related parties (gross)	4,300	4,300
minus: write-off of other trade receivables from related parties	- 4,300	- 4,300
Other receivables from related parties (net)	-	-
Total short-term receivables (gross)	79,955	75,721

VRG S.A. Capital Group

Trade and other receivables	PLN ths	
	2018	2017
minus: total write-off of receivables	- 56,048	- 55,517
Total short-term receivables (net)	23,907	20,204

Payment terms for receivables range from 7-120 days. After the payment deadline expires, 8% interest is charged.

Split of overdue trade receivables (gross)	PLN ths	
	2018	2017
a) up to 1 month	1,884	1,909
b) above 1 month up to 3 months	1,545	738
c) above 3 months up to 6 months	1,280	998
d) above 6 months up to 1 year	988	800
e) above 1 year	11,926	10,615
Total overdue trade receivables (gross)	17,620	15,060
f) total write-off of overdue receivables	- 10,053	- 10,014
Total overdue trade receivables (net)	7,567	5,046

Change in short-term receivables write-offs	PLN ths	
	2018	2017
Balance at the beginning of period	55,517	67,120
a) increases (due to)	1,782	548
deconsolidation of related parties	869	-
write-offs creation	618	548
foreign exchange rate differences	295	-
b) decreases (due to)	1,251	12,151
receipt of payment	256	10,972
receivables write-off	-	-
cessation of the reason behind the write-off	995	168
foreign exchange rate differences	-	1,011
Balance at the end of period	56,048	55,517

Amounts of receivables write-offs (created and reversed) of are recognised in the selling costs. The value of the write-off was estimated based on the Group's past experiences.

Short-term receivables gross (currency structure)	PLN ths	
	2018	2017
a) PLN	66,061	59,969
b) in foreign currencies (by currency and after conversion into PLN)	13,894	15,752
b1. in EURO thousands	1,693	1,773
PLN thousands	7,067	7,392
b2. in USD thousands	1,628	2,250

VRG S.A. Capital Group

PLN thousands	6,121	7,834
b3. in CHF thousands	120	-
PLN thousands	458	-
Other currencies in PLN thousands	248	526
Total short-term receivables (gross)	79,955	75,721

Receivables from loans granted	PLN ths	
	2018	2017
Loan receivables from third parties (gross)	1,952	1,943
minus: write-off of loan receivables from third parties	- 1,952	- 1,943
Loan receivables from third parties (net)	-	-
Loan receivables from third parties (gross)	227	227
minus: write-off of loan receivables from related entities	- 227	- 227
Loan receivables from related entities (net)	-	-
Total loan receivables (gross)	2,179	2,170
minus: total write-off of loan receivables	- 2,179	- 2 170
Total loan receivables (net)	-	-

Change in short-term loan receivables write-offs	PLN ths	
	2018	2017
Balance at the beginning of period	2,170	4,052
a) increases (due to)	9	-
write-offs created	-	-
foreign exchange rate differences	9	-
b) decreases (due to)	-	1,882
receipt of payment	-	1,785
decision of the management board to recognize as a loss	-	97
foreign exchange rate differences	-	-
Balance at the end of period	2,179	2,170

The Group has receivables from loans granted for PLN 2,179 thousand (including PLN 227 thousand granted to subsidiaries). Receivables from loans granted were fully covered by write-offs.

The claims have been pledged as collateral under loan agreements shown in note 19.

Note 18 Cash and cash equivalents

Cash and cash equivalents are: cash held by the Group and short-term bank deposits with a maturity of up to three months. The book value of these assets corresponds to their fair value.

VRG S.A. Capital Group

	PLN ths	
	2018	2017
cash and bank accounts	33,205	16,135
short-term deposits	318	285
Total	33,523	16,420

The balance of cash and cash equivalents shown in the statement of cash flows consists of the following items:

	PLN ths	
	2018	2017
cash and bank accounts	33,205	16,135
short-term deposits	318	285
Total	33,523	16,420

Cash flows are prepared using the indirect method.

Credit risk.

The Group has debt securities issued for the amount of PLN 13,250 thousand (including: issued by subsidiaries for PLN 5,500 thousand) fully covered by write-offs.

Note 19 Bank loans and borrowings

Loan liabilities:

	PLN ths	
	2018	2017
Overdrafts	6,627	15,446
Bank loans	90,012	99,612
Loans	-	-
Loans due:		
On demand and up to 1 year	25,881	29,933
Minus: the amount to be settled within 12 months (shown in short-term liabilities)		
Bank loans due after 1 year	70,758	82,125
Loans due after 1 year	-	-

Loans currency structure	Ths			
	Total	PLN	EUR (€)	US\$
December 31, 2018	96,639	96,639	-	-
Overdrafts	6,627	6,627	-	-
Bank loans	90,012	90,012	-	-
Loans	-	-	-	-
December 31, 2017	115,058	115,058	-	-

VRG S.A. Capital Group

Overdrafts	15,446	15,446	-	-
Bank loans	99,612	99,612	-	-
Loans	-	-	-	-

Bank loans

The Management Board estimates the fair value of loans taken by the Group as follows:

	PLN ths	
	2018	2017
Overdrafts	6,627	15,446
Bank loans	90,012	99,612
Total	96,639	115,058

Bank loans liabilities :

Name of the entity	Headquarters	Value of bank loan / according to the contract		The loan amount to be repaid at face value		The loan amount measured at amortized cost	Interest conditions	Effective interest rate	Maturity	Collateral
		PLN	currency	PLN	currency	PLN				
Bank PKO BP S.A.	Warsaw	60,000,000	PLN	-	PLN	-	Limit enabling the use of the overdraft facility and the execution of guarantees and letters of credit	-	July 5, 2020	<ol style="list-style-type: none"> 1. Blank promissory note with declaration 2. Declaration of submission to enforcement 3. Contractual right to deduct receivables 4. Floating charge on inventories PLN 120.000.000. 5. Fixed charge on "Vistula" and "Wólczanka" trademarks 6. Registered pledge on shares of W.Kruk SA and DCG SA 7. Fixed charge on shares of Wólczanka Shirts Manufacturing Sp. z o.o. and VG Property Sp. z o.o. 8. Joint mortgage on the Company's real estate 9. Trilateral agreement on card transactions payments 10. Transfer of rights from insurance policy
		47,600,000	PLN	31,600,000	PLN	31,382,747	Investment loan	4.25%	December 31, 2024	
BGZ BNP Paribas S.A.	Warsaw	9,000,000	PLN	-	PLN	-	Limit enabling the use of the overdraft facility and execution	0.00%	March 29, 2019	<ol style="list-style-type: none"> 1. Assignment of receivables, 2. Receipts to a bank account, 3. Floating charge on commercial goods

VRG S.A. Capital Group

							of guaran- tees and letters of credit			
ING Bank Śląski S.A.	Katowice	40,000,000	PLN	-	PLN	-	Limit ena- bling the use of the overdraft facility and execution of guaran- tees and letters of credit	0.00%	April 30, 2019	1. Assignment of receiv- ables, 2. Receipts to a bank ac- count, 3. Fixed charge on the In- termoda trademark, 4. Floating charge on in- ventory, guarantee from Bank BGK, promissory note secured by a sub- sidiary BTM 2 Sp. z o.o.
Bank PKO BP S.A.	Warsaw	60,000,000	PLN	-	PLN	-	Limit ena- bling the use of the overdraft facility and execution of guaran- tees and letters of credit	-	July 9, 2020	1. Blank promissory note, along with a prom- issory note declaration 2. Fixed charge on "W.KRUK" trademark 3. Floating charge on Company's inventory of PLN 148,000,000. 4. Guarantee of VRG S.A. 5. Trilateral agreement on credit card payments 6. Assignment of rights from the insurance pol- icy 7. A declaration of sub- mission to enforcement
		71,400,000	PLN	47,400,000	PLN	47,070,254	Investment loan	4.31%	Decem- ber 31, 2024	
		8,000,000	PLN	8,000,000	PLN	8,000,000	Revolving overdraft	1.07%	March 31, 2019	
Bank PKO BP S.A.	Warsaw	11,500,000	PLN	6,627,318	PLN	6,615,210	Limit ena- bling the use of the overdraft facility	3.00%	June 25, 2019	1. Guarantee granted by VRG S.A 2. Floating charge on in- ventory 3. Mortgage 4. Transfer of rights from insurance policy
		2,000,000	PLN	995,000	PLN	990,763	Overdraft	5.00%	March 7, 2020	
Bank PKO BP S.A.	Warsaw	4,021,500	PLN	2,563,706	PLN	2,563,706	Investment loan	5.24%	March 31, 2023	1. Guarantee granted by VRG S.A 2. Contractual right to deduct receivables 3. Mortgage 4. Assignment of rights under the insurance pol- icy and lease agree- ments for real estate and equipment lease

The Group has the following bank loans:

- a multi-purpose credit line in the amount of PLN 60,000 thousand authorizing the use of an overdraft facility up to the amount of PLN 22,000 thousand and enforcement of bank guarantees up to PLN 18,000 thousand and letters of credit up to PLN 20,000 thousand. The multi-purpose agreement was signed on 09.03.2015. The contract expires on 05.07.2020. The contract is secured with a blank promissory note together with a declara-

VRG S.A. Capital Group

tion of submission to enforcement, a contractual right of deduction of receivables, a floating charge on inventories, a fixed charge on "Vistula" and "Wólczanka" trademarks, a fixed charge on shares of W.KRUK S.A. and DCG S.A., a fixed charge on shares of Wólczanka Shirts Manufacturing Sp. z o.o. and VG Property Sp. z o.o., a declaration of submission to enforcement, assignment of receivables from the contract and transfer of rights under the insurance policy

- investment loan in the amount of PLN 47,600. The contract was signed on 09.03.2015. Expiration will take place on 31.12.2024. The contract is secured with a blank promissory note together with a declaration, a declaration of submission to enforcement, a contractual right of deduction of receivables, a floating charge on inventories, a fixed charge on "Vistula" and "Wólczanka" trademarks, a fixed charge on shares of W.KRUK S.A. and DCG S.A., a fixed charge on shares of Wólczanka Shirts Manufacturing Sp. z o.o. and VG Property Sp. z o.o., a joint mortgage on the Company's real estate, a trilateral agreement on card transactions payments and the transfer of rights under the insurance policy
- a multi-purpose credit line in the amount of PLN 9,000 thousand, within the limit granted in BGŻ PNB Paribas S.A. the Company may use the following products: overdraft up to PLN 5,000,000, line for letters of credit up to PLN 9,000,000, lines for bank guarantees up to PLN 5,000,000, the total amount of indebtedness resulting from the use of the limit in the form of aforementioned loan products cannot exceed the limit amount, i.e. PLN 9,000,000. Under the agreement the credit line is secured by: assignment of receivables, receipts to the bank account, floating charge on inventory (in the amount of PLN 18,639,037.45). Under the reverse factoring agreement (reverse purchase of receivables) with BGŻ PNB Paribas S.A. the Company may use the limit up to EUR 3,000,000.
- a multi-purpose credit line in the amount of PLN 40,000 thousand, as part of the Multi-Product Agreement at ING Bank Śląski S.A. the Company may use the following products: overdraft up to PLN 13,000,000, lines for letters of credit up to PLN 17,000,000, lines for bank guarantees up to PLN 9,000,000, discount transactions in the form of buy-back of receivables in the amount of 4,250,000, the total amount of indebtedness resulting from the use of the limit in the form of the aforementioned loan products may not exceed the limit amount, i.e. PLN 40,000,000. Under the agreement the credit line is secured by: assignment of receivables, receipts to the bank account, fixed charge on Internoda trademark, floating charge on inventory (in the amount of PLN 22,256,067.45), guarantee provided by Bank BGK, promissory note provided by the Company's subsidiary of BTM 2 Sp. z o.o.
- a multi-purpose credit line in the amount of PLN 60,000 thousand entitling to use the overdraft facility up to PLN 35,000 thousand and execution of bank guarantees up to PLN 22,000 thousand and letters of credit up to PLN 8,000 thousand. The multi-purpose agreement was signed on 09.07.2015. The contract expires on July 9, 2020. The agreement is secured with a blank promissory note along with a promissory note declaration, a fixed charge on "W.KRUK" trademark and floating charge on company's inventory, a guarantee granted by Vistula Group S.A., trilateral agreement on credit card payments, assignment of rights under the insurance policy, declaration on submission to enforcement.
- investment loan in the amount of PLN 71,400 thousand. The contract was signed on 09.03.2015. The contract expires on December 31, 2024. The agreement is secured with a blank promissory note along with a promissory note declaration, a fixed charge on "W.KRUK" trademark and floating charge on company's inventory, a guarantee granted by Vistula Group S.A., trilateral agreement on credit card payments, assignment of rights under the insurance policy, declaration on submission to enforcement.
- revolving overdraft for financing current liabilities related to operations in the amount of PLN 8,000 thousand. The contract was signed on October 24, 2018. The contract will expire on 31.03.2019. The contract is secured

VRG S.A. Capital Group

with a blank promissory note along with a promissory note declaration and a contractual right to deduct receivables.

- a credit line in the amount of PLN 11,500 thousand entitling to use the overdraft facility up to PLN 9,000 thousand and execution of guarantees and letters of credit up to PLN 2,500 thousand. The repayment will take place on 25.06.2019. The loan was secured with a VRG guarantee, a mortgage, a floating charge on inventory, and assignment of rights under the insurance policy.
- investment loan in the amount of PLN 2,000 thousand. The contract was signed on July 18, 2017. The contract expires on 07.03.2020. The loan was secured with a VRG guarantee, a mortgage, a floating charge on inventories and assignment of rights under the insurance policy.
- investment loan in the amount of PLN 4,022 thousand. The contract was signed on 30.06.2016. The contract expires on March 31, 2023. The loan was secured with a VRG guarantee, a mortgage, a contractual right to collect debts and assignment of rights under the insurance policy and lease contracts for real estate and equipment lease.

As at 31.12.2018, the Capital Group conducted all due loan repayments and interest payments.

The effective interest rate is the ratio of the amount of interest paid in the financial year to the outstanding loan liability at the end of the financial year.

Note 20 Fair value of financial instruments

The fair value of financial assets and financial liabilities is determined as follows:

- the fair value of financial assets and financial liabilities with standard terms that are traded on active, liquid markets is determined by reference to stock prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted valuation models based on discounted cash flow analysis, using prices from observable current market transactions and traders' quotes for similar instruments;
- the fair value of derivative instruments is calculated using stock prices. In case of lack of access to these prices, the analysis of discounted cash flows using the appropriate yield curve for the duration of the instrument for non-optional instruments and option pricing models for optional instruments are applied.

In the period from January 1, 2018 to December 31, 2018, there was no transfer between the levels in the hierarchy of fair value used in the fair value measurement, and there was no change in the classification of financial assets due to a change in the purpose or use of these assets.

Currency derivatives

The Group uses currency derivatives to hedge future cash flows against currency risk. The Group has forward contracts as hedging transactions for the purchase of currency. Derivative instruments are denominated in USD and EUR. As at 31.12.2018, the balance in nominal value is EUR 628 thousand and PLN 2,710 thousand once translated at the exchange rate of the transaction. As at the balance sheet date, the Group measures its transactions at fair value, the difference from the valuation in the amount of PLN 8,000 has been included in financial income or costs.

The valuation of derivative instruments is included in the level two hierarchy, i.e. the valuation is based on market assumptions.

Note 20a Financial instruments by type

Balance sheet items	PLN ths			
	2018		2017	
	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost
Loans granted	-	-	-	-
Trade and other receivables	24,493	-	20,722	-
Cash and cash equivalents	33,523	-	16,420	-
Long-term loan and lease liabilities	-	74,385	-	83,862
Short-term loan and lease liabilities	-	27,620	-	33,481
Trade and other liabilities	-	192,996	-	109,965
Total	58,016	295,001	37,142	227,308

The Company carried out the analysis which concluded that the value of financial instruments shown in the statement of financial position does not significantly differ from their fair value due to the fact that the majority of these instruments have floating rates.

Note 20b Financial instruments - revenues and costs, gains and losses from change in value

Balance sheet items	PLN ths					
	2018					
	Interest income	Interest expense	Profit / loss from valuation at amortized cost	Write-offs	Write-offs reversal	Profits / losses on exchange differences
Loans granted	-	-	-	-	-	-
Trade and other receivables	181	-	-	618	1,251	28
Cash and cash equivalents	19	-	-	-	-	-66
Forward transactions	-	-	8	-	-	-
Loan and lease liabilities	-	4,955	-174	-	-	-
Trade and other liabilities	-	70	-	-	-	-291
Total	200	5,025	-166	618	1,251	-329

Balance sheet items	PLN ths					
	2017					
	Interest income	Interest expense	Profit / loss from valuation at amortized cost	Write-offs	Write-offs reversal	Profits / losses on exchange differences
Loans granted	-	-	-	-	1,785	-

VRG S.A. Capital Group

Balance sheet items	PLN ths					
	2017					
	Interest income	Interest expense	Profit / loss from valuation at amortized cost	Write-offs	Write-offs reversal	Profits / losses on exchange differences
Trade and other receivables	66	-	-	548	11,140	- 239
Cash and cash equivalents	8	-	-	-	-	18
Forward transactions	-	-	-	-	-	-
Loan and lease liabilities	-	5,414	- 166	-	-	-
Trade and other liabilities	-	619	-	-	-	- 502
Total	74	6,033	- 166	548	12,925	- 723

Note 21 Other non-current assets

	PLN ths	
	2018	2017
ISO and Energy Audit	30	35
Total	30	35

Note 21a Other current assets

	PLN ths	
	2018	2017
Insurance	265	168
Fees and rental payments	467	216
Licenses	21	122
Prepayments for marketing services	884	379
ISO and Energy Audit	-	18
Consulting services	168	487
Other	78	58
Total	1,883	1,448

Note 22 Deferred income tax

The following items are the main items of deferred tax assets and liabilities recognised by the Group and their changes in the current and previous reporting period:

VRG S.A. Capital Group

	PLN ths			
	Balance sheet		Profit or loss statement	
	2018	2017	2018	2017
Deferred tax liabilities	1,320	795	536	- 25
Balance sheet valuation - positive exchange rate differences	52	138	- 75	46
Interest accrued on receivables	7	7	-	- 85
Property valuation	295	307	- 12	- 12
Net advances paid	85	205	- 120	60
Valuation of loans at amortized cost	104	136	- 32	- 32
Valuation of Forward transactions	2	-	2	-
Accelerated tax depreciation	687	-	687	-
Fixed assets in lease	87	-	87	-
Other	1	2	- 1	- 2
Allocated to financial result	526	795	- 258	- 25
Allocated to goodwill	794	-	794	-
Deferred tax assets	6,429	5,831	600	- 2,343
Accelerated balance sheet depreciation	1,440	1,424	16	69
Post-employment benefits (severance pay)	60	88	- 28	43
Write-offs	1,090	1,256	- 165	125
Provisions, wages and social security	1,724	1,621	104	278
Balance sheet valuation - negative exchange differences	56	54	2	- 55
Losses carryforward	-	-	-	- 30
Write-off of receivables from customers	631	511	120	- 2,109
Accrued interest	-	2	- 2	- 151
Provision for future liabilities and returns	819	371	448	64
Valuation of the loyalty program	609	504	105	- 577
Allocated to the financial result	6,275	5,831	446	- 2,343
Allocated directly to equity	154	-	154	-

The creation of deferred tax asset results from the assessment of the probability that future taxable profits and tax base will be achieved allowing deduction of negative temporary differences and tax losses, which justifies the creation of deferred tax assets as at December 31, 2018.

Note 23 Finance lease liabilities

Minimum lease payments	PLN ths	
	2018	2017
Amounts payable in accordance with finance lease agreements:	5,366	2,285
Up to 1 year		

VRG S.A. Capital Group

Minimum lease payments	PLN ths	
	2018	2017
From year 2 to year 5	5,366	2,285
Above 5 years	-	-
Discounted value of finance lease liabilities	5,366	2,285
Minus: The amounts due for settlement within 12 months (shown as current liabilities)	1,739	548
The value of payments after 12 months	3,627	1,737

All lease liabilities are denominated in PLN.

The fair value of the Group's lease liabilities corresponds to its book value.

Note 24 Trade and other liabilities

Trade and other liabilities arise mainly from commercial purchases and costs of ongoing business operations. The average payment period accepted for commercial purchases is 45 days.

Trade and other liabilities	PLN ths	
	2018	2017
Trade liabilities	121,754	71,829
Liabilities to related parties (note 42)	-	-
Tax, subsidies, customs, social security and other benefits liabilities	26,262	22,691
<i>of which income tax liabilities</i>	4,897	2,618
Financial liabilities (reverse factoring)	20,868	-
Deferred income liabilities	8,107	3,490
Other	15,829	11,844
Total short-term liabilities	192,820	109,854

Short-term liabilities (currency structure)	PLN ths	
	2018	2017
a) PLN	141,622	76,316
b) in foreign currencies (by currency and after conversion into PLN)	51,198	33,539
b1. in EURO thousands	5,577	6,825
PLN thousands	23,980	28,428
b2. in USD thousands	5,355	1,405
PLN thousands	20,130	4,891
b3. in CHF thousands	1,682	-
PLN thousands	6,419	-
Other currencies in PLN thousands	669	220
Total short-term liabilities	192,820	109,854

VRG S.A. Capital Group

Deferred income liabilities include the loyalty program valuation. The value of deferred income is determined taking into account the conversion factor of the points awarded and the probability of the reward realization. The amount of future deferred income related to the loyalty program presented in the statement of financial position amounts to PLN 3,206 thousand as at December 31, 2018 (as at December 31, 2017, PLN 2,654 thousand).

Note 25 Provisions

	PLN ths					
	Provision for employment costs	Provision for legal disputes	Provision for work in progress (services of subcontractors)	Returns from customers	Other	Total
Balance at January 1, 2017	4,628	1,468	1,263	-	-	7,359
- Merger of VRG S.A. and Bytom S.A.	-	-	-	-	-	--
- provisions created during the financial year	4,199	232	35	-	-	4,466
- release / use of provisions	-2,845	-749	-	-	-	-3,594
Balance at December 31, 2017	5,982	951	1,298	-	-	8,231
- allocated to short-term liabilities	5,446	951	1,298	-	-	7,695
- allocated to long-term liabilities	536	-	-	-	-	536
Balance at January 1, 2018	5,982	951	1,298	-	-	8,231
- Merger of VRG S.A. and Bytom S.A.	141	3,308	-	516	-	3,965
- provisions created during the financial year	2,936	8	7	-	7	2,958
- release / use of provisions	-2,953	-244	-24	-	-	-3,221
Balance at December 31, 2018	6,106	4,023	1,281	516	7	11,933
- allocated to short-term liabilities	5,199	4,023	1,281	516	7	11,026
- allocated to long-term liabilities	907	-	-	-	-	907

Provisions created were charged respectively to general administrative expenses, selling costs or other operating costs, and provisions released were allocated respectively as a reduction in general administrative expenses and selling costs or to other operating revenues.

The balance of provisions as at 31.12.2018 consists of:

long-term provision for retirement benefits	PLN 907 ths	Total PLN 11,933 ths
short-term provision for retirement benefits	PLN 122 ths	
short-term provision for unused holidays	PLN 2,600 ths	
provision for bonuses	PLN 2,477 ths.	
provision for returns from customers	PLN 516 ths.	
short-term provision for sewing services	PLN 1,281 ths.	
provision for legal disputes	PLN 4,023 ths.	
other provisions	PLN 7 ths.	

VRG S.A. Capital Group

Provisions for retirement benefits are calculated by an independent actuary. The main actuarial assumptions that were used for calculations were: the discount rate of 2.9%, the long-term annual growth rate of remuneration 3.0%, the probability of departing employees on the basis of historical data on employment turnover in the Capital Group.

Sensitivity analysis prepared by the actuary did not show significant deviations of the value of the provision between each of the considered scenarios.

Note 26 Share capital

Series / issue	PLN ths							
	Type of share	Type of share preference	Type of share rights restriction	Number of shares	Issue value by nominal value	The method of capital payment	Registration date	The right to dividends (from date)
Issue "A"	common	ordinary bearer	-	1,000,000	-	-	1991-04-30	
Share split (1 : 5)	common	ordinary bearer	-	5,000,000	-	-	1994-01-28	
Issue "B"	common	ordinary bearer	-	1,000,000	-	-	1995-01-05	
Share redemption		ordinary bearer	-	-1,115,470	-	-		
Issue „D”	common	ordinary bearer	-	2,281,125	-	-	2006-08-31	
Issue „F”	common	ordinary bearer	-	716,564	-	-	2006-11-30	
Issue „C”	common	ordinary bearer	-	140,000	-	-	2007-01-22	
Share split (1 : 10)	common	ordinary bearer	-	80,222,190	-	-	2007-09-06	
Issue „G”	common	ordinary bearer	-	8,021,810	-	-	2008-10-06	
Issue „H”	common	ordinary bearer	-	15,059,932	-	-	2008-12-31	
Issue „I”	common	ordinary bearer	-	8,247,423	-	-	2009-12-17	
Issue „K”	common	ordinary bearer	-	22,310,270	-	-	2012-09-12	
Issue „M”	common	ordinary bearer	-	40,000,000	-	-	2013-09-16	
Issue „L”	common	ordinary bearer	-	859,366	-	-	2015-06-19	
Issue „L”	common	ordinary bearer	-	473,973	-	-	2016-10-11	
Issue „N”	common	ordinary bearer	-	1,980,000	-	-	2016-10-11	
Issue „N”	common	ordinary bearer	-	2,020,000	-	-	2017-07-07	
Issue „N”	common	ordinary bearer	-	2,000,000	-	-	2018-06-29	
Issue „O”	common	ordinary bearer	-	53,260,879	-	-	2018-12-28	
Total number of shares				234,455,840				
Total issued capital					49,122,108			
The nominal value of one share (PLN) = 0.20.								

The Group has one type of ordinary shares without the right to permanent income.

As at December 31, 2018, all shares issued were fully paid up.

Share capital	PLN ths	
	2018	2017
Registered: 234,455,840 common shares PLN 0.20 each (year 2017: 179,194,964 common shares PLN 0.20 each)	49,122	38,070
Issued: 234,455,840 common shares PLN 0.20 each (year 2017: 179,194,964 common shares PLN 0.20 each)	49,122	38,070

In accordance with the requirements of the Code of Commercial Companies, the dominating entity is obliged to create capital reserves to cover losses. At least 8% of the profit for a given financial year reported in the separate financial statements of the dominating entity is transferred to this capital category until this capital reaches at least

VRG S.A. Capital Group

one third of the dominating entity's share capital. The General Shareholder Meeting decides on the use of reserve capital and other capital reserves, however, part of the capital reserves in the amount of one third of the share capital may be used only to cover the loss disclosed in the dominating entity's separate financial statements and is not subject to any other purposes. Capital requirements were met in 2017.

Note 27 Reserve capital

	PLN ths
Balance at January 1, 2017	12,872
Increases due to stock option program valuation	857
Balance at December 31, 2017	13,729
Balance at January 1, 2018	13,729
Increases due to stock option program valuation	239
Balance at December 31, 2018	13,968

Reserve capital is created from the valuation of the stock option incentive program in proportion to the duration of the program.

The nominal value of N series shares that the Parent Company may issue as part of the authorised capital for the purposes of stock option program amounts to PLN 1,200 thousand (6,000,000 shares at PLN 0.20 each). In 2016, series N shares were issued in the amount of PLN 396 thousand (1,980,000 shares at PLN 0.20 each), in 2017, series N shares were issued for PLN 404 thousand (2,020,000 shares at PLN 0.20 each) and in 2018 series N shares for PLN 400 thousand were issued (2,000,000 shares, PLN 0.20 each).

The nominal value of series P shares that the Parent Company may issue as part of the authorised capital for the purposes of stock option program is PLN 1,410 thousand (7,050,000 shares at PLN 0.20 each).

Note 28 Retained earnings

	PLN ths
Balance at January 1, 2017	443,849
Surplus from sale of shares above their nominal value (agio)	3,635
Net profit for the current year	43,208
Balance at December 31, 2017	490,692
Balance at January 1, 2018	490,692
Merger of VRG S.A. and Bytom S.A.	2,547
Surplus from sale of shares above their nominal value (agio)	195,337
Net profit for the current year	53,572
Other (dividend payment)	- 141
Balance at December 31, 2018	742,007

This line presents the net financial result of previous financial years as well as adjustments to the financial result for previous years, and those resulting from errors in previous years or changes in accounting principles.

Retained earnings include all the reserves, retained earnings from previous years of the dominating entity and its subsidiaries.

Note 29 Contingent receivables and liabilities

OFF-BALANCE SHEET ITEMS	PLN ths	
	2018	2017
- bank guarantees for store rental payments and guarantees for timely payment of trade liabilities	37,462	29,023
- open letters of credit	36,819	12,201
- promissory notes to secure lease liabilities	634	582
Total contingent liabilities	74,915	41,806

There are no contingent receivables in the Group.

Note 29a Operating leases

The Group uses assets under contracts, i.e. stores in which it conducts retail sales, which were classified as operating leases.

The expected minimum operating lease payments as of December 31, 2018 and December 31, 2017 are as follows:

OPERATING LEASE	PLN ths	
	2018	2017
- short-term part – up to 1 year	77,289	59,345
- long-term part – above 1 year	222,291	175,532
- Total off-balance sheet items	299,580	234,877

Lease agreements classified as operating leases are mostly concluded for a period of 5 years. In most cases, rent rates are set in EURO for 1 m2 of space. These rates are subject to revaluation at the end of each year.

The value of lease payments recognized as an expense during the period was PLN 70,218 thousand (in 2017: PLN 62,756 thousand).

Note 30 Share-based compensation

I. On 15.04.2015 the Ordinary Shareholder Meeting adopted a stock option program for the Management Board and the key management personnel of the Company and subsidiaries based on payment in the form of the Company's shares. Detailed terms of the stock option program (assuming the full allocation of 6,000,000 subscription warrants) were included in the current report No. 25/2015 published on 15.04.2015. The value of the incentive program estimated using the Monte Carlo model amounted to PLN 3,343,200, i.e. PLN 0.56 per share, and was recognised proportionally to the duration of the program, including the probability of non-market conditions being met. The amount was calculated with a probability of 100%.

The expected volatility was determined based on historical judgment supported by the analysis of the variability of rates of return from closing prices of the Company's shares listed on the WSE.

The expected life of the option was determined based on the maximum period resulting from the adopted resolution.

VRG S.A. Capital Group

The issuance price of N-series shares was set at PLN 2.00.

The subscription of warrants was completed in 2017.

„Data required for the valuation of the stock option program”.

	2018	2017
Share price at the grant date	-	2.27
Strike price	-	2.00
Expected volatility	-	30.00%
Time to expiration (in months)	-	33.5
Risk-free rate	-	2.2%
Expected dividend yield	-	0.00%

In 2018, the amount of PLN 239 thousand was recognized in administrative expenses due to the valuation of the stock option program (in 2017: PLN 857 thousand).

II. The Company's Ordinary Shareholder Meeting on June 27, 2018 adopted Resolution No. 17/06/2018 regarding the terms of the stock option program for members of the Company's Management Board, key managers or other persons of significant importance to the Company (and companies from its Capital Group), issuance of subscription warrants excluding pre-emptive rights, conditional increase of the Company's share capital by issuing new shares excluding pre-emptive rights, amending the Company's Articles of Association, authorizing the Company's Management Board to conclude an agreement for registration of new issued shares in KDPW S.A. and authorizing the Management Board of the Company to take all appropriate actions to allow new issued shares to be traded on a regulated market (the "Resolution"). According to the Resolution, a new stock option program for 2018-2020 was introduced at the Company. The General Shareholder Meeting agreed for issuance of 7,050,000 F-series subscription warrants in three tranches settled independently for 2018, 2019 and 2020 on the basis of the criteria defined in the Resolution for the annual average change in the Company's share price, consolidated net profit and consolidated EBITDA, convertible into P-series bearer shares of Vistula Group S.A. with a nominal value of PLN 0.20 each. All P-series shares will be subscribed in exchange for cash contributions. The issuance price of P-series shares will be equal to the average closing prices of the Company's shares on the Warsaw Stock Exchange for the last month preceding the day of adopting the Resolution reduced by 5% for one P-series share. Each F-series subscription warrant entitles a person named by the warrant to subscribe for one ordinary bearer series P-share of Vistula Group S.A. The right to subscribe for F-series subscription warrants is held by the members of the Vistula Group S.A. Management Board and persons who as of the day of offering E-series subscription warrants will belong to the key management and persons of significant importance to Vistula Group S.A. and companies from its capital group, regardless of the form and legal basis for performing duties at the above mentioned positions.

Registration of the nominal value of the conditional share capital increase in the amount of PLN 5,565,400.00 was conducted on 06.08.2018.

F-series subscription warrants were allocated to participants of the program in 2019. The valuation costs will be incurred in subsequent years.

Note 31 Significant events in 2018**29.01.2018****Notification regarding a significant block of shares**

On 29.01.2018, in the current report No. 3/2018, the Company announced the receipt on January 29, 2018 from Nationale-Nederlanden PTE S.A. acting in accordance with article 69 in conjunction with article 87 par. 1 point 3 let. b of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading and Public Companies of July 29, 2005, of a notification that as a result of purchase of the Company's shares in transactions on the Warsaw Stock Exchange, cleared on January 23, 2018, funds managed by Nationale-Nederlanden PTE S.A.: Nationale-Nederlanden Otwarty Fundusz Emerytalny (hereinafter: OFE) and Nationale-Nederlanden DFE (hereinafter: "DFE") increased the shareholding in the Company's exceeding 10% of votes at the General Shareholder Meeting of the Company. Before the purchase of shares OFE and DFE held 17,859,480 shares of the Company, which constituted 9.97% of the share capital of the Company and entitled to 17,859,480 votes at the General Shareholder Meeting of the Company, which constituted 9.97% of the total number of votes. After the settlement of the purchase of shares on January 23, 2018, OFE and DFE held 18,079,480 shares which constituted 10.09% of the Company's equity. These shares entitled to 18,079,480 votes at the General Shareholder Meeting of the Company, which constituted 10.09% of the total number of votes.

01.03.2018**Signing and announcing amendment No. 1 to the merger plan as part of preparation of the merger process of Vistula Group S.A. and Bytom S.A.**

On 01.03.2018, in the current report No. 9/2018, the Company informed in reference to the current report No. 46/2017 of September 15, 2017 regarding signing and publishing the merger plan in preparation of the merger process of Vistula Group S.A. based in Cracow (acquiring company) and Bytom S.A. with its registered office in Cracow (the company being acquired) that on March 1, 2018, the amendment No. 1 to the merger plan was signed. Amendment No. 1 to the merger plan with attachments is available to the public on the Company's website www.vistulagroup.pl in the investor section and in the Company's premises in Cracow at Pilotów 10 Street (on working days from 10:00 to 15:00). Amendment No. 1 to the merger plan took place due to a change in share exchange parity. As part of the agreed change to the merger plan, the shares of the company being acquired are to be exchanged for the newly issued shares of the acquiring company according to the ratio: 1: 0.72, i.e. for one share in Bytom S.A. 0.72 shares of Vistula Group S.A. will be granted, and not according to the exchange parity 1: 0.82 as assumed in the original merger plan of September 15, 2017. The change in parity was based on the valuation of a consultant jointly chosen by the companies - Deloitte Advisory Sp. z o.o. with its registered office in Warsaw as a result of the passage of time from the signing of the merger plan of September 15, 2017.

11.04.2018**Registration of N-series shares of the Company in the National Depository of Securities (KDPW) S.A., introduction of N-series shares to trading on the main market of WSE and change in the structure of the Company's share capital**

On 11.04.2018, in the current report No. 16/2018, the Company taking into account the content of § 5 para. 1 point 9 and § 34 of the Ordinance of the Minister of Finance of February 19, 2009 on current and periodic information provided by issuers of securities and conditions for recognizing as equivalent information required by the laws of non-member countries (Official Journal of Laws of 2014, item 133, with further changes), informed that on April 11, 2018 it received from Dom Maklerski Banku Ochrony Środowiska S.A. with registered office in Warsaw, as an entity acting as a settlement agent, notification of registration on April 11, 2018 by the National Depository for Securities S.A. (KDPW) 2,000,000 N-series shares of the Company with a nominal value of PLN 0.20. The registration of the aforementioned N-series shares in the National Depository for Securities (subscription and registration of shares on securities accounts of persons entitled to subscribe to them) took place on the basis of the settlement instructions referred to in § 13 para. 3 of the Detailed Rules of Operation of the National Depository for Securities, in accordance with Resolution No. 342/16 of the Management Board of the National Depository for Securities S.A. from May 27, 2016, about which the Company informed in the current report No. 28/2016.

At the same time, the Company announced that on April 11, 2018, pursuant to § 38 para. 1 and 3 of the Stock Exchange Regulations, in accordance with Resolution No. 528/2016 of the Management Board of the Warsaw Stock Exchange S.A. of May 27, 2016, about which the Company informed in the current report No. 29/2016, 2,000,000 N-series shares with a nominal value of PLN 0.20 each were admitted for trading on the main market of the WSE under the code "PLVSTLA00011". The first listing date of 2,000,000 N-series shares will be April 12, 2018.

VRG S.A. Capital Group

The above N-series shares were subscribed by participants of the stock option program for members of the Company's Management Board, key managers or other persons of significant importance to the Company (and companies from its capital group) ("Stock option program"), established by Resolution No. 21/04/2015 of the Ordinary Shareholder Meeting of the Company of April 15, 2015, about which the Company informed in current report No. 25/2015, who exercised their rights to respective E-series subscription warrants. The above shares were subscribed and paid for on April 11, 2018 at the price of PLN 2.00 per share, for a total amount of PLN 4,000,000.00.

According to art. 451 § 2 and art. 452 § 1 of the Code of Commercial Companies, the acquisition of rights from N-series shares and the increase in the share capital of the Company took place upon the registration of N-series shares on the securities account of Entitled Persons, i.e. on April 11, 2018.

As a result of the above, the share capital of the Company increased from the amount of capital PLN 38,069,932.80 divided into 179,194,964 shares with a nominal value of PLN 0.20 (representing 179,194,964 votes at the General Meeting of the Company) to the capital amount of PLN 38,469,992.80 divided into 181,194,964 shares with a nominal value of PLN 0.20 (representing 181,119,964 votes at the General Meeting of the Company).

The Company informed in a separate current report on the registration of the above-mentioned increase in the share capital of the Company resulting from the issue of N-series shares in the register of entrepreneurs of the National Court Register.

17.04.2018

Notification regarding a significant block of shares

On 17.04.2018, in the current report No. 18/2018, the Company informed about receiving on April 17, 2018 from Quercus Towarzystwo Funduszy Inwestycyjnych S.A. acting on behalf of the managed investment fund - QUERCUS Multistrategy FIZ (hereinafter: "Fund"), notifications pursuant to art. 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies of July 29, 2005 (hereinafter: "Act") on reducing by the Fund the share in the total number of votes in Vistula Group S.A. below the 5% threshold of the total number of votes in the Company.

The change in the stake held took place as a result of the share capital increase, about which the Company informed in the current report No. 16/2018 on April 11, 2018.

According to art. 69 par. 4 point 2 of the Act before the change the Fund held 8,980,343 shares of the Company, which constituted 5.01% of the share capital of the Company. The shares held entitles to 8.980.343 votes at the General Shareholder Meeting of the Company, which constituted 5.01% of the total number of votes at the General Shareholder Meeting.

According to art. 69 par. 4 point 3 of the Act on April 11, 2018, the Fund held 8,980,343 shares of the Company, which constituted 4.96% of the share capital of the Company. The shares held entitled to 8.980,343 votes at the General Shareholder Meeting of the Company, which constituted 4.96% of the total number of votes at the General Shareholder Meeting.

There are no subsidiaries of the Fund holding shares of the Company, as well as there are no persons referred to in art. 87 par. 1 point 3 letter c.

According to art. 69 par. 4 point 7 of the Act, the number of votes, calculated in the manner specified in art. 69b par. 2 of the Act, the purchase of which would be authorized or obligated by the Fund as the holder of financial instruments referred to in art. 69b par. 1 point 1 of the Act, and financial instruments referred to in art. 69b par. 1 point 2 of the Act, which is not exercised solely by cash settlement is 0.

According to art. 69 par. 4 point 8 of the Act, the number of votes, calculated in the manner specified in art. 69b par. 3 of the Act to which financial instruments referred to in art. 69b par. 1 point 2 of the Act is 0.

The above notification concerned the independent holdings by QUERCUS Multistrategy FIZ. At the same time, the Company, with reference to the contents of current report No. 40/2017 of July 28, 2017, informs that pursuant to notification from Quercus TFI S.A., received on July 28, 2017, acting on behalf of the managed investment funds - QUERCUS Parasolowy SFIO, QUERCUS Multistrategy FIZ and QUERCUS Absolute Return FIZ (hereinafter: "Funds") pursuant to art. 69 of the Act, the Funds and QUERCUS Multistrategy FIZ exceeded the threshold of 5% of the total number of votes in the Company. In connection with the above, the Company decided that as at the date of the current report No. 18/2018, the Funds hold shares of the Company in an amount exceeding the threshold of 5% in the share capital of the Company and in the total number of votes in the Company.

7.05.2018

Expert's opinion regarding the examination of Amendment No. 1 to the merger plan of Vistula Group S.A. and Bytom S.A.

On 7.05.2018, in the current report No. 21/2018, the Company informed in reference to current reports No. 30/2017 from May 8, 2017, number 34/2017 from June 5, 2017, No. 44/2017 from August 29, 2017, No. 46/2017 from September 15, 2017, No. 52/2017 from November 13, 2017, No. 53/2017 from November 14, 2017, and No. 9/2018 of March 1, 2018 regarding the process of preparing the merger of Vistula Group S.A. based in Cracow (acquiring company) and Bytom S.A. with its registered office in Cracow (acquired company) on receipt on May 7, 2018 of a written expert opinion prepared for the District Court for Cracow - Śródmieście in Cracow, XI Commercial Division of

VRG S.A. Capital Group

the National Court Register, reference number file: KR XI Ns-Rej. KRS 7559/18/241, regarding the examination of Amendment No. 1 to the merger plan of Vistula Group S.A. and Bytom S.A. signed on March 1, 2018, prepared in accordance with art. 503 § 1 of the Code of Commercial Companies.

In the opinion of an expert:

1. the share exchange ratio referred to in art. 499 § 1 point 2, has been duly established,
2. the share exchange ratio proposed in the merger plan was determined based on the market value of the merging companies, determined using three valuation models:
 - a) using the income method (discounted cash flow method),
 - b) using the market method in the approach of multipliers of comparable public companies,
 - c) using the market method in the share price approach of the two merging companies.

The share exchange ratio was determined on the basis of the arithmetic mean value of all marginal ranges of valuation results obtained using each of the methods and approaches.

The application of the indicated methods for determining the exchange ratio should be considered justified.

3. there are no particular difficulties related to the valuation of the merging Companies and, consequently, the choice of an appropriate method to establish the ratio of exchange (parity).

The merger plan contains all the necessary elements and attachments that are required in accordance with the provisions of art. 499 of the Code of Commercial Companies. The merger plan can be considered as prepared in all material respects, correctly and reliably.

The expert opinion referred to above is available to the public on the Company's website www.vistulagroup.pl in the investor section and is attached to the current report No. 21/2018.

27.06.2018

Appointment of the Supervisory Board of Vistula Group S.A. for the new joint term of office

On 27.06.2018, in the current report No. 33/2018, the Company announced the contents of the resolutions adopted by the Ordinary General Shareholder Meeting of the Company on June 27, 2018 regarding the appointment of the members of the Supervisory Board of the Company for the next term in office. The following persons were appointed to the Supervisory Board: Andrzej Szumański, Jerzy Mazgaj, Maciej Matusiak, Grażyna Sudzińska-Amroziewicz, Katarzyna Basiak-Gała, Artur Małek.

27.06.2018

Introduction of a new stock option program for the years 2018-2020 in the Company

On 27.06.2018, in the current report No. 33/2018, the Company announced that the Ordinary General Shareholder Meeting of the Company on June 27, 2018 adopted Resolution No. 17/06/2018 regarding the terms of the stock option program for members of the Company's Management Board, key managers or other persons of significant importance to the Company (and companies from its capital group), issuance of subscription warrants excluding pre-emptive rights, conditional increase of the Company's share capital by issuing new shares excluding pre-emptive rights, amending the Company's Articles of Association, authorizing the Company's Management Board to conclude an agreement for registration of new issued shares in KDPW S.A. and authorizing the Management Board of the Company to take all appropriate actions to allow newly issued shares to be traded on a regulated market (the "Resolution"). According to the Resolution, the Company introduced a new stock option program for 2018-2020. The General Shareholder Meeting agreed for an issuance of a total of 7,050,000 F-series subscription warrants in three tranches settled independently for 2018, 2019 and 2020 on the basis of the criteria defined in the Resolution for the annual average change in the Company's share price, consolidated net profit and consolidated EBITDA, convertible into P-series bearer shares of the Vistula Group S.A. with a nominal value of PLN 0.20 each. All P-series shares will be subscribed in exchange for cash contributions. The issuance price of P-series shares will be equal to the average closing prices of the Company's shares on the Warsaw Stock Exchange for the last month preceding the day of adopting the Resolution reduced by 5% for one P-series share. Each F-series subscription warrant entitles a person named by the warrant to subscribe for one ordinary bearer P-series share of Vistula Group S.A. The right to subscribe for F-series subscription warrants is held by the members of the Vistula Group S.A. Management Board and persons who as of the day of offering of E-series subscription warrants will belong to the key management staff and persons of significant importance to Vistula Group S.A. and companies from its capital group, regardless of the form and legal basis for performing duties at the above mentioned positions.

04.07.2018

Registration in the registrar of entrepreneurs of the National Court Register of changes in the structure of the Company's share capital as part of a conditional increase in the share capital

VRG S.A. Capital Group

On 4.07.2018, in the current report No. 36/2018, the Company informed in reference to the content of the current report of the Company No. 16/2018 dated April 11, 2018, that according to the information obtained by the Company, on June 29, 2018 District Court for Cracow - Śródmieście in Cracow, XI Commercial Division of the National Court Register, entered into the registrar of entrepreneurs changes in the share capital structure of the Company as part of the conditional increase in share capital resulting from the issue of 2,000,000 ordinary bearer N-series shares of the Company with a nominal value of PLN 0.20 each, issued by the Company in exercising the rights of holders of registered E-series subscription warrants.

In connection with the above, the Company informs that the Company's share capital currently stands at PLN 38,469,932.80 and is divided into 181,194,964 shares with a nominal value of PLN 0.20 each, representing 181,119,964 votes at the General Shareholder Meeting.

17.08.2018

Consent of the President of the Office of Competition and Consumer Protection to the merger of Vistula Group S.A. based in Cracow with Bytom S.A. based in Cracow.

On August 17, 2018, in the current report No. 40/2018, the Company announced the receipt on August 17, 2018 of the decision of the President of the Office of Competition and Consumer Protection from August 16, 2018 on the consent for concentration involving the merger of Vistula Group S.A. based in Cracow and Bytom S.A. based in Cracow. In the stated decision, the President of the Office of Competition and Consumer Protection has consented to the concentration.

23.08.2018

The first notification of shareholders about the intention to merge Vistula Group S.A. with Bytom S.A. in accordance with art. 504 par. 1 of the Code of Commercial Companies.

On 23.08.2018, in the current report No. 42/2018, the Company pursuant to art. 504 par. 1 of the Code of Commercial Companies, the first announcement to shareholders about the intention to merge with Bytom S.A. based in Cracow was made public.

27.08.2018

Information on the signing of letters of intent by a subsidiary of Vistula Group S.A. concerning the planned foreign acquisition.

On 27.08.2018, in the current report No. 43/2018, the Company announced that on August 27, 2018, a subsidiary of the Company, i.e. W.KRUK S.A. operating on the jewellery market in Poland, signed two letters of intent regarding planned acquisition projects on foreign markets. Signing of letters of intent is one of the elements of the development strategy of the Capital Group, which provides for acquisition projects including renowned brands with recognized market positions, operating in the apparel and jewellery segment, with retail distribution networks, which would lead to acceleration of development and creation of a much larger capital group. The signed documents include: i) a letter of intent with N.Lori s.r.o., Jermontox Holdings Ltd. and Jays Czech LLC regarding the possibility of acquiring all shares in a limited liability company under the Czech laws Klenoty Aurum s.r.o. being one of the leaders of the Czech market, operating a chain of jewellery stores on the Czech market, in which the subsidiary was granted exclusivity for the analysis period, and ii) a letter of intent with Liam Ltd. and Myra Investment Ltd. regarding the possibility of acquiring all shares in a limited liability company under Slovak law Montre s.r.o. operating a network of jewellery stores on the Slovak market, in which the subsidiary was granted exclusivity for the analysis period. The subsidiary intends to conduct analysis of the above entities in order to present share purchase offers. Letters of intent do not oblige any of the parties to enter into a transaction. If the acquisition process runs smoothly, the Company estimates that it may end in the first quarter of 2019.

07.09.2018

The second notification of shareholders about the intention to merge Vistula Group S.A. with Bytom S.A. in accordance with art. 504 par. 1 of the Code of Commercial Companies.

On 07.09.2018, in the current report No. 47/2018, the Company pursuant to art. 504 par. 1 of the Code of Commercial Companies, made public the second notification of shareholders about the intention to merge with Bytom S.A. based in Cracow.

04.10.2018

Announcement of the Management Board of the Vistula Group S.A. based in Krakow, convening the Extraordinary General Shareholder Meeting on October 31, 2018.

On 04.10.2018, in the current report No. 49/2018, the Company made public announcement on convening the Extraordinary General Shareholder Meeting as at October 31, 2018 at 2:00 PM at the registered office of the Company in Cracow at Pilotów 10 St., with the agenda including, among others: adoption of a resolution regarding the merger of the Company with the company BYTOM S.A. based in Cracow, including, inter alia: (i) consent to the merger plan and amendments to the Articles of Association, including an increase in share capital by PLN 10,652,175.20 through the issuance of 53,260,876 ordinary bearer O-series shares with a nominal value of PLN 0.20 each, (ii) adoption of a resolution regarding amendments to the Company's Articles of Association; (iii) adoption of a resolution on increasing the number of members of the Supervisory Board of the current joint term and appointing an additional Member of the Supervisory Board.

12.10.2018

Making public the information memorandum regarding the issuance of new O series shares of the Company in connection with the merger with Bytom S.A.

On 12.10.2018, in the current report No. 52/2018, the Company informed about the publication on 12.10.2018 on the Company's website www.vistulagroup.pl in the section: "For Investors" and on the website of the brokerage house, i.e. Dom Maklerski BOŚ S.A. based in Warsaw www.bossa.pl - an electronic version of the Company's information memorandum prepared in connection with the public offer of the to-be-issued ordinary bearer O series shares and the intention to apply for their admission and introduction to trading on the regulated market in connection with the merger of the Company and the Bytom S.A. based in Cracow, approved on October 8, 2018 by the Polish Financial Supervision Authority.

19.10.2018

Notification regarding a significant block of shares

On 19.10.2018, in the current report No. 53/2018, the Company announced that on October 19, 2018 it received from Quercus Towarzystwo Funduszy Inwestycyjnych S.A. acting on behalf of managed investment funds - QUERCUS Parasolowy SFIO, QUERCUS Multistrategy FIZ and QUERCUS Absolute Return (hereinafter: "Funds") notification pursuant to art. 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies of July 29, 2005 (hereinafter: "Act") on reducing by the Funds the share in the total number of votes in Vistula Group S.A. below the 5% threshold of the total number of votes in the Company. The change in the stake held so far took place as a result of transactions on the regulated market on October 18, 2018. Pursuant to art. 69 par. 4 point 2 of the Act before the change the Funds held 9,095,515 shares of the Company, which constituted 5.01% of the share capital of the Company. The shares held entitled to 9,095,515 votes at the General Shareholder Meeting, which constituted 5.01% of the total number of votes at the General Shareholder Meeting. According to art. 69 par. 4 point 3 of the Act on October 18, 2018 the Funds held 8,829,750 shares of the Company, which constituted 4.87% of the share capital of the Company. The shares held entitled to 8,829,750 votes at the General Shareholder Meeting, which constituted 4.87% of the total number of votes at the General Shareholder Meeting.

There are no subsidiaries of the Funds holding shares of the Company as well as there are no persons referred to in art. 87 par. 1 point 3 letter c. Pursuant to art. 69 par. 4 point 7 of the Act, the number of votes, calculated in the manner specified in art. 69b par. 2 of the Act, the purchase of which would be eligible or obligated Funds, as holders of financial instruments referred to in art. 69b par. 1 point 1 of the Act, and financial instruments referred to in art. 69b par. 1 point 2 of the Act, which are not exercised solely by cash settlement is 0. According to art. 69 par. 4 point 8 of the Act, the number of votes, calculated in the manner specified in art. 69b par. 3 of the Act to which financial instruments referred to in art. 69b par. 1 point 2 of the Act is 0.

25.10.2018

Candidacy of Jan Piilch to the Supervisory Board of Vistula Group S.A. reported by IPOPEMA 2 FIZAN represented by IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A.

VRG S.A. Capital Group

On 25.10.2018, in the current report No. 54/2018, the Company announced that on October 25, 2018, the shareholder IPOPEMA 2 FIZAN, represented by IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A. based in Warsaw, in connection with the Extraordinary General Shareholder Meeting of the Company convened for October 31, 2018, nominated Mr. Jan Pilch to be appointed to the Supervisory Board of the Company.

30.10.2018

Approval of Annex No. 1 to the information memorandum concerning the issuance of new O-series shares of the issuer in connection with the merger with Bytom S.A.

On 30.10.2018, in the current report No. 55/2018, the Company informed about the publication on 30.10.2018 on the Company's website www.vistulagroup.pl in the "For Investors" section and on the brokerage house website, i.e. Dom Maklerski BOŚ SA based in Warsaw www.bossa.pl - electronic version of Annex No. 1 to the Company's information memorandum prepared in connection with the public offer of to-be-issued ordinary bearer O-series shares and the intention to apply for their admission and introduction to trading on a regulated market in connection with the merger of the Company and Bytom S.A. based in Cracow, approved on October 29, 2018 by the Polish Financial Supervision Authority. Annex No. 1 to the Memorandum was drawn up in connection with the publication by the Company on October 19, 2018 of current report No. 53/2018 regarding a notification received by the Issuer regarding a significant block of shares.

31.10.2018

Resolutions adopted by the Extraordinary General Shareholder Meeting of Vistula Group S.A. on October 31, 2018

On 31/10/2018, in the current report No. 56/2018, the Company made public the information on the following resolutions adopted by the Extraordinary General Shareholder Meeting of the Company convened for October 31, 2018:

- a) resolution no. 03/10/2018 regarding the merger of Vistula Group S.A. and BYTOM S.A. based in Cracow, including, among others: consent to the merger plan and amendments to the Articles of Association, including an increase in share capital by PLN 10,652,175.20 through the issuance of 53,2660,876 ordinary bearer O-series shares with a nominal value of PLN 0.20 each
- b) resolution no. 04/10/2018 regarding amendments to the Company's Articles of Association providing for a change of the Company's name to VRG Spółka Akcyjna and an increase in the maximum number of members of the Company's Supervisory Board to 7 persons;
- c) resolution No. 05/10/2018 regarding increasing the number of Supervisory Board members of the current joint term and appointing an additional Member of the Supervisory Board envisaging an increase in the number of Supervisory Board members of the current joint term in office to seven persons and conditional appointment of Jan Pilch to the Supervisory Board.

The above-mentioned resolution No. 05/10/2018 of the Extraordinary General Shareholder Meeting of Vistula Group S.A. from October 31, 2018, enters into force on the day of entry into the register of entrepreneurs of the National Court Register changes in the Articles of Association of Vistula Group S.A. arising from resolution No. 04/10/2018 of the Extraordinary General Shareholder Meeting of Vistula Group S.A. from October 31, 2018 and merger with Bytom S.A. resulting from resolution No. 03/10/2018 of the Extraordinary General Meeting of Vistula Group S.A. from October 31, 2018.

16.11.2018

Conditional appointment of Mr. Michał Wójcik to the Management Board of Vistula Group S.A.

In the current report No. 59/2018, the Company informed that on November 16, 2018 the Supervisory Board of the Company adopted a resolution regarding the conditional appointment of Mr. Michał Wójcik to the Management Board of the Company and entrusting him the function of the Vice-President of the Management Board. The above resolution came into force on the day and on the condition of the entry into the registrar of entrepreneurs of the National Court Register of the Company's merger with Bytom S.A. based in Cracow according on the resolution No. 03/10/2018 of the Extraordinary General Meeting of the Company of October 31, 2018 regarding the merger of Vistula Group S.A. and Bytom S.A.

30.11.2018

Merger of Vistula Group S.A. and Bytom S.A., increase in share capital, change in the Articles of Association, including change of the name of the Company.

In the current report No. 64/2018, the Company announced that on November 30, 2018 the District Court for Cracow - Śródmieście in Cracow, XI Commercial Division of the National Court Register, entered the merger of the Company (the acquiring company) with Bytom S.A. based in Cracow (acquired company) in the registrar of entrepreneurs of the National Court Register. According to art. 493 § 2 of the Code of Commercial Companies, the merger of the companies took place on the day the merger was entered into the registrar applicable to the registered headquarters of the acquiring company. This entry triggers the effect of deleting from the registrar the acquired company, i.e. Bytom S.A. Pursuant to art. 494 of Code of Commercial Companies the Company is the legal successor of Bytom S.A., i.e. on the merger date it has assumed all rights and obligations of Bytom S.A. as the acquired company. In connection with the merger of the Company with Bytom S.A. the share capital of the Company was increased. The share capital was increased from the current amount of PLN 38,469,932.80 to PLN 44,122,108.00. The registration of the share capital increase was made by the District Court for

VRG S.A. Capital Group

Cracow-Śródmieście in Cracow on November 30, 2018. After registration of the share capital increase, the total number of Company shares of all issues comes at 234,455,840 shares with a nominal value of PLN 0.20. The total number of votes at the General Shareholder Meeting of the Issuer amounts to 234,455,840. In addition, on November 30, 2018, the following changes to the Articles of Association were registered:

- 1) § 1. par. 1 of the Articles of Association of the Company has received the following wording: "The Company's name is: VRG Spółka Akcyjna."
- 2) § 1. par. 2 of the Articles of Association of the Company has received the following wording: "The company may use the abbreviation: VRG S.A."
- 3) § 8 of the Articles of Association of the Company has received the following wording:
"1. The share capital is divided into 234,455,840 shares with a nominal value of PLN 0.20 (say: twenty groszy) each.
2. The share capital is PLN 49,122,108 (forty-nine million, one hundred and twenty-two thousand, one hundred and eight zloty)."
- 4) § 17. par. 1 has received the following wording: "The Supervisory Board consists of 5 - 7 members. The term of office of the Supervisory Board lasts three years."

04.12.2018

Notification regarding a significant block of shares

In the current report No. 67/2018, the Company informed that on October 4, 2018, Mr. Jerzy Mazgaj, Chairman of the Supervisory Board, acting pursuant to art. 69 par. 1 of the Act on Public Offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies of July 29, 2005, informed the Company that due to the change in the share capital structure of the Company of November 30, 2018 (current report No. 64 / 2018 regarding the increase of the Company's share capital in connection with the merger with another company), the Company's shareholding has changed. Prior to the event, Mr. Jerzy Mazgaj held 16,216,333 shares, which constituted 8.95% of the share capital and 16,216,333 votes, which constituted 8.95% of the total number of votes at the General Shareholder Meeting of the Company. The entity related to Mr. Jerzy Mazgaj - Krakchemia S.A. based in Cracow, held 4,000,000 shares and 4,000,000 votes at the General Shareholder Meeting of the Company. Prior to the event, Mr. Jerzy Mazgaj had 20,216,333 shares, which constituted 11.16% of the share capital and 20,226,333 votes, which constituted 11.16% in the total number of votes at the General Shareholder Meeting of the Company.

After the event Mr. Jerzy Mazgaj holds 17,944,333 shares, which constitute 7.65% of the share capital and 17,944,333 votes, which constitute 7.65% of the total number of votes at the General Shareholder Meeting of the Company. After the event, including the related entity, Mr. Jerzy Mazgaj holds 21,944,333 shares, which account for 9.36% of the share capital and 21,944,333 votes, which constitute 9.36% of the total number of votes at the General Shareholder Meeting of the Company.

04.12.2018

Notification regarding a significant block of shares

In the current report No. 68/2018, the Company informed that on 4.12.2018 it received from PTE PZU S.A. based in Warsaw ("PTE PZU"), acting on behalf of the PZU Open Pension Fund "Złota Jesień" ("OFE PZU"), a notification prepared pursuant to art. 69 par. 1 point 2, para. 2 point 1 lit. a) and art. 69a paragraph 1 point 1 of the Act on Public Offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies of July 29, 2005. In the notification of PTE PZU informed the Company that on 30.11.2018 it received information about registration on 30.11.2018 by the District Court for Cracow - Śródmieście in Cracow, the increase in Company's share capital, changing its Articles of Association, including changing the Company's name into VRG S.A. in connection with the merger of the Company with Bytom S.A. As a result of the registration of the above-mentioned increase in the Company's share capital and the conversion of Bytom S.A. shares held by OFE PZU so far for VRG S.A. shares the share of OFE PZU in the total number of votes in the Company decreased and exceeded the threshold of 15% of the total number of votes. At the same time, this share, which so far amounted to over 10% of the total number of votes, decreased by at least 2% of the total number of votes.

Before registering the Company's share capital increase and share exchange, OFE PZU held 33,998,758 shares, which constituted 18.76% of the share capital, gave 33,998,758 votes at the General Shareholder Meeting of the Company, which constituted 18.76% of the total number of votes at the Company's General Shareholder Meeting.

After registering the share capital increase of the Company and share exchange, OFE PZU held 34,093,568 shares, which constituted 14.54% of the share capital, gave 34,093,568 votes at the General Shareholder Meeting of the Company, which constituted 14.54% of the total number of votes at the Company's General Shareholder Meeting.

OFE PZU informed at the same time that: there are no subsidiaries holding shares in VRG S.A., there is no situation indicated in art. 69 par. 4 point 6 above act, it also does not have financial instruments referred to in art. 69b par. 1 point 1) and 2) above Act.

06.12.2018

Notification regarding a significant block of shares

In the current report No. 69/2018, the Company informed that on 6.12.2018 it received from IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A. based in Warsaw, ("IPOPEMA"), information prepared pursuant to Article 69 (1) (2), Article 69a (1) point 1 and Article 87 (1) (2) of the Act on public offer and conditions for introducing financial instruments to the organized trading system and on public

companies of July 29, 2005 (hereinafter the "Act") that as a result of registration of the merger of VRG S.A. based in Cracow (the acquiring company) with Bytom S.A. based in Cracow (company acquired), which took place on 30.11.2018, the participation of the IPOPEMA 2 FIZAN fund managed by the IPOPEMA ("Fund", "IPOPEMA 2 FIZAN") as well as the total share of funds managed by the IPOPEMA in the total number of votes in the Company fell below 10% threshold in the total number of votes in the Company. Before the aforementioned event, the IPOPEMA 2 FIZAN fund held 21,177,000 shares of the Company, which constituted 11.67% of the share capital of the Company and gave 21,137,000 votes, which constituted 11.67% of the total number of votes at the General Shareholder Meeting of the Company. After the aforementioned event, the IPOPEMA 2 FIZAN fund holds 21,177,000 shares of the Company, which constitutes 9.02% of the Company's share capital and gives 21,137,000 votes and constitutes 9.02% of the total number of votes at the General Shareholder Meeting of the Company. Prior to the aforementioned event, all funds managed by the IPOPEMA held a total of 21,177,000 shares of the Company, which constituted 11.67% of the Company's share capital and gave 21,137,000 votes, representing 11.67% of the total number of votes at the General Shareholder Meeting of the Company. After the aforementioned event, all funds managed by the IPOPEMA have a total of 21,137,000 shares of the Company, which constitutes 9.02% of the share capital of the Company and gives 21,137,000 votes and constitutes 9.02% in the total number of votes at the General Shareholder Meeting of the Company. At the same time, the IPOPEMA informed that IPOPEMA 2 FIZAN does not have the financial instruments referred to in art. 69b par. 1 of the Act.

Prior to the aforementioned event, all funds managed by the IPOPEMA held a total of 21,177,000 shares of the Company, which constituted 11.67% of the Company's share capital and gave 21,137,000 votes, representing 11.67% of the total number of votes at the General Shareholder Meeting of the Company. After the aforementioned event, all funds managed by the IPOPEMA hold a total of 21,117,000 shares of the Company, which constitutes 9.02% of the Company's share capital and gives 21,137,000 votes and constitutes 9.02% of the total number of votes at the General Shareholder Meeting of the Company.

14.12.2018

Receipt of a statement on lack of exercise by the National Support Center for Agriculture (KOWR) of the right to acquire the O-series shares of merger issuance addressed to the shareholders of the acquired company.

In the current report No. 70/2018, the Company informed on receiving on December 14, 2008 a statement of the National Center for Agricultural Support ("KOWR") dated 13.12.2018 on lack of exercise of the right to purchase merger issuance shares, i.e. 53,268,876 O-series shares addressed to the shareholders of the taken over company Bytom S.A. issued on the basis of resolution No. 03/10/2018 of the Extraordinary General Shareholder Meeting of the Company of 31.10.2018. The declaration was issued in connection with notification of KOWR based on the Act on shaping the agricultural system on the entry on 30.11.2018 of the Company's merger with Bytom S.A. to the National Court Register and the right of KOWR to acquire merger shares. The procedure described above was applicable in connection with agricultural real estate owned by the Company and was presented in the Company's information memorandum.

In relation with the completion of the above procedure, the Company immediately took the steps necessary for admission of the merger shares to trading on the regulated market, in particular concerning:

- 1) designation by the National Deposit of Securities S.A. ("KDPW") of a reference day, specifying the ownership status of the shares of the taken-over company Bytom S.A., according to which the merger shares were allocated in the proportion resulting from the share exchange parity;
- 2) adoption by the KDPW of a conditional resolution on the registration of merger shares;
- 3) registration of merger shares in KDPW and their admission and introduction to trading on the main market of the WSE.

14.12.2018

Approval of Annex No. 2, Annex No. 3 and Annex No. 4 to the information memorandum concerning the issuance of new O-series shares of the Company in connection with the merger with Bytom S.A.

In current report No. 71/2018, the Company announced that on December 12, 2018 received the information on the decision taken by the Polish Financial Supervision Authority on approving annex no. 2, annex no. 3 and annex no. 4 to the Company's information memorandum prepared in connection with the public offer of the new ordinary bearer O-series share issuance and the intention to apply for their admission and introduction to trading on a regulated market in connection with the merger of the Company with Bytom S.A. based in Cracow, approved on October 8, 2018 by the Polish Financial Supervision Authority ("Memorandum"). Annex No. 2 to the Memorandum was prepared in connection with the publication by the Company on November 14, 2018 of the interim report for the third quarter of 2018. Annex No. 3 to the Memorandum was drawn up in connection with the Company's receiving on November 27 and 29, 2018 notifications of transactions on the Company's shares and in connection with the publication by Bytom S.A. as the acquired company on November 28, 2018 of the interim report for III quarter of 2018. Annex No. 4 to the Memorandum was prepared in connection with the appointment of new members of the Company's governing bodies as a consequence of registration of the merger of the Company with Bytom S.A. and amendments to the Company's Articles of Association on November 30, 2018. Electronic versions of annex No. 2, annex No. 3 and Annex No. 4 to the Memorandum were published on 14.12.2018 on the website of the Company at: www.vrg.pl (aka: www.vistulagroup.pl) in the section: "For Investors" and on the website of the brokerage house, that is Dom Maklerski BOŚ S.A. based in Warsaw www.bossa.pl.

18.12.2018

Resolution of the KDPW S.A. Management Board regarding the conditional registration in the depository of securities of O-series merger shares issued in connection with the merger of VRG S.A. and Bytom S.A. and setting of a reference day

In the current report No. 72/2018, the Company informed that on December 18, 2018 it received information that the Management Board of the National Deposit of Securities S.A. had taken a resolution No. 754/2018 on 17.12.2018 regarding the conditional registration in the securities depository of 53,2660,876 O-series merger shares issued by VRG S.A. in connection with the merger of VRG S.A. and Bytom S.A. made by replacing the shares of Bytom S.A. for the share of VRG S.A. In addition, the resolution referred to above indicated the date of 18.12.2018 as the reference day referred to in § 219 of the Detailed Rules of Operation of the National Depository for Securities. The condition for the registration of O-series shares was the introduction of these shares to trading on the regulated market, for which other shares of the Company were marked with the ISIN code PLVSTLA00011. The registration took place as a result of the allocation of shares of VRG S.A. pursuant to § 217 of the Detailed Rules of Operation of the National Depository for Securities, by replacing the shares of the company BYTOM S.A. for shares of VRG S.A. in a ratio of 1: 0.72, in connection with the merger of these companies pursuant to art. 492 § 1 point 1 of the Code of Commercial Companies, through the acquisition of BYTOM S.A. by VRG S.A. The registration was to take place within 3 days of receipt by the National Depository of a decision on the introduction of the above-mentioned shares for trading on the regulated market, for which other shares of the Company were marked with the abovementioned ISIN code, but not earlier than on the day indicated in this decision as the day of introduction of these shares to trading on this regulated market. In the described resolution, the Management Board of the National Depository stated that with the allocation of VRG S.A. O-series shares the shares of the BYTOM S.A. company are withdrawn from the National Depository for Securities and the participation of BYTOM S.A. in the National Depository for Securities in the Issuer type ceases.

20.12.2018

Approval of Annex No. 5 and Annex No. 6 to the information memorandum concerning the issuance of new O-series shares of the Company in connection with the merger with Bytom S.A.

In current report no. 73/2018, the Company informed on receiving on December 12, 2018 the information on the decision taken by the Polish Financial Supervision Authority on approving annex No. 5 and annex No. 6 to the Company's information memorandum prepared in connection with the public offering of new ordinary bearer O-series shares issuance and the intention to apply for their admission and introduction to trading on a regulated market in connection with the merger of the Company with Bytom S.A. based in Cracow, approved on October 8, 2018 by the Polish Financial Supervision Authority ("Memorandum") Annex No. 5 to the Memorandum was drawn up in connection with the receipt by the Company on 4.12.2018 of notifications of a change in the share in the total number of votes at the General Shareholder Meeting of the Company. Annex No. 6 to the Memorandum was prepared in connection with the receipt by the Company of the change in the total number of votes at the General Shareholder Meeting of the Company on November 6, 2018. The electronic versions of Annex No. 5 and Annex No. 6 to the Memorandum were published on 20.12.2018 on the Company's website at: www.vrg.pl (aka: www.vistulagroup.pl) in the section: "for Investors" and on the website of the brokerage house, i.e. Dom Maklerski BOŚ S.A. based in Warsaw www.bossa.pl.

21.12.2018

Admission and introduction to trading of O-series merger shares issued in connection with the merger of VRG S.A. and Bytom S.A.

In the current report No. 74/2018, the Company informed that it received information on the adoption of resolution No. 1295/2018 of the Warsaw Stock Exchange Management Board in Warsaw on December 21, 2018. regarding the admission and introduction to exchange trading on the main market of WSE of O-series bearer shares of VRG S.A., in which the WSE Management Board stated that in accordance with § 19 par. 1 and 2 of the Exchange Rules, there are 53,260,876 ordinary bearer shares of the O series of VRG S.A. with a nominal value of PLN 0.20 each. On the basis of § 36, § 37 and § 38 par. 1 and 3 of the Exchange Rules, in connection with § 3a par. 1, 2 and 3 of the Stock Exchange Regulations, the WSE Management Board decided to introduce, as of December 28, 2018, the ordinary bearer O-series shares of VRG S.A. to the main market subject to the condition that the National Depository for Securities S.A. on December 28, 2018, registers these shares and marks them with the code "PLVSTLA00011".

27.12.2018

Statement by KDPW S.A. regarding the registration of the Company's O-series shares

VRG S.A. Capital Group

In the current report No. 76/2018, the Company informed on the basis of a communication from the National Depository for Securities S.A. of December 27, 2018 that on December 28, 2018 on the basis of resolution No. 754/2018 of the Management Board of the National Depository for Securities S.A. of December 17, 2018, 53,260,876 ordinary bearer O-series shares issued by VRG S.A. in connection with the merger of VRG S.A. and Bytom S.A. conducted by replacing the shares of Bytom S.A. for shares of VRG S.A. will be registered in the National Depository for Securities under ISIN PLVSTLA00011.

28.12.2018

Notification regarding a significant block of shares

In Current Report No. 77/2018, the Company announced that on December 28, 2018, Colian Holding S.A. based in Opatówek (hereinafter: "Colian"), acting in accordance with Article 69 paragraph 1 of the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organized Trading and Public Companies of July 29, 2005 (hereinafter: "the Act"), informed the Company that on December 28, 2018, Colian sold 4,200,000 shares of the Company, which constituted about 1.79% of all Company shares entitling to exercise 1.79% of votes at the General Shareholder Meeting of the Company. According to the received notification from Colian:

- 1) before selling the above shares, Colian held 13,800,226 shares, which constituted 5.89% of the share capital of the Company and entitled to exercise 5.89% of the total number of votes at the General Shareholder Meeting of the Company.
- 2) in connection with the execution of the transaction Colian held 9,600,226 shares, which accounted for 4.09% of the share capital of the Company and entitled to exercise 4.09% of votes in the total number of votes at the General Shareholder Meeting of the Company.
- 3) Colian subsidiaries do not hold any shares of the Company.
- 4) Colian did not have any contract referred to in art. 87 par. 1 point 3 lit. c of the Act, i.e. a contract, the subject of which is the transfer of rights to exercise the voting right.
- 5) Colian and its subsidiaries do not have the financial instruments referred to in art. 69b of the Act.

Note 31a Events after the balance sheet date

04.01.2019

Notification regarding a significant block of shares

In the current report No. 2/2019, the Company informed that on January 4, 2019, it received from IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A. based in Warsaw ("IPOPEMA"), information sent pursuant to Art. 69 par. 1 point 1, art. 69a paragraph 1 point 1 and art. 87 par. 1 point 2 of the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to organized trading system and on public companies (the "Act") that as a result of IPOPEMA 21 FIZAN a purchase of shares in VRG S.A. ("Company") (formerly under the business name: VISTULA GROUP SA) based in Cracow, in a transaction conducted on the regulated market on December 28, 2018, settled on December 28, 2018 and the result of the assimilation of the shares of BYTOM SA based in Cracow with the shares of the Company, carried out on December 28, 2018, the share of funds managed by the Company in the total number of votes in the Company increased above the 10% threshold. The funds managed by the IPOPEMA held a total of 21,177,000 shares of the Company, which constituted 9.02% of the share capital of the Company and entitled to 21,137,000 votes, which constituted 9.02% of the total number of votes at the General Shareholder Meeting of the Company. After the above-mentioned events, all funds managed by the IPOPEMA have a total of 25,455,558 shares of the Company, which constitute 10.86% of the Company's share capital and entitle to 25,455,558 votes and constitute 10.86% of the total number of votes at the General Shareholder Meeting of the Company. At the same time, the Company informs that funds managed by the IPOPEMA do not have financial instruments referred to in Article 69 b par. 1.

Note 32 Related party transactions

Commercial transactions: during the financial year the Company concluded the following transactions with related entities:

	PLN ths							
	Sale of products, goods, materials and services		Purchase of products, goods, materials and services		Amounts due from related parties		Amounts due to related parties	
	2018	2017	2018	2017	2018	2017	2018	2017
Vistula Market Sp. z o.o.	-	-	-	-	1,983	1,983	-	-
DCG S.A.	16	8	-	-	-	-	-	-

VRG S.A. Capital Group

	PLN ths							
	Sale of products, goods, materials and services		Purchase of products, goods, materials and services		Amounts due from related parties		Amounts due to related parties	
	2018	2017	2018	2017	2018	2017	2018	2017
VG Property Sp. z o.o.	4	5	143	140	-	1	33	20
W.KRUK S.A.	7,270	7,396	19	88	718	721	-	-
Wólczanka Shirts Manufacturing Sp. z o. o.	656	739	5,103	4,113	773	436	159	47
BTM 2 Sp. z o. o.	-	-	-	-	17	-	998	
Total	7,946	8,148	5,265	4,341	3,491	3,141	1,190	67
Balance of write-offs					- 1,983	- 1,983		
Amounts due from related parties net					1,508	1,158		

The costs of products, goods and services sold amounted to PLN 1,544 thousand (year 2017: PLN 1,363 thousand). Financial revenues amounted to PLN 2 thousand (2017: PLN 18 thousand), and financial costs amounted to PLN 102,000 (2017: PLN 0).

Other operating income amounted to PLN 0 (2017: PLN 2 thousand), while other operating expenses amounted to PLN 0 (2017: PLN 0).

Sale of goods to related parties was conducted at prices resulting from the Company's price list. Purchases were made at discounted market prices to reflect the quantity of goods purchased and relationships between the parties.

Receivables from loans granted to related parties as at 31.12.2018 amount to PLN 262 thousand (as at 31.12.2017: PLN 277 thousand), these receivables were written-off as at December 31, 2018 in the amount of PLN 227 thousand (as at 31/12/2017: PLN 227 thousand).

Liabilities due to loans received from related entities as at 31.12.2018 amount to PLN 511 thousand (as at 31/12/2017: PLN 0).

Other receivables from related parties as at December 31, 2018 amount to PLN 4,400 thousand (as at 31.12.2017: PLN 4,300 thousand), these receivables were covered by write-off as at 31.12.2018 in the amount of PLN 4,300 thousand (as at 31.12.2017: PLN 4,300 thousand).

Receivables are not secured and their repayment is to be made in cash. As at December 31, 2018, write-offs for receivables from related parties amounted to PLN 6,510 thousand (2017: PLN 6,510 thousand). In 2018, write-offs were created for the amount of PLN 0 thousand, and released in the amount of PLN 0 thousand.

In 2018, the Group also concluded transactions with parties on which it has a significant impact or to which a person who is a member of the key management staff of the company affects or holds a significant number of votes, directly or indirectly.

- Premium Cigars Sp. z o.o. in 2018, the total gross turnover amounted to PLN 24 thousand.

Transactions with related parties were concluded on terms corresponding to market conditions.

In 2018, the Parent Company did not grant any additional guarantees to its subsidiaries.

As at 31.12.2018, the balance of guarantees granted in previous periods by the Parent Company to subsidiaries W.KRUK S.A., DCG S.A. and VG Property Sp. z o.o. for the liabilities of W.KRUK S.A., DCG S.A. and VG Property Sp. z o.o. towards Bank PKO BP S.A. resulting from loan agreements is the following:

VRG S.A. Capital Group

- A term loan agreement (Loan B) up to the amount of PLN 71,400,000.00 concluded by the Company on March 9, 2015, transferred to W.KRUK S.A. after taking over the organized business unit of the Company by W.KRUK S.A. as a result of which the borrower changed in the Loan Agreement B, i.e. the Company was replaced by W.KRUK S.A. as the borrower in full of the rights and obligations of the borrower, therefore the debt was taken over by W.KRUK S.A. After the transfer of the borrower's rights and obligations to W.KRUK S.A., the Company is responsible for the repayment of Loan B under a guarantee up to a maximum amount not exceeding PLN 107,100,000, with the possibility of its release after 3 years.
- Multi-purpose credit limit agreement up to the amount of PLN 11,500,000.00 entered into by a subsidiary company DCG S.A. on 25.06.2015. One of the collateral for repayment of liabilities of DCG S.A. to the bank under this agreement is a guarantee by the Company up to a maximum amount of PLN 17,255,000, the guarantee is valid until December 31, 2021.
- Investment loan agreement up to the amount of PLN 4,021,500.00 concluded by a subsidiary company VG Property Sp. z o.o. on 30.06.2016. One of the collateral for repayment of liabilities of VG Property Sp. z o.o. to the bank under this agreement is a guarantee by the Company up to a maximum amount of PLN 6,032,250, the guarantee is valid until the full repayment of the loan.

Note 33 Comparable data - previous years adjustments and presentation changes

In the financial statements for 2018, the Group changed the presentation of the Social Fund and the costs of deliveries, works and services at the turn of the period, which is why in the report for 2018, the comparable data for 2017 is adjusted. In accordance with the guidelines included in the Interpretation of the International Financial Reporting Interpretation Committee No. 13, the presentation was adjusted in the statement of financial position in the form of a reduction in trade payables, provisions and cash and an increase in the Group's receivables.

Impact of adjustments on balance sheet items for the financial year 2017

	PLN ths		
	Data according to the 2017 report	adjustments of previous years' results and presentation changes	Comparable data for 2017 according to the 2018 report
Total non-current assets	425,471	-	425,471
Cash and cash equivalents	17,085	- 665	16,420
Total current assets	354,019	- 665	353,354
Total assets	779,490	- 665	778,825
Trade and other liabilities	108,823	1,031	109,854
Other provisions	9,927	- 1,696	8,231
Total liabilities and provisions	236,999	- 665	236,334
Equity	542,491	-	542,491
Total equity and liabilities	779,490	- 665	778,825

Impact of adjustments on cash flows for the financial year 2017

	PLN ths		
	Data according to the 2017 report	adjustments of previous years' results and presentation changes	Comparable data for 2017 according to the 2018 report
Net profit (loss)	43,208	- 43,208	-
Pre-tax profit (loss)	-	54,985	54,985
Change in provisions	548	325	873
Change in short-term liabilities, excluding loans and borrowings	12,348	- 12,164	184
Interest paid	- 5,621	5,621	-
Net cash flow from operating activities	20,532	5,559	26,091
Investment activity	- 15,268	-	- 15,268
Net cash flow from investing activities	- 15,268	-	- 15,268
Financing activity	- 9,026	- 5,621	- 14,647
Proceeds from issuance of shares and other capital instruments and additional payments to capital	4,039		4,039
Net cash flow from financing activities	- 4,987	- 5,621	- 10,608
Net increase (decrease) in cash and cash equivalents	277	- 62	215
Cash and cash equivalents at the beginning of the period	16,808	- 603	16,205
Cash and cash equivalents at the end of the period	17,085	- 665	16,420

Note 34 Acquisition of Bytom as a result of the merger

	PLN ths.
Net assets acquired:	
Fixed assets	16,906
Trademark	63,100
Other intangible assets	243
Long-term receivables	-
Long-term investments	65,508
Deferred tax assets	164
Other non-current assets	-
Inventory	97,297
Trade receivables	3,491
Other receivables	2,757
Cash and cash equivalents	2,336
Other current assets	1,170
Provisions for retirement benefits	-

VRG S.A. Capital Group

	PLN ths.
Deferred tax liability	794
Other provisions	4,922
Trade liabilities	18,033
Tax liabilities	2,314
Bank loans	8,784
Financial liabilities	29,014
Finance lease liabilities	66,836
Other liabilities	404
Net assets	121,871

The merger was carried out using the acquisition method.

Calculation of goodwill

	PLN ths
Non-current assets	145,945
Current assets	107,027
Total assets measured at fair value	252,972
Minus liabilities	- 131,101
Net assets of the acquired company	121,871
The total cost of acquisition of the company	- 203,313
Goodwill (positive)	- 81,442

Positive goodwill was recognized as an asset and tested for impairment.

Note 34a Acquisition of BTM 2 as a result of a merger with Bytom

	PLN ths
Net assets acquired:	-
Fixed assets	--
Trademark	-
Other intangible assets	-
Long-term receivables	-
Long-term investments	63,397
Deferred tax assets	-
Other non-current assets	-
Inventory	-
Trade receivables	979
Loans granted	507
Cash and cash equivalents	2,508

VRG S.A. Capital Group

	PLN ths
Short-term investments	618
Other current assets	-
Provisions for retirement benefits	-
Deferred tax liability	-
Other provisions	-
Trade liabilities	4
Tax liabilities	39
Bank loans	-
Finance lease liabilities	-
Other liabilities	102
Net assets	67,864

The merger was carried out using the acquisition method.

Calculation of negative goodwill

	PLN ths
Non-current assets	63,397
Current assets	4,612
Total assets measured at fair value	68,009
Minus liabilities	- 145
Net assets of the acquired company	67,864
The total cost of acquisition of the company	- 65,508
Goodwill (negative)	2,356

Contingent liabilities taken over during the merger amount to PLN 44,000 thousand and refer to a guarantee granted to a multi-product agreement concluded with ING Bank.

The negative goodwill was allocated to the result of the financial year.

Note 35 Accounting policy

The presented financial statements have been prepared in accordance with IFRS.

The principles of preparing financial statements are described in the general information to this report.



**Merger with Bytom S.A.
registered on
November 30, 2018**

5. Issuance, redemption and repayment of debt and capital securities

1) In 2018, the parent company issued N-series shares as part of a conditional share capital increase.

On 11.04.2018, in the current report No. 16/2018 the Company, taking into account the content of § 5 par. 1 point 9 and § 34 of the Ordinance of the Minister of Finance of February 19, 2009 on current and periodic information published by issuers of securities and conditions for recognizing information required under the law of non-member countries as equivalent, informed that on April 11, 2018 it received from Dom Maklerski Banku Ochrony Środowiska S.A. based in Warsaw, as an entity acting as a settlement agent, notification of registration on April 11, 2018 by the National Depository for Securities S.A.. 2,000,000 N-series shares of the Company with a nominal value of PLN 0.20. The registration of the aforementioned N-series shares in the National Depository for Securities (subscription and registration of shares on securities accounts of persons entitled to subscribe them) took place on the basis of the settlement instructions referred to in § 13 par. 3 of the Detailed Rules of Operation of the National Depository for Securities, in accordance with resolution No. 342/16 of the Management Board of the National Depository for Securities S.A. from May 27, 2016, about which the Company informed in the current report No. 28/2016.

At the same time, the Company informs that on April 11, 2018, pursuant to § 38 par. 1 and 3 of the Stock Exchange Regulations, in accordance with resolution No. 528/2016 of the Management Board of the Warsaw Stock Exchange S.A. of May 27, 2016, about which the Company informed in the current report No. 29/2016, 2,000,000 N-series shares with a nominal value of PLN 0.20 each for stock were introduced to trading on the main market of WSE under the code "PLVSTLA00011". The first listing date of 2,000,000 N-series shares will be April 12, 2018.

The above N series shares were taken up by participants of the stock option program for members of the Company's Management Board, key managers or other persons of significant importance to the Company (and companies from its Capital Group) ("Stock Option Scheme"), established by resolution No. 21/04/2015 of the Ordinary General Shareholder Meeting of the Company of April 15, 2015, about which the Company informed in current report No. 25/2015, who exercised the right of their respective E-series subscription warrants. The above shares were taken up and paid on April 11, 2018 at the price of PLN 2.00 per share, for a total amount of PLN 4,000,000.00.

According to art. 451 § 2 and art. 452 § 1 of the Code of Commercial Companies, the acquisition of rights from N-series shares and the increase in the share capital of the Company took place upon the registration of N-series shares on the securities account of the Entitled Persons, i.e. on April 11, 2018.

In connection with the above, the share capital of the Company increased from the amount of capital PLN 38,069,932.80 divided into 179,194,964 shares with a nominal value of PLN 0.20 (representing 179,194,964 votes at the General Shareholder Meeting of the Company) to the capital amount of PLN 38,469,992.80 divided into 181,194,964 shares with a nominal value of PLN 0.20 (representing 181,119,964 votes at the General Shareholder Meeting of the Company).

The Company informed in a separate current report on the registration of the above-mentioned increase in the share capital of the Company resulting from the issuance of N-series shares in the registrar of entrepreneurs of the National Court Register, the entry in the register is declaratory.

2) In 2018, the Parent Company issued O-series shares as part of the merger of VRG S.A. and Bytom S.A.

On 18.12.2018 in the current report No. 72/2018, the Company informed that it received information on the adoption by the Management Board of the National Deposit of Securities of S.A. on December 18, 2018 of a resolution No. 754/2018 of 17.12. 2018 regarding the conditional registration in the securities depository of 53,2660,876 O-series merger shares issued by VRG S.A. in connection with the merger of VRG S.A. and Bytom S.A. made by replacing the shares of Bytom S.A. for the share of VRG S.A. In addition, the resolution referred to above indicated 18.12.2018 as the reference day referred to in § 219 of the Detailed Rules of Operation of the National Depository for Securities. The condition for the registration of the O-series shares was the introduction of these shares to trading on the regulated market, on which other shares of the Company were traded and marked with the ISIN code

PLVSTLA00011. The registration took place as a result of the allocation of shares of VRG S.A. pursuant to § 217 of the Detailed Rules of Operation of the National Depository for Securities, by replacing the shares of the BYTOM S.A. for shares of VRG S.A. in a ratio of 1: 0.72, in connection with the merger of these companies pursuant to art. 492 § 1 point 1 of the Code of Commercial Companies, through the acquisition of BYTOM S.A. by VRG S.A. The registration was to take place within 3 days of receipt by the National Depository of a decision on the introduction of the above-mentioned shares for trading on the regulated market, on which other shares of the Company were marked with the abovementioned ISIN code, but not earlier than on the day indicated in this decision as the day of introducing these shares to trading on this regulated market. In the mentioned resolution, the Management Board of the National Depository stated that with the allocation of O-series shares of VRG S.A. shares of the BYTOM S.A. are withdrawn from the National Depository for Securities and the participation of BYTOM SA in the National Depository for Securities in the Issuer type ceases.

At the same time, the Company informs that on December 21, 2018, in its current report No. 74/2018, the Company informed that it received information on the adoption of resolution No. 1295/2018 of the Stock Exchange Management Board in Warsaw S.A. from 21.12.2018 concerning the admission and introduction to trading on the main market of WSE O-series bearer ordinary shares of the VRG S.A., in which the Stock Exchange Management Board stated that in accordance with § 19 par. 1 and 2 of the Exchange Rules, there 53,260,876 ordinary bearer O-series shares of VRG S.A. with a nominal value of PLN 0.20 each are admitted to trading on the main market. On the basis of § 36, § 37 and § 38 par. 1 and 3 of the Exchange Rules, in connection with § 3a par. 1, 2 and 3 of the Stock Exchange Regulations, the Exchange Management Board decided to introduce, as of December 28, 2018, the ordinary O-series bearer shares of VRG SA on the main market on the exchange market subject to the condition that the National Depository for Securities S.A., will register these shares and mark them with the code "PLVSTLA00011" on December 28, 2018.

In the current report No. 76/2018, the Company informed on the basis of a communication from the National Depository for Securities S.A. of December 27, 2018 that on December 28, 2018 on the basis of resolution No. 754/2018 of the Management Board of the National Depository for Securities S.A. of December 17, 2018, 53,260,876 ordinary bearer O-series shares issued by VRG S.A. in connection with the merger of VRG S.A. and Bytom S.A. conducted by replacing the shares of Bytom S.A. for shares of VRG S.A. will be registered in the National Depository for Securities under ISIN PLVSTLA00011.

In connection with the above, the share capital of the Company increased from the amount of PLN 38,469,932.80 divided into 181,194,964 shares with a nominal value PLN 0.20 (representing 181,119,964 votes at the General Shareholder Meeting of the Company) to the amount of PLN 49,122,108.00 PLN divided into 234,455,840 shares with a nominal value of PLN 0.20 (representing 234,455,840 votes at the General Meeting of the Company).

The Company informed in a separate current report on the registration of the above-mentioned increase in the share capital of the Company resulting from the issuance of O-series shares in the registrar of entrepreneurs of the National Court Register, the entry in the register is declaratory.

6. Paid and declared dividends

In 2018, the Group did not pay or declare dividend payment. There are no preferred shares in terms of dividend payments.

7. Pending court or public administration proceedings

There are no proceedings pending in the court, arbitration tribunal or public administration body regarding liabilities or receivables of the Group, the value of which would be at least 10% of the Group's equity.

8. Credit or loan guarantees granted

As at 31.12.2018, there were no other guarantees.

9. Remuneration of Parent Company Management and Supervisory Board for 2018

Management Board

		PLN ths
Grzegorz Pilch	President of the Management Board	1,061
Mateusz Żmijewski	Vice-President of the Management Board	621
Michał Wójcik	Vice-President of the Management Board	93
Erwin Bakalarz	Member of the Management Board	259
Total		2,034

Supervisory Board

		PLN ths
Jerzy Mazgaj	Chairman of the Supervisory Board	232
Artur Małek	Member of the Supervisory Board	117
Katarzyna Basiak- Gała	Member of the Supervisory Board	117
Grażyna Sudzińska-Amroziewicz	Member of the Supervisory Board	117
Andrzej Szumański	Member of the Supervisory Board	59
Maciej Matusiak	Member of the Supervisory Board	58
Ryszard Petru	Member of the Supervisory Board	58
Beata Pawłowska-Czerwińska	Member of the Supervisory Board	58
Jan Pilch	Member of the Supervisory Board	10
Total		826

The managing and supervising persons obtained remuneration for performing functions in the authorities of the subsidiaries.

The total remuneration for 2018 amounted to PLN 494 thousand, including:

Jerzy Mazgaj	-	PLN 354 ths
Grzegorz Pilch	-	PLN 70 ths
Mateusz Żmijewski	-	PLN 70 ths

The Company has a stock option program based on options for shares of the Company, detailed information about the program and its terms can be found in note 39 of the financial statements. The managing persons are entitled to the benefits specified in the employment contracts.

10. Significant risk factors

The following is a summary of the key risk factors that may affect the Company's results and economic and financial situation. The following factors may have a material adverse effect on the Group's development prospects, results and financial position.

Economic risk related to the macroeconomic situation

The level of the Group's revenues depends on the economic situation, including: dynamics of economic growth, level of unemployment, level of household income and indebtedness, individual consumption, consumer optimism indicators, level of the euro against the Polish zloty exchange rate, interest rates and the state fiscal policy.

There is a risk that if the economic situation weakens or deteriorates again, there will be fluctuations in the demand for products offered by the Group, which will adversely affect the results and financial position.

Risk related to the instability of the Polish legal system, including tax system

The potential risk for the Group's operations, just as for all entities with commercial activity, may be the volatility of the law and its interpretation. Changes in commercial law, tax regulations, labor and social security law and other regulations governing the operations of enterprises, in particular in the Group's industry, entail serious risk of running a business and may hinder or prevent the implementation of planned operational activities and financial forecasts. Subsequently, changes in law may lead to a deterioration in the Group's condition and financial results. New legal regulations may potentially raise certain risks related to interpretation problems, lack of case-law practice, unfavourable interpretations adopted by courts or public administration bodies, etc.

Tax law is characterised by a lack of stability. Tax law provisions are often changed, many times to the disadvantage of taxpayers. Changes in corporate taxation in the area of corporate income tax, tax on goods and services or other taxes may have a negative impact on the Company's activity and earnings levels. Interpretations of tax authorities are also subject to changes, are replaced by others or are contradictory. This results in uncertainty as to the manner in which tax authorities apply law in various, often complex, practical examples occurring in the course of business. The Company is also exposed to risk related to the possibility of changes in interpretation of tax law provisions issued by tax authorities.

The factors described above may have a material adverse effect on the Group's growth outlook, results and financial position.

Risk associated with introduction of a trade ban on Sundays

In March 2018, regulations that introduced a trade ban on Sunday entered into force. Introduction of such a prohibition may mean for the Company a significant drop in revenues realized in brick-and-mortar stores as Sunday is the fourth most important trading day in the week, and its percentage share in sales in 2017 was 14% and fluctuated depending on the individual brands in the Company from 11 - 17 %. We do not assume a proportional translation of the restrictions introduced into the drop in sales and operating result. The Company has taken all the necessary steps, including cost reduction, to minimize the impact of the restrictions introduced, however, loss of some of the revenues realized by the Company on Sundays should be reckoned with. Sales data after the introduction of two closed Sundays show that the consumer demand partly shifts to Saturdays and Mondays and migrates to the Internet, however, this effect is not neutral. The increase in sales in e-commerce channel as well as the declining profitability of the traditional stores is noticeable. The impact of this risk on the Group's financial results may grow in the face of current regulations, which assume further restriction of trade on Sundays.

Risk associated with adopting the wrong strategy

There is a risk that the adopted development strategy of the Group, whose basic assumptions are presented in point 7 "Planned development activities" of the Management Board's report on the Group's operations, proves to be inadequate to the changing expectations of customers or market conditions. There is a risk that the implementation of the strategy will be delayed or some elements will not be implemented or will not give the expected results. There is, among others, a risk that the Group will not be able to obtain the planned new floorspace, the launch will be delayed or new locations will not achieve the assumed sales results.

Risk related to the intensification of competition

VRG S.A. operates in a highly competitive segment of men's fashion. This segment is characterized by fragmentation: on one hand, we possess established Polish brands such as Vistula, Bytom, Wólczanka, W.KRUK but on the other hand there are global brands that aggressively enter the Polish market. This market is characterized by quite low entry barriers. We are also dealing with the emergence of competition from newly established brands. The VRG Group may be forced to look for new supply markets to keep its offer competitive. In addition, it may be necessary to increase marketing and promotion expenditures to reach the target customers. In order to reduce this risk, the Management Board monitors the competitors' activities on an ongoing basis in terms of floorspace development, products offered and the level of prices.

Risk of changing the tastes and behaviours of buyers

An important factor in the success of an apparel company is the sense of changes in fashion trends and current consumer preferences. There is a risk that individual collections or part of the Company's offer, despite the efforts made, will differ from the expectations of customers in a given season, which may cause problems with sales, the need to reduce sales prices or write off the value of part of the inventory. To reduce this risk, the design department analyses the changing trends and needs of customers so that we still offer the desired products at a good price-to-quality ratio. In addition, an analysis of the sales of individual assortments is carried out in order to select appropriate products in subsequent collections of brands owned by the Company.

Over the recent years, as a result of development of new communication technologies, a change in the behaviour of the modern customer is noticeable, i.e. the use of the Internet and mobile devices in the process of purchasing clothes. Thanks to the use of Internet in the purchasing process, the consumer has access to a wide range of brands, often on a global scale. The consumer has the ability to quickly compare products offered in terms of quality and price. He/she pays attention to the delivery time as well as the manufacturing process and country of origin of the product. Knowledge about behaviour of today's consumers and the way of thinking about the purchase of clothing is an important factor affecting the success of apparel companies. VRG S.A. is aware of the changes taking place and undertakes a number of activities aimed at meeting the requirements of today's customers of the clothing market. These activities include: developing an on-line sales channel, customizing the websites of on-line stores to the expectations of the customers (paying attention to whether the website is friendly and easy to use) and mobile devices, shortening the time of the delivery.

Risk related to lease agreements

The operations of the Company are based in a predominant part on retail sale of goods through its own network of stores. One cannot exclude the risk of losing one or several locations, for example in connection with the intention to modernize the entire shopping mall or change in the pricing policy of the landlord. A risk of termination of the lease agreement cannot be excluded if the Company breaches the terms of the rental agreement or due to lack of renewal of the lease agreement in locations characterized by the highest profitability for the Company or bringing satisfactory financial results. There is a risk that the lease terms proposed to the Company for the next period may unfavourably deviate from the previous conditions in a given location.

Loss of existing locations may cause that it will be necessary to temporarily limit operations in a given area or finding attractive locations will involve increased costs.

Risk related to inventory management

The management of finished products and trade goods is one of material factors affecting the sales results in the Company's industry. On one hand, the level of inventory should make it easier to make a purchasing decision when offering a given seasonal collection, which leads to an increase in inventory at each point of sale. On the other hand - a higher level of inventories generates additional need for working capital and may lead to accumulation of difficult to sell inventory (seasonal products, "fashion", unsuccessful collections).

Inappropriate inventory management constitutes a risk for prices, margins and the necessary level of working capital, which may adversely affect the development prospects, results and financial position of the Company.

Foreign exchange risk and risk related to the hedging policy

The company generates revenues primarily in PLN, while it incurs significant costs in EUR and USD, which results in exposure of the financial result to exchange rate risk. In periods of PLN depreciation in relation to the main settlement currencies, the Company incurs higher costs due to accounting for foreign exchange rate differences.

In currencies other than PLN, the Company bears the costs of (a) purchasing materials for production (fabrics, accessories, jewellery materials), jewellery, watches and supplementary items in the apparel segment (shoes, knitwear, leather and other accessories) and (b) resulting from lease contracts of commercial space.

In case of significant and long-term depreciation of the Polish currency against the euro and the dollar, there is a risk of a significant deterioration in the financial results achieved by the Company.

Based on the sensitivity analysis carried out:

- the average annual increase in the USD to PLN rate by 1.0% will reduce the financial result by 2.0%.
- the average annual increase in the EUR to PLN rate by 1.0% will reduce the financial result by 3.0%.

In recent years, the Company has undertaken measures to limit the impact of the exchange rate increase on the level of the achieved in-take margin mainly in terms of the USD / PLN exchange rate. The above mentioned changes encompass implementation of the hedging policy, which is to significantly reduce the risk of possible strengthening of the USD, which could have a material adverse effect on the margin realized by the Company. Forward contracts are related to particular deliveries of goods, especially in the fashion segment, and they do not concern the neutralization of possible risk related to increase in rental payments due to a change in the EUR / PLN exchange rate. However, it should be emphasized that while the hedging policy is intended to protect the Parent Company against the risk of significant depreciation of the Polish zloty, especially against the USD, at the same time, in case of the trend reversal and a significant strengthening of the Polish currency it may have a negative impact on the financial results. This impact will be visible in the valuation of currency liabilities related to forward contracts.

Risk of higher prices of raw materials and production costs of suppliers

The Company purchases imported materials for production, especially high-quality fabrics and sewing accessories as well as gold, silver, diamonds and other gems. The cost of the above materials is an important factor affecting the cost of manufacturing of individual products in the Company's offer.

In addition, the Company purchases clothing accessories as well as jewellery and luxury watches. The Company, with regard to the required quality, actively seeks the optimal service providers and suppliers. There is a significant risk that with further increase in prices of raw materials or production costs of suppliers / service providers, with little room to alter prices, it will not be possible to maintain margins appropriate to a given type of assortment.

Risk of cost of external services

External services have a significant share in operating costs. These services consist primarily of rents and other fees for lease of commercial space, costs related to sewing services and costs related to transportation and logistics. The Company also purchases a number of standard services (e.g. advertising, telecommunications, legal, consulting, etc.).

One cannot exclude the risk of worsening the commercial conditions of one or more external services purchased by the Company, in particular rental costs.

Interest rate risk

As at 31.12.2018, the Company held loan liabilities measured at amortized cost in the amount of PLN 96,639 thousand. Therefore, the Company is exposed to interest rate risk due to a change in the debt valuation based on a variable interest rate. An increase in the level of interest rates may increase the cost of financing and, consequently, reduce the Company's profitability.

On the basis of the sensitivity analysis carried out, the average annual increase in the reference interest rate by 1% will result in a reduction of the financial result by 0.05%.

Risk of termination of loan agreement

The Company concluded on March 9, 2015 loan agreements regarding investment financing with PKO BP S.A. bank i.e. a term loan agreement (Loan A) up to PLN 47.6 million and a term loan agreement (Loan B) up to PLN 71.4 million taken on March 31, 2015 by a subsidiary of the Company, i.e. W.KRUK S.A. while maintaining a guarantee from the Company.

The above Loan Agreements have been concluded in accordance with the Loan Market Association standards and include a number of covenants to be fulfilled by the Company and W.KRUK S.A. In case of a deterioration of economic situation and a weakening of consumer demand, meeting of covenants may be threatened and thus the risk of terminating contracts by the financing bank arises. Due to the large value of financing, the Parent Company will not be able to refinance it at a short notice.

Along with the merger with Bytom S.A., the Company took over multi-product agreements regarding current financing by banks: ING Bank Śląski S.A. (the amount of the Agreement is PLN 40 million) and BGŻ BNP Paribas S.A. (for the amount of PLN 9 million and a factoring agreement in the amount of EUR 3 million). These agreements contain covenants, which Bytom was required to meet, and at the time of the merger, VRG S.A. is responsible for these. In case of a deterioration of economic situation, weakening of the demand for the Company's products, meeting of these covenants may be at risk, which results in the risk of termination of contracts by the financing banks.

Risk of losing financial liquidity

The Company has loan liabilities. As a result, collaterals covering a significant part of the assets were established. The servicing of the above liabilities is carried out primarily using current cash flows from operations.

In the extreme case of a rapid, simultaneous drop in demand and increase in costs (especially in a situation of steep zloty depreciation), the Company may experience difficulties in maintaining liquidity.

Risk of collateral and loss of collateral assets

In relation with bank loan and other agreements concluded with many entities, the Company has established numerous collaterals on its entire assets - on real estate and movables, inventory and trademarks. The sum of collaterals exceeds the carrying amount of the Company's assets.

There is a risk of failure to meet deadlines or other contractual terms. Delays in the realisation of the above-mentioned obligations may result in immediate termination of all or part of the financing and resultant taking over the assets of the Company by creditor in order to satisfy the subject of the collateral. Loss of significant assets may lead to substantial difficulties in running the business of the Company or even completely block the possibility of conducting business, achieving revenues and profits.

Risk of transactions with related parties

The Company concludes and will conclude transactions with related parties, especially with the production company, the company responsible for the women apparel segment and a company responsible for the jewellery segment. Transactions with related parties may be subject to examination by tax authorities to determine whether they were concluded on an arm's length basis and whether the entity correctly determined tax liabilities. In the opinion of the Management Board of the Company, transactions with related parties are concluded and will be conducted on market terms. There is a risk that the tax authorities will question the marketability of the terms of selected transactions with a related parties, which could result in the necessity to pay additional tax with interest for overdue payments.

Risk related to the shareholder structure

The Company is characterised by a fragmented shareholding structure, where the largest shareholder does not exceed 20% of votes at the General Shareholder Meeting, and four significant shareholders hold a total of 45.22% of votes at the General Shareholder Meeting. Most of these shareholders have owned shares of the Parent Company for several years, they participate in shaping the Company's activities through representatives in the Supervisory Board.

However, one cannot rule out the risk that one or more of major shareholders will reduce their shareholding or will cease investing in the Company's shares. It cannot be excluded that decisions regarding the strategy and operational activities relevant to the Company will be delayed or even blocked. It cannot be ruled out that despite the current cooperation, the interests of significant shareholders will be divergent

/ contradictory. The factors listed above may have a material adverse effect on the Company's development prospects, results and financial position.

Risks related to transfer of an organized jewellery business unit of the Company (W.KRUK Unit) in the form of an in-kind contribution to W.KRUK S.A. subsidiary based in Cracow

Since August 1, 2014, in the organizational structure of the Company, a business unit of W.KRUK was separated. This is a part of the Company's operations related to jewellery industry conducted under the W.KRUK brand, which constitutes an organizationally and financially separate unit of tangible and intangible assets in the Company, including commitments intended to perform specific economic tasks in the jewellery segment of the Company ("W.KRUK Unit"). On March 31, 2015, the W.KRUK Unit was sold as an organized business unit of the Company in the form of an organizationally separated set of tangible and intangible assets, by contributing the organized business unit of the Company in-kind to the Subsidiary. The Company acted on the basis of an interpretation received from the Tax Office, however, it cannot be ruled out that the transaction may involve risk of different interpretations of its effects by tax administration in the light of the applicable PCC, CIT and VAT regulations, which may mean additional financial consequences for the Company.

Risk related to guarantees granted to subsidiaries

In relation with the separation of the organized business unit in the form of jewellery assets and transferring them to the subsidiary W.KRUK SA, the Company carried out a simultaneous financial restructuring. As part of this process, W.KRUK S.A. obtained new financing from PKO BP Bank and the Company guaranteed for the debts of the subsidiary. In the second quarter of 2015, the subsidiary DCG S.A. received refinancing from the PKO BP Bank, and during the third quarter of 2016, the subsidiary VG Property Sp. z o.o. obtained an investment loan from PKO BP Bank. The above liabilities of subsidiaries of DCG S.A. and VG Property Sp. z o.o. have been guaranteed by the Company.

In the event of a sharp deterioration of economic situation and cessation of debt servicing by W.KRUK S.A. or DCG S.A. and VG Property Sp. z o.o. on the basis of the guarantee granted, the Company may be obliged to settle outstanding liabilities of subsidiaries which could result in loss of financial liquidity of the Company.

The risk related to disruptions in the functioning of information systems

The Company uses a number of IT systems, software and programs to provide the appropriate level of communication within the organizational structures of the companies comprising the Group, registering and processing information on economic events in all areas of its operations. The risk of IT disruptions cannot be ruled out in the following areas: (i) Infrastructure (e.g. failures of servers, workstations, network devices, lack of connection to external networks), (ii) software (e.g. malfunction, unauthorized removal, impact of computer viruses, (iii) data resources (loss or destruction of data, unauthorized access to data, unauthorized reproduction of data, unauthorized modification of data).

As part of the procedures and IT tools used, the Company strives to minimize the possibility of occurrence of the above-described events, but it is not possible to completely exclude the probability of their occurrence, and consequently their negative impact on security and credibility of information and database resources and on security and continuity of service provision.

Risk related to the EU GDPR Directive

Since May 25, 2018, the Regulation of the European Parliament and the EU Council 2016/67 of April 27, 2016 on the protection of individuals with regard to the processing of personal data and on free movement of such data and the repeal of Directive 95/46/WE became applicable in the Polish legal order (GDPR), which applies to all entities processing personal data in their business activities. The GDPR introduces a number of changes and extends the responsibilities of administrators and data processors. An important issue is the determination of the maximum level of penalties for infringements of the provisions of the GDPR Directive. The maximum levels were set at EUR 20,000,000 or 4% of the total annual turnover of the enterprise from the pre-infringement financial year.

In connection with the above, the Company carried out works aimed at:

- adapting its activities to the requirements of GDPR, which include: organizing training for employees, whose activities the provisions of the GDP will affect, primarily employees of the marketing, sales and HR departments, loyalty programs service department,
- development of a new Information Security Policy;
- developing a new Instruction for managing information systems used for data processing;
- preparing and implementing changes in solutions of organizational and technical nature;

- development of threats and risk analysis in the processing of personal data.

However, the risk of occurrence of incidents related to breaching of GDPR provisions may not be completely excluded, which could cause additional negative financial consequences for the Company.

Risks related to cooperation with an external logistics operator

Smoothness and punctuality of deliveries of goods to the network of traditional stores and deliveries of goods purchased by customers of on-line stores of VRG S.A. is based on outsourcing of logistics services to an external operator. There is a risk that disruptions in the organization of the external work of the logistic operator related, for example, to the problems of staffing and the availability of appropriate storage areas may cause disruption of the following logistics processes:

- disruptions in the flow of warehouse processes (admission / release);
- delays and errors in deliveries to traditional stores in the period of increased needs - change in collections;
- delays and errors in shipments to customers of on-line stores in the period of increased needs - intense sell-offs.

Actions taken by VRG S.A. aimed at limiting the above risks relate respectively to:

- introduction of a procedure for regular audits of logistics structures and systems made available for the needs of VRG S.A. by the external operator;
- improvement of the admission and release plan from the external operator's warehouse and precise pre-selection of the necessary storage space;
- introduction of a system of planning releases of goods in weekly cycles and a system of transferring information to the logistics operator on the quantity and dates of planned releases of goods;
- introduction of planning the number of e-commerce orders on a monthly basis - based on analytical data from on-line stores;
- negotiations on increasing the available storage space at an external operator, regarding guaranteeing the possibility of implementing daily minimum goods releases for traditional stores and daily minimum deliveries to customers of on-line stores.

However, it is not possible to completely exclude the risk of incidents related to disruption of the aforementioned logistics processes, which could cause the Company additional negative consequences related to fall in sales as a result of late replenishment of a network of traditional stores or loss of some on-line store customers as a result of delays in paid deliveries. One cannot completely rule out the negative effects of deterioration of the image of the Company's brands as a result of the appearance on the Internet and social media of critical comments from customers of on-line stores who do not receive the purchased goods within the required period.

Risk related to the quality of customer service in individual stores

The characteristics of the market in which the Company operates require appropriate level of services quality and customer care in the branded stores of Vistula, Bytom, Wólczanka and W.KRUK. The company implements a training system for employees, develops customer service standards and a system of control of introduced standards. There is a risk that if the customer service system is not implemented correctly, the level of services provided in individual stores may be equally good. This may translate into a loss of clients' trust in the brands owned by the Company and deterioration of the Company's image, and it may consequently result in a decrease in the results achieved in individual stores and by the Company in general.

Risk related to merger of the Company with Bytom S.A.

The Company's Management Board sees a number of synergies related to the merger with Bytom S.A. Thanks to a leap in the scale of operations of the Capital Group, its negotiating position with suppliers of both fabrics and accessories will increase, whereas unification of purchasing policy will enable reduction of delivery costs, and coordination and consolidation of purchases. The Capital Group will also be a significant tenant of retail space and a significant advertiser. It will be possible to reduce the network operational management costs and logistics costs resulting from identical locations in shopping malls of individual brand stores. Also, the combination of departments serving both companies and not directly linked to revenues (e.g. accounting, IT) and more effective human resources management should enable the lowering of costs.

However, there is a risk that the expectations of the Company's Management Board as to synergies achieved as a result of the merger will not be met in full or be lower than assumed. Additionally, it cannot be excluded that there will be a cannibalization of brands or the resignation of some customers from the offer of the Capital Group.

VRG S.A. Capital Group

In connection with the principle of general succession resulting from art. 494 of the Code of Commercial Companies, as at the date of the merger, the Company has assumed all the rights and obligations of Bytom S.A. Therefore, there is a risk of transferring responsibility to the Company for liabilities of Bytom S.A.

11. Other information relevant to assessment of Group's situation

In 2018, there were no circumstances that could significantly and negatively affect the staff, property and financial position and financial results of the Group or that could jeopardize its ability to meet its obligations.

Grzegorz Pilch

Mateusz Żmijewski

Michał Wójcik

Erwin Bakalarz

.....
President of the Management Board

.....
Vice-President of the Management Board

.....
Vice-President of the Management Board

.....
Management board Member

Signature of the person entrusted

with bookkeeping

Alicja Weber

.....
Chief Accountant

Cracow, March 18, 2019

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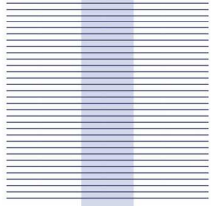
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SZTUKA KRAWIECTWA OD 1945

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VISTULA

VRG
VISTULA RETAIL GROUP

VRG Spółka Akcyjna
Pilotów 10 St.
31-462 Cracow



www.vrg.pl



VISTULA

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REPORT OF THE MANAGEMENT BOARD ON OPERATIONS

of VRG S.A. Capital Group in 2018

Cracow, March 18, 2019

1. GENERAL INFORMATION

1.1. Name, registered office, business activity

VRG Spółka Akcyjna (also as "Parent Company" or "Issuer") based in Cracow, Pilotów 10 St, post code: 31-462.

The company was registered in the Cracow Śródmieście District Court, XI Commercial Division of the National Court Register (KRS) under number KRS 0000047082.

The predominant activity of the Company according to the Polish Classification of Activities (PKD) is the retail sale of clothing in specialized stores (PKD 47.71.Z).

For the date of the creation of an independent enterprise, the legal successor of which is VRG S.A., one can acknowledge October 10, 1948 - the date of issuance of the Minister of Industry and Trade Ordinance on the creation a state-owned enterprise named "Krakowskie Zakłady Przemysłu Odzieżowego" (Cracow Clothing Production Facility). On April 30, 1991, the District Court for Cracow Śródmieście in Cracow, V Commercial Division, registered the transformation from a state-owned enterprise into a sole-shareholder company of the State Treasury. The Company is one of the first companies that were listed on the Warsaw Stock Exchange S.A. First listing of VRG S.A. took place on September 30, 1993.

The Company's key corporate milestones

- | | |
|------|---|
| 1948 | ■ Ordinance of the Minister of Industry and Trade on creation of a state-owned enterprise under the name "Krakowskie Zakłady Przemysłu Odzieżowego" (Cracow Clothing Production Facility) |
| 1991 | ■ Transformation into a sole-shareholder company of the State Treasury under the business name: Zakłady Przemysłu Odzieżowego "Vistula" Spółka Akcyjna |
| 1993 | ■ The Issuer's debut on the Warsaw Stock Exchange S.A. |
| 2001 | ■ Registration of a new company name: Vistula Spółka Akcyjna |
| 2005 | ■ The beginning of the process of intensive expansion of the store network and renewal of the positive image of the Vistula brand |
| 2006 | ■ Merger with Wólczanka S.A. (change of the company name to Vistula & Wólczanka S.A.) |
| 2008 | ■ Taking over control and merger with W.KRUK S.A in Poznań (change of the company name to Vistula Group S.A.) |
| 2015 | ■ Transfer of jewellery business conducted under the W.KRUK brand to W.KRUK S.A. subsidiary |
| 2018 | ■ Merger with Bytom S.A. (change of the company name to VRG S.A.) |

The lifespan of the Issuer is indefinite.

1.2. Composition of the Management and Supervisory Boards of the Parent Company

Management Board

As at 31 December 2018, the composition of the Management Board of VRG S.A. was as the following:

Management Board	<p>Grzegorz Pilch President of the Management Board</p>	<p>Michał Wójcik Vice-President of the Management Board</p>
	<p>Mateusz Żmijewski Vice-President of the Management Board</p>	<p>Erwin Bakalarz Member of the Management Board</p>

The following changes took place in the composition of the Company's Management Board in 2018:

In the period from 01.01.2018 to 30.11.2018, the composition of the Company's Management Board was the following:

- Grzegorz Pilch – President of the Management Board
- Mateusz Żmijewski – Vice-President of the Management Board
- Erwin Bakalarz – Member of the Management Board

On November 16, 2018, the Company's Supervisory Board adopted a resolution regarding the conditional appointment of Mr. Michał Wójcik to the Management Board of the Company and entrusting him the function of the Vice-President of the Management Board. Coming into force of the above mentioned resolution was conditional on the registration of merger between the Company and Bytom S.A. based in Cracow at the registrar of entrepreneurs of the National Court Register based on the Resolution No. 03/10/2018 of the Company's Extraordinary Shareholder Meeting dated October 31, 2018 regarding the merger of the Company and Bytom S.A. The above condition was met on 30.11.2018, in which the District Court for Cracow - Śródmieście in Cracow, XI Commercial Division of the National Court Register, registered the merger between the Company (the acquiring company) with and Bytom S.A. (company being acquired) in the registrar of entrepreneurs of the National Court Register.

In connection with the above, in the period from 30.11.2018 to 31.12.2018, the composition of the Company's Management Board was as follows:

- Grzegorz Pilch – President of the Management Board
- Michał Wójcik – Vice-President of the Management Board
- Mateusz Żmijewski – Vice-President of the Management Board
- Erwin Bakalarz – Member of the Management Board

In the period from the balance sheet date, i.e. from December 31, 2018 to the date of approval of these financial statements, the composition of the Management Board has not changed.

Supervisory Board

Supervisory Board	Jerzy Mazgaj Chairman of the Supervisory Board		
	Katarzyna Basiak-Gała Member of the Supervisory Board	Artur Małek Member of the Supervisory Board	Maciej Matusiak Member of the Supervisory Board
	Andrzej Szumański Member of the Supervisory Board	Grażyna Sudzińska-Amroziewicz Member of the Supervisory Board	Jan Pilch Member of the Supervisory Board

The composition of the Company's Supervisory Board during 2018 was subject to the following changes:

In the period from 01.01.2018 to 27.06.2018, the composition of the Company's Supervisory Board was as follows:

- Jerzy Mazgaj - Chairman of the Supervisory Board
- Katarzyna Basiak-Gała - Member of the Supervisory Board
- Artur Małek - Member of the Supervisory Board
- Beata Pawłowska-Czerwińska - Member of the Supervisory Board
- Ryszard Petru - Member of the Supervisory Board
- Grażyna Sudzińska-Amroziewicz - Member of the Supervisory Board.

On June 27, 2018, the Ordinary Shareholder Meeting, on the basis of the adopted resolutions, elected the Supervisory Board for the new joint term. The composition of the Supervisory Board for a new joint term is the following:

- Jerzy Mazgaj
- Katarzyna Basiak-Gała
- Artur Małek
- Maciej Matusiak
- Grażyna Sudzińska - Amroziewicz
- Andrzej Szumański.

The new Supervisory Board appointed Mr. Jerzy Mazgaj for the position of the Chairman of the Supervisory Board.

In the period from 27.06.2018 to 30.11.2018, the composition of the Company's Supervisory Board was as follows:

- Jerzy Mazgaj - Chairman of the Supervisory Board
- Katarzyna Basiak-Gała - Member of the Supervisory Board
- Artur Małek - Member of the Supervisory Board
- Maciej Matusiak - Member of the Supervisory Board
- Grażyna Sudzińska-Amroziewicz - Member of the Supervisory Board
- Andrzej Szumański - Member of the Supervisory Board.

On the basis of resolution no. 05/10/2018 of the Extraordinary Shareholder Meeting dated October 31, 2018 regarding increasing the number of Supervisory Board members of the current joint term and appointing an additional

VRG S.A. Capital Group

member to the Company's Supervisory Board, Mr. Jan Pilch was conditionally appointed to the Supervisory Board and its composition for the joint term was increased to 7 people.

The above-mentioned resolution no. 05/10/2018 of the Extraordinary Shareholder Meeting dated October 31, 2018 came into force on 30.11.2018, i.e. the day the registrar of entrepreneurs of the National Court Register registered amendments to the Articles of Association resulting from resolution No. 04/10/2018 of the Extraordinary Shareholder Meeting dated 31 October 2018 and the merger of the Company with Bytom S.A. resulting from resolution no. 03/10/2018 of the Extraordinary Shareholder Meeting dated October 31, 2018.

As a result of the above, in the period from 30.11.2018 to 31.12.2018, the composition of the Company's Supervisory Board was the following:

- Jerzy Mazgaj - Chairman of the Supervisory Board
- Katarzyna Basiak-Gała - Member of the Supervisory Board
- Artur Małek - Member of the Supervisory Board
- Maciej Matusiak - Member of the Supervisory Board
- Jan Pilch - Member of the Supervisory Board
- Grażyna Sudzińska-Amroziewicz - Member of the Supervisory Board
- Andrzej Szumański - Member of the Supervisory Board

In the period from the balance sheet date, i.e. from December 31, 2018 to the date of approval of these financial statements, the composition of the Supervisory Board has not changed.

1.3. Approval of the financial statements

These consolidated financial statements have been approved for publication and signed by the Management Board of the Parent Company on March 18, 2019.

1.4. Going concern

Consolidated financial statements of the VRG S.A. Capital Group (hereinafter also referred to as the "Capital Group" or "VRG Group"), have been prepared assuming a going concern of companies forming the Capital Group in an unchanged form and scope for at least 12 months from the date of the financial statements, i.e. 31 December 2018. In the opinion of the Management Board of the Parent Company as at the date of approval of these consolidated financial statements, there are no indications or circumstances indicating going concern threats to companies of the Group in the foreseeable future.

2. PRINCIPLES FOR PREPARING THE FINANCIAL STATEMENT

The basis for preparation of these consolidated financial statements is the Ordinance of Minister of Finance from March 29, 2018 regarding current and periodic information submitted by issuers of securities and conditions for recognizing information required by law of a non-member country as equivalent (Official Journal of Laws of 2018, item 757).

The consolidated financial statements for 2018 have been prepared in accordance with the principles of International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and to the extent not regulated by the above standards in accordance with the requirements of the Accounting Act of September 29, 1994 (Journal of Laws from 2019, item 351, as amended) and executive regulations issued based on it.

VRG S.A. Capital Group

These consolidated financial statements have been prepared based on the concept of fair value, except for items:

- fixed assets, investment property and intangible assets valued at purchase price or costs incurred to manufacture them, net of possible depreciation and amortization and impairments,
- inventory valued at purchase price or costs incurred to manufacture them, net of possible impairments,
- loans, borrowings and financial lease liabilities valued at amortized cost.

The consolidated financial statements for 2018 have been prepared in Polish zloty, rounded up to full thousands (ths).

The presented financial data of the Parent Company and of its subsidiaries such as W.KRUK S.A. based in Cracow and DCG S.A. based in Warsaw as at December 31, 2018 and for the twelve-month period ended with that date, were audited by a certified auditor. The independent auditor's report on the audit of the annual consolidated financial statements is attached to this report. Comparable financial data as at December 31, 2017 contained in these financial statements were audited for the purpose of 2017 report.

The entity authorized to audit financial statements in the scope of the separate and consolidated financial statements for 2018 was Mazars Audyt Sp. z o.o., with which on June 19, 2017 a contract was concluded (amended by annex from June 19, 2018) for audit of the separate and consolidated financial statements and for review of the separate condensed interim and consolidated interim financial statements. The entity authorized to audit financial statements in the scope of the separate and consolidated financial statements for 2017 was also Mazars Audyt Sp. z o.o. The total remuneration resulting from contracts concluded for the review and audit of financial statements for 2018 amounted to PLN 100 ths. and for 2017 amounted to PLN 90 ths. In addition, agreements were concluded to verify statements on compliance of financial ratios indicated in the bank loan agreement for A loan with PKO BP for the first half of 2018 for VRG S.A. and for the first half and 2018 for W.KRUK S.A. as well as for the audit of the pro-forma statements attached to the Company's memorandum. The total remuneration for services amounted to PLN 41 ths, and PLN 17 ths for 2017.

Preparation of a report in accordance with IFRS requires the Company's Management Board to make estimates, assessments and assumptions that affect the accounting principles applied and the presented amounts of assets and liabilities as well as costs and revenues. Estimates and assumptions are made on the basis of available historical data and also on the basis of other factors considered proper in the given circumstances. The results of these activities form the basis for estimates with regard to the balance sheet values of assets and liabilities that cannot be determined unequivocally based on other sources. The validity of the above estimates and assumptions is verified on an ongoing basis.

Adjustments to estimates are recognized in the period in which changes were made to the adopted estimates, provided that the adjustment applies only to that period or in the period in which the changes were made and in the following periods (prospective approach), if the adjustment applies both to the current period and the next periods.

Below please find the list of important estimates and judgments for particular items of the statement of financial position:

Note	15	Inventory write-offs
Note	17	Receivables write-offs
Note	24	Liabilities resultant from loyalty program
Note	30	Share-based compensation
Note	9	Goodwill impairment test
Note	25	Provisions

VRG S.A. Capital Group

The consolidated financial statements are prepared for 2018, i.e. the year in which merger of VRG S.A. and Bytom S.A occurred. On November 30, 2018, the District Court for Cracow - Śródmieście in Cracow, XI Commercial Division of the National Court Register, registered the merger of the Company (the acquiring company) with the Bytom S.A. based in Cracow (acquired company) in the registrar of entrepreneurs of the National Court Register. According to art. 493 § 2 of the Code of Commercial Companies, the merger of the companies took place on the day the merger was entered into the registrar applicable to the registered office of the acquiring company. This entry resulted in the deletion of the acquired company from the registrar, i.e. Bytom S.A. The settlement of the merger was conducted using the acquisition method.

The accounting principles (policies) adopted in these consolidated financial statements were applied on a continuous basis and they are consistent with the accounting principles applied in the last annual consolidated financial statements.

In 2018, there were no other significant changes in the key rules of managing the Company and its Capital Group.





Operating segments

The VRG Group specialises in design and retail sales of branded clothing for men and women in the medium segment and up-market as well as luxury jewellery and watches. Currently, it is building its revenue base on following brands: Vistula, Lantier, Vistula Red, Vesari, Wólczanka, Lambert, Bytom, Intermoda, W.KRUK (via a subsidiary) and Deni Cler (via a subsidiary). From the second quarter of 2015, following a divestiture of an organised business unit related to W.KRUK brand, the jewellery activities are carried out by Issuer's a subsidiary, i.e. W.KRUK S.A. based in Cracow. From November 30, 2018, i.e. merger with Bytom S.A., the Group also possesses the Bytom and Intermoda brands.



The diagram below presents the division of the Group's operations by operating segments:




Leading brands of the Vistula business line:

Vistula		Operating on the Polish market since 1967, Vistula is the basic line of men formalwear. The brand offers a wide range of suits, jackets, trousers, shirts and other complementary accessories.
		The brand was launched in 1998. Its signature products are associated with apparel of French origins. Introduction of the Lantier brand was aimed at broadening the Company's offer to include products aimed at the most demanding customers, using the latest global fashion trends and the highest quality fabrics. Apart from classic suits, Lantier collections, similarly to Vistula brand collections, also include knitwear, shirts, jackets, coats and a wide range of complementary items.
		A brand introduced in 2009, which offers fashionable and smart casual products. The Vistula Red branded products are characterized by high quality and design consistent with global fashion trends. The brand is addressed at younger customers looking for bolder and more casual outfits.
		The brand was introduced in 2002. Vesari is a traditional men formalwear brand whose products are inspired by Italian style and elegance. As part of the brand's offering, collections of suits and complementary products are sold. Vesari brand is addressed to wholesalers who sell clothing from various manufacturers in their stores. The brand's clothing is dedicated to customers searching for more affordable products, while maintaining quality parameters.

Leading brands of the Wólczanka business line:


Wólczanka		The brand exists since 1948. The offer of this brand is made of men's shirts, and from the Autumn-Winter 2014 season also women's formal and casual shirts.
		Is an exclusive shirt brand. The brand's signature products include shirts made of the highest quality fabrics, whose design matches the latest fashion trends.

Leading brands of the Bytom business line:

Bytom		BYTOM is a Polish brand with a history dating back to 1945, in which tradition meets the modern vision of tailoring and men's fashion. Basing on a
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		<p>dozen of years long heritage, the brand offers men formalwear with a flagship product in the form of suits, made from finest Italian fabrics in Polish sewing facilities.</p> <p>BYTOM is not just the art of tailoring. The brand refers to the Polish cultural heritage by creating limited collections inspired by the work of outstanding personalities, inviting people with a significant influence on the development of Polish culture and art.</p>
	<p>III Intermoda</p>	<p>The brand is addressed to wholesalers who sell clothing from various manufacturers in their stores. The brand's clothing is dedicated to customers searching for more affordable products, while maintaining quality parameters.</p>

Other own brands in the apparel segment:

<p>Apparel segment</p>		<p>The brand's clothing is dedicated to the upper segment of the women fashion. The brand's products were introduced to the Polish market in the early 90's.</p> <p>Deni Cler offering is sewn from Italian fabrics, with the majority of accessories used being of Italian origins as well. Fabrics used to make branded clothes are mostly cashmere and wool with silk. The brand's assortment includes mostly: skirts, jackets, pants, blouses, coats and dresses.</p> <p>The owner of the Deni Cler brand originating in Milan is DCG S.A. based in Warsaw (the Company's subsidiary). The main activity of DCG S.A. focuses on the design, production and distribution of exclusive women's clothing.</p>
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The VRG Group systematically expands the range of complementary items in its brand stores, including, among other things, the offer of smart casual products, exclusive leather goods and footwear. Offered accessories are currently one of the fastest growing product categories and, at the same time, have a high gross margin.

Own brands in jewellery segment:

<p>Jewellery segment</p>		<p>The scope of activity of VRG Group in the area of W.KRUK brand, currently managed by the subsidiary W.KRUK S.A. in Cracow, includes design, manufacturing and retail sales of branded luxury products such as jewellery, watches and accessories.</p> <p>W.KRUK has one of the highest brand recognition in comparison to other competitors operating on the jewellery market in Poland. Every year, under the brand name of W.KRUK, new original jewellery collections are introduced to the market. The main sales market for the W.KRUK brand remains Poland. W.KRUK's offer includes gold and platinum jewellery, in which the basic category of products is jewellery with diamonds and natural stones.</p>
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	<p>The W.KRUK brand also sells jewellery made of silver and other metals. The assortment of this brand is additionally supplemented with gifts and accessories, e.g. cuff links, key rings, etc.</p> <p>In addition to classic jewellery, W.KRUK offers collections under the brand KRUK Fashion following the latest fashion trends. Introduction of the KRUK Fashion collection in 2001 was a breakthrough of many stereotypes prevailing on the Polish jewellery market. At least several times a year, unique brand collections, designed and manufactured by W.KRUK, are launched. The use of innovative solutions in the field of material selection and form distinguishes the brand on the Polish market.</p>
WATCHES	<p>Selected jewellery stores of W.KRUK brand also distribute luxury Swiss watches of such brands as ROLEX (VRG S.A. is the sole distributor of this brand in Poland), HUBLOT, GIRARD PERREGAUX, OMEGA, TUDOR, TAG HEUER, LONGINES, RADO, FREDERIQUE CONSTANT, TISSOT, CERTINA, DOXA, EPOS, VICTORINOX, INGERSOLL, CK, SKAGEN, ROTARY, SWATCH and also fashion brands: Gucci, Michael Kors, DKNY, Versace, Diesel, Fossil, E. Armani. Watched of renowned brands sold in W.KRUK stores occupy a strong position on the Polish market and the value of their sales is systematically increasing.</p>

Manufacturing operations:

Own production activity in the clothing segment was located in a 100% owned subsidiary of the parent company, operating under the name Wólczanka Shirts Manufacturing Sp. z o.o. In addition to its own manufacturing facilities, the parent company cooperates with reliable independent producers who guarantee sewing and confectioning services at the highest level and offer competitive pricing conditions.

Seasonality and cyclicity of operations

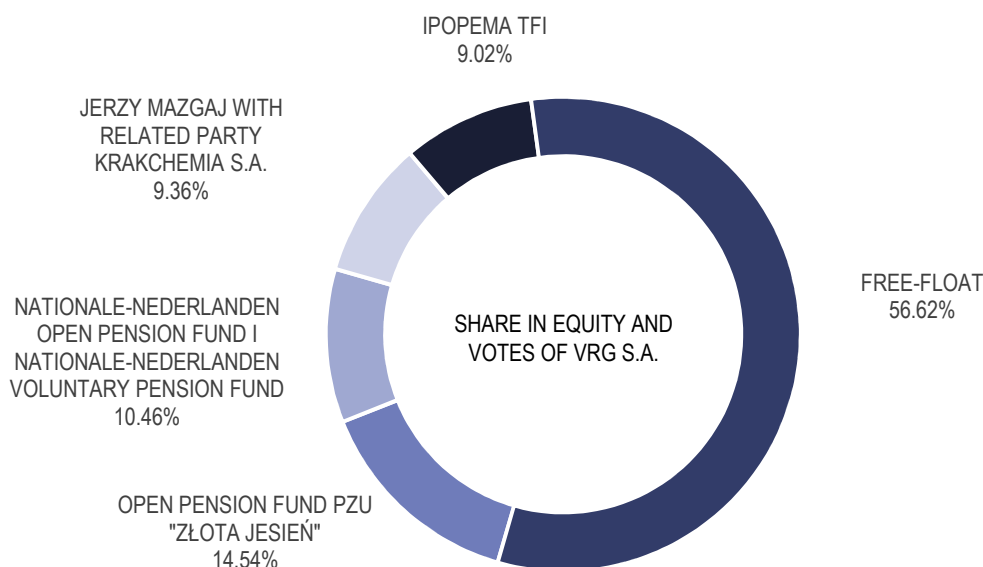
Retail sales both in the fashion sector and in the jewellery industry are characterized by significant seasonality of sales. For the apparel market, the most favourable period from the point of view of the generated financial result is the period of the second and fourth quarter, while in the jewellery segment, the period of the fourth quarter (especially the month of December).

In the area of geographical segments, all of the Capital Group's operations are carried out in the Republic of Poland.

3. SHARE CAPITAL AND SHAREHOLDERS

Shareholders owning directly or indirectly at least 5% of the total number of votes at the General Shareholder Meeting of VRG S.A. on the last day of financial year 2018 and as at the date of approval of the annual report for the financial year 2018.

1) Shareholder structure as at 31.12.2018



As at 31.12.2018, the share capital of VRG S.A. was divided into 234,455,840 ordinary bearer shares, which entitled to a total of 234,455,840 votes at the General Shareholder Meeting of VRG S.A. ("the Company").

The table below presents information on shareholders who, to the best of the Company's knowledge, held, directly or indirectly through subsidiaries, at least 5% of the total number of votes at the General Shareholder Meeting.

No.	Shareholders	Number of shares held	Share in equity (in %)	Number of votes at the AGM	Share in the total number of votes at the AGM (in %)
1	Open Pension Fund PZU „Złota Jesień” ¹	34,093,568	14.54	34,093,568	14.54
2	Nationale-Nederlanden Open Pension Fund and Nationale-Nederlanden Voluntary Pension Fund ²	24,535,000	10.46	24,535,000	10.46
3	Jerzy Mazgaj with related party Krakchemia S.A. ³	21,944,333	9.36	21,944,333	9.36
4	IPOPEMA TFI ⁴	21,137,000	9.02	21,137,000	9.02

¹ information on number of shares presented in accordance with notification received by the Company pursuant to art. 69 par. 1 point 2, para. 2 point 1 lit. a) and art. 69a paragraph 1 point 1 of the Act of 29 July 2005 on public offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies

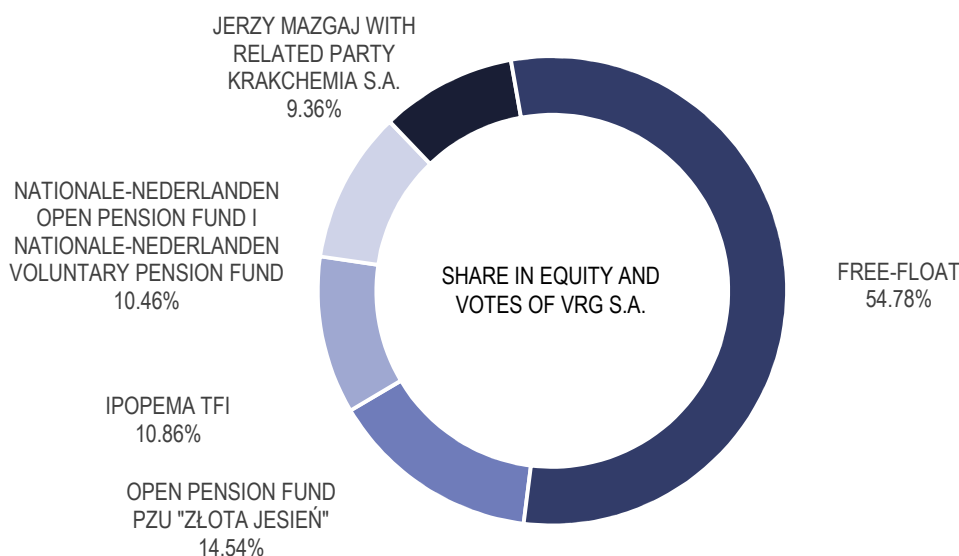
² information on number of shares stated on the basis of number of shares registered by Nationale-Nederlanden Open Pension Fund and Nationale-Nederlanden Voluntary Pension Fund at the Company's Extraordinary General Shareholder Meeting on 31.10.2018 and publicly available sources of information on the total number of shares held jointly by Nationale- Nederlanden Open Pension Fund and Nationale-Nederlanden Voluntary Pension Fund in the equity of acquired Bytom S.A.

³ information on number of shares presented in accordance with notifications received by the Company pursuant to art. 69 of the Act of 29 July 2005 on public offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies and in accordance with notifications received by the Company pursuant to art. 19 MAR. According to the information possessed by the Company, Mr. Jerzy Mazgaj owns 17,944,333 shares of the Company independently, which constitutes 7.65% of the Company's equity and is entitled to 17,944,333 votes at the General Shareholder Meeting of the Company, which constitutes 7.65% of the total number of votes at the General Shareholder Meeting of the Company.

⁴ information on number of shares stated in accordance with the notification received by the Company pursuant to art. 69 par. 1 point 2, art. 69a paragraph 1 point 1 and art. 87 par. 1 point 2 of the Act of 29 July 2005 on public offer and conditions for introducing financial instruments to organized trading system and on public companies, applies to shares held jointly by funds managed by IPOPEMA TFI. According to information possessed by the Company, the IPOPEMA 2 FIZAN fund owns 21,137,000 shares of the Company independently, which constitutes 9.02% of the Company's share capital and is entitled to 21,137,000 votes at the General Shareholder Meeting of the Company, which is 9.02% the total number of votes at the General Shareholder Meeting of the Company.

VRG S.A. Capital Group

2) Shareholder structure, according to the Company's best knowledge, as at 18.03.2019



As at 18.03.2019, the share capital of VRG S.A. is divided into 234,455,840 ordinary bearer shares, which entitle to a total of 234,455,840 votes at the General Shareholder Meeting of VRG S.A. ("the Company").

The table below presents information on shareholders who, to the best of the Company's knowledge, hold, directly or indirectly through subsidiaries, at least 5% of the total number of votes at the General Shareholder Meeting.

No.	Shareholders	Number of shares held	Share in equity (in %)	Number of votes at the AGM	Share in the total number of votes at the AGM (in %)
1	Open Pension Fund PZU „Złota Jesień” ¹	34,093,568	14.54	34,093,568	14.54
2	IPOPEMA TFI ²	25,455,558	10.86	25,455,558	10.86
3	Nationale-Nederlanden Open Pension Fund and Nationale-Nederlanden Voluntary Pension Fund ²	24,535,000	10.46	24,535,000	10.46
4	Jerzy Mazgaj with related party Krakchemia S.A. ³	21,944,333	9.36	21,944,333	9.36

¹ information on number of shares presented in accordance with notification received by the Company pursuant to art. 69 par. 1 point 2, para. 2 point 1 lit. a) and art. 69a paragraph 1 point 1 of the Act of 29 July 2005 on public offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies

² information on number of shares stated in accordance with notification received by the Company pursuant to art. 69 par. 1 point 1, art. 69a paragraph 1 point 1 and art. 87 par. 1 point 2 of the Act dated 29 July 2005 on public offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies, applies to shares held jointly by all funds managed by IPOPEMA TFI

³ information on number of shares presented on the basis of the number of shares registered by Nationale-Nederlanden Open Pension Fund and Nationale-Nederlanden Voluntary Pension Fund at the Extraordinary General Shareholder Meeting of the Company on 31.10.2018 and publicly available sources of information on the total number of shares held jointly by Nationale- Nederlanden Open Pension Fund and Nationale-Nederlanden Voluntary Pension Fund in equity of acquired Bytom S.A.

⁴ information on the number of shares stated in accordance with the notifications received by the Company pursuant to art. 69 of the Act of 29 July 2005 on public offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies and in accordance with notifications received by the Company pursuant to art. 19 MAR. According to information possessed by the Company, Mr. Jerzy Mazgaj owns 17,944,333 shares of the Company independently, which constitutes 7.65% of the Company's share capital and is entitled to 17,944,333 votes at the General Shareholder Meeting of the Company, which constitutes 7.65% of the total number of votes at the General Shareholder Meeting of the Company.

3) Information about the total number and nominal value of all shares of VRG S.A. and shares and interests in related parties of VRG S.A., held by members of the Company's Supervisory and Management Boards.

As at 18.03.2019, the following numbers of VRG S.A. shares were held by the Management.

VRG S.A. Capital Group

Management Board	Number of shares held	The number of votes at the General Shareholder Meeting	The nominal value of shares (in PLN)
Grzegorz Pilch – President of the Management Board	604,504	604,504	120,900.80
Mateusz Żmijewski – Vice-President of the Management Board	200,000	200,000	40,000.00
Michał Wójcik – Vice-President of the Management Board	1,351,422	1,351,422	270,284.40
Erwin Bakalarz – Member of the Management Board	19,332	19,332	3,866.40

According to the information possessed by the Company as at 18.03.2019, managers do not hold shares in related parties.

As at 18.03.2019, the following numbers of VRG S.A. shares were held directly by the supervising persons.

Supervisory Board	Number of shares held	The number of votes at the General Shareholder Meeting	The nominal value of shares (in PLN)
Jerzy Mazgaj – Chairman of the Supervisory Board	17,944,333	17,944,333	3,588,866.60
Jan Pilch – Member of the Supervisory Board	360,000	360,000	72,000

4. REMUNERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD FOR 2018

Management Board

Grzegorz Pilch	President of the Management Board	PLN 1,061 ths
Mateusz Żmijewski	Vice-President of the Management Board	PLN 621 ths
Michał Wójcik	Vice-President of the Management Board	PLN 93 ths
Erwin Bakalarz	Member of the Management Board	PLN 259 ths
Total		PLN 2,034 ths

Supervisory Board

Jerzy Mazgaj	Chairman of the Supervisory Board	PLN 232 ths
Ryszard Petru	Member of the Supervisory Board	PLN 58 ths
Artur Małek	Member of the Supervisory Board	PLN 117 ths
Katarzyna Basiak- Gała	Member of the Supervisory Board	PLN 117 ths
Beata Pawłowska-Czerwińska	Member of the Supervisory Board	PLN 58 ths
Grażyna Sudzińska-Amroziewicz	Member of the Supervisory Board	PLN 117 ths
Maciej Matusiak	Member of the Supervisory Board	PLN 58 ths
Andrzej Szumański	Member of the Supervisory Board	PLN 59 ths
Jan Pilch	Member of the Supervisory Board	PLN 10 ths
Total		826 ths

The managing and supervising persons collected remuneration for performing functions in the authorities of the subsidiaries.

The total remuneration for 2018 amounted to PLN 494 thousand, including:

Jerzy Mazgaj	-	PLN 354 ths
Grzegorz Pilch	-	PLN 70 ths
Mateusz Żmijewski	-	PLN 70 ths

The Company has a stock option program based on options for shares of the Company, detailed information about the program and its terms can be found in note 39 of the financial statements. The managing persons are entitled to the benefits specified in the employment contracts.

5. SIGNIFICANT EVENTS IN 2018

29.01.2018

Notification regarding a significant block of shares

On 29.01.2018, in the current report No. 3/2018, the Company announced the receipt on January 29, 2018 from Nationale-Nederlanden PTE S.A. acting in accordance with article 69 in conjunction with article 87 par. 1 point 3 let. b of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading and Public Companies of July 29, 2005, of a notification that as a result of purchase of the Company's shares in transactions on the Warsaw Stock Exchange, cleared on January 23, 2018, funds managed by Nationale-Nederlanden PTE S.A.: Nationale-Nederlanden Otwarty Fundusz Emerytalny (hereinafter: OFE) and Nationale-Nederlanden DFE (hereinafter: "DFE") increased the shareholding in the Company's exceeding 10% of votes at the General Shareholder Meeting of the Company. Before the purchase of shares OFE and DFE held 17,859,480 shares of the Company, which constituted 9.97% of the share capital of the Company and entitled to 17,859,480 votes at the General Shareholder Meeting of the Company, which constituted 9.97% of the total number of votes. After the settlement of the purchase of shares on January 23, 2018, OFE and DFE held 18,079,480 shares which constituted 10.09% of the Company's equity. These shares entitled to 18,079,480 votes at the General Shareholder Meeting of the Company, which constituted 10.09% of the total number of votes.

01.03.2018

Signing and announcing amendment No. 1 to the merger plan as part of preparation of the merger process of Vistula Group S.A. and Bytom S.A.

On 01.03.2018, in the current report No. 9/2018, the Company informed in reference to the current report No. 46/2017 of September 15, 2017 regarding signing and publishing the merger plan in preparation of the merger process of Vistula Group S.A. based in Cracow (acquiring company) and Bytom S.A. with its registered office in Cracow (the company being acquired) that on March 1, 2018, the amendment No. 1 to the merger plan was signed. Amendment No. 1 to the merger plan with attachments is available to the public on the Company's website www.vistulagroup.pl in the investor section and in the Company's premises in Cracow at Pilotów 10 Street (on working days from 10:00 to 15:00). Amendment No. 1 to the merger plan took place due to a change in share exchange parity. As part of the agreed change to the merger plan, the shares of the company being acquired are to be exchanged for the newly issued shares of the acquiring company according to the ratio: 1: 0.72, i.e. for one share in Bytom S.A. 0.72 shares of Vistula Group S.A. will be granted, and not according to the exchange parity 1: 0.82 as assumed in the original merger plan of September 15, 2017. The change in parity was based on the valuation of a consultant jointly chosen by the companies - Deloitte Advisory Sp. z o.o. with its registered office in Warsaw as a result of the passage of time from the signing of the merger plan of September 15, 2017.

11.04.2018

Registration of N-series shares of the Company in the National Depository of Securities (KDPW) S.A., introduction of N-series shares to trading on the main market of WSE and change in the structure of the Company's share capital

On 11.04.2018, in the current report No. 16/2018, the Company taking into account the content of § 5 para. 1 point 9 and § 34 of the Ordinance of the Minister of Finance of February 19, 2009 on current and periodic information provided by issuers of securities and conditions for recognizing as equivalent information required by the laws of non-member countries (Official Journal of Laws of 2014, item 133, with further changes), informed that on April 11, 2018 it received from Dom Maklerski Banku Ochrony Środowiska S.A. with registered office in Warsaw, as an entity acting as a settlement agent, notification of registration on April 11, 2018 by the National Depository for Securities S.A. (KDPW) 2,000,000 N-series shares of the Company with a nominal value of PLN 0.20. The registration of the aforementioned N-series shares in the National Depository for Securities (subscription and registration of shares on securities accounts of persons entitled to subscribe to them) took place on the basis of the settlement instructions referred to in § 13 para. 3 of the Detailed Rules of Operation of the National Depository for Securities, in accordance with Resolution No. 342/16 of the Management Board of the National Depository for Securities S.A. from May 27, 2016, about which the Company informed in the current report No. 28/2016.

At the same time, the Company announced that on April 11, 2018, pursuant to § 38 para. 1 and 3 of the Stock Exchange Regulations, in accordance with Resolution No. 528/2016 of the Management Board of the Warsaw Stock Exchange S.A. of May 27, 2016, about which the Company informed in the current report No. 29/2016, 2,000,000 N-series shares with a nominal value of PLN 0.20 each were admitted

VRG S.A. Capital Group

for trading on the main market of the WSE under the code "PLVSTLA00011". The first listing date of 2,000,000 N-series shares will be April 12, 2018.

The above N-series shares were subscribed by participants of the stock option program for members of the Company's Management Board, key managers or other persons of significant importance to the Company (and companies from its capital group) ("Stock option program"), established by Resolution No. 21/04/2015 of the Ordinary Shareholder Meeting of the Company of April 15, 2015, about which the Company informed in current report No. 25/2015, who exercised their rights to respective E-series subscription warrants. The above shares were subscribed and paid for on April 11, 2018 at the price of PLN 2.00 per share, for a total amount of PLN 4,000,000.00.

According to art. 451 § 2 and art. 452 § 1 of the Code of Commercial Companies, the acquisition of rights from N-series shares and the increase in the share capital of the Company took place upon the registration of N-series shares on the securities account of Entitled Persons, i.e. on April 11, 2018.

As a result of the above, the share capital of the Company increased from the amount of capital PLN 38,069,932,80 divided into 179,194,964 shares with a nominal value of PLN 0.20 (representing 179,194,964 votes at the General Meeting of the Company) to the capital amount of PLN 38,469,992.80 divided into 181,194,964 shares with a nominal value of PLN 0.20 (representing 181,119.964 votes at the General Meeting of the Company).

The Company informed in a separate current report on the registration of the above-mentioned increase in the share capital of the Company resulting from the issue of N-series shares in the register of entrepreneurs of the National Court Register.

17.04.2018

Notification regarding a significant block of shares

On 17.04.2018, in the current report No. 18/2018, the Company informed about receiving on April 17, 2018 from Quercus Towarzystwo Funduszy Inwestycyjnych S.A. acting on behalf of the managed investment fund - QUERCUS Multistrategy FIZ (hereinafter: "Fund"), notifications pursuant to art. 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies of July 29, 2005 (hereinafter: "Act") on reducing by the Fund the share in the total number of votes in Vistula Group S.A. below the 5% threshold of the total number of votes in the Company.

The change in the stake held took place as a result of the share capital increase, about which the Company informed in the current report No. 16/2018 on April 11, 2018.

According to art. 69 par. 4 point 2 of the Act before the change the Fund held 8,980,343 shares of the Company, which constituted 5.01% of the share capital of the Company. The shares held entitles to 8.980.343 votes at the General Shareholder Meeting of the Company, which constituted 5.01% of the total number of votes at the General Shareholder Meeting.

According to art. 69 par. 4 point 3 of the Act on April 11, 2018, the Fund held 8,980,343 shares of the Company, which constituted 4.96% of the share capital of the Company. The shares held entitled to 8.980,343 votes at the General Shareholder Meeting of the Company, which constituted 4.96% of the total number of votes at the General Shareholder Meeting.

There are no subsidiaries of the Fund holding shares of the Company, as well as there are no persons referred to in art. 87 par. 1 point 3 letter c.

According to art. 69 par. 4 point 7 of the Act, the number of votes, calculated in the manner specified in art. 69b par. 2 of the Act, the purchase of which would be authorized or obligated by the Fund as the holder of financial instruments referred to in art. 69b par. 1 point 1 of the Act, and financial instruments referred to in art. 69b par. 1 point 2 of the Act, which is not exercised solely by cash settlement is 0.

According to art. 69 par. 4 point 8 of the Act, the number of votes, calculated in the manner specified in art. 69b par. 3 of the Act to which financial instruments referred to in art. 69b par. 1 point 2 of the Act is 0.

The above notification concerned the independent holdings by QUERCUS Multistrategy FIZ. At the same time, the Company, with reference to the contents of current report No. 40/2017 of July 28, 2017, informs that pursuant to notification from Quercus TFI S.A., received on July 28, 2017, acting on behalf of the managed investment funds - QUERCUS Parasolowy SFIO, QUERCUS Multistrategy FIZ and QUERCUS Absolute Return FIZ (hereinafter: "Funds") pursuant to art. 69 of the Act, the Funds and QUERCUS Multistrategy FIZ exceeded the threshold of 5% of the total number of votes in the Company. In connection with the above, the Company decided that as at the date of the current report No. 18/2018, the Funds hold shares of the Company in an amount exceeding the threshold of 5% in the share capital of the Company and in the total number of votes in the Company.

07.05.2018

Expert's opinion regarding the examination of Amendment No. 1 to the merger plan of Vistula Group S.A. and Bytom S.A.

On 7.05.2018, in the current report No. 21/2018, the Company informed in reference to current reports No. 30/2017 from May 8, 2017, number 34/2017 from June 5, 2017, No. 44/2017 from August 29, 2017, No. 46/2017 from September 15, 2017, No. 52/2017 from November

VRG S.A. Capital Group

13, 2017, No. 53/2017 from November 14, 2017, and No. 9/2018 of March 1, 2018 regarding the process of preparing the merger of Vistula Group S.A. based in Cracow (acquiring company) and Bytom S.A. with its registered office in Cracow (acquired company) on receipt on May 7, 2018 of a written expert opinion prepared for the District Court for Cracow - Śródmieście in Cracow, XI Commercial Division of the National Court Register, reference number file: KR XI Ns-Rej. KRS 7559/18/241, regarding the examination of Amendment No. 1 to the merger plan of Vistula Group S.A. and Bytom S.A. signed on March 1, 2018, prepared in accordance with art. 503 § 1 of the Code of Commercial Companies.

In the opinion of an expert:

1. the share exchange ratio referred to in art. 499 § 1 point 2, has been duly established,
2. the share exchange ratio proposed in the merger plan was determined based on the market value of the merging companies, determined using three valuation models:
 - a) using the income method (discounted cash flow method),
 - b) using the market method in the approach of multipliers of comparable public companies,
 - c) using the market method in the share price approach of the two merging companies.

The share exchange ratio was determined on the basis of the arithmetic mean value of all marginal ranges of valuation results obtained using each of the methods and approaches.

The application of the indicated methods for determining the exchange ratio should be considered justified.

3. there are no particular difficulties related to the valuation of the merging Companies and, consequently, the choice of an appropriate method to establish the ratio of exchange (parity).

The merger plan contains all the necessary elements and attachments that are required in accordance with the provisions of art. 499 of the Code of Commercial Companies. The merger plan can be considered as prepared in all material respects, correctly and reliably.

The expert opinion referred to above is available to the public on the Company's website www.vistulagroup.pl in the investor section and is attached to the current report No. 21/2018.

27.06.2018

Appointment of the Supervisory Board of Vistula Group S.A. for the new joint term of office

On 27.06.2018, in the current report No. 33/2018, the Company announced the contents of the resolutions adopted by the Ordinary General Shareholder Meeting of the Company on June 27, 2018 regarding the appointment of the members of the Supervisory Board of the Company for the next term in office. The following persons were appointed to the Supervisory Board: Andrzej Szumański, Jerzy Mazgaj, Maciej Matusiak, Grażyna Sudzińska-Amroziewicz, Katarzyna Basiak-Gała, Artur Malek.

27.06.2018

Introduction of a new stock option program for the years 2018-2020 in the Company

On 27.06.2018, in the current report No. 33/2018, the Company announced that the Ordinary General Shareholder Meeting of the Company on June 27, 2018 adopted Resolution No. 17/06/2018 regarding the terms of the stock option program for members of the Company's Management Board, key managers or other persons of significant importance to the Company (and companies from its capital group), issuance of subscription warrants excluding pre-emptive rights, conditional increase of the Company's share capital by issuing new shares excluding pre-emptive rights, amending the Company's Articles of Association, authorizing the Company's Management Board to conclude an agreement for registration of new issued shares in KDPW S.A. and authorizing the Management Board of the Company to take all appropriate actions to allow newly issued shares to be traded on a regulated market (the "Resolution"). According to the Resolution, the Company introduced a new stock option program for 2018-2020. The General Shareholder Meeting agreed for an issuance of a total of 7,050,000 F-series subscription warrants in three tranches settled independently for 2018, 2019 and 2020 on the basis of the criteria defined in the Resolution for the annual average change in the Company's share price, consolidated net profit and consolidated EBITDA, convertible into P-series bearer shares of the Vistula Group S.A. with a nominal value of PLN 0.20 each. All P-series shares will be subscribed in exchange for cash contributions. The issuance price of P-series shares will be equal to the average closing prices of the Company's shares on the Warsaw Stock Exchange for the last month preceding the day of adopting the Resolution reduced by 5% for one P-series share. Each F-series subscription warrant entitles a person named by the warrant to subscribe for one ordinary bearer P-series share of Vistula Group S.A. The right to subscribe for F-series subscription warrants is held by the members of the Vistula Group S.A. Management Board and persons who as of the day of offering of E-series subscription warrants will belong to the key management staff and persons of significant importance to Vistula Group S.A. and companies from its capital group, regardless of the form and legal basis for performing duties at the above mentioned positions.

04.07.2018

Registration in the registrar of entrepreneurs of the National Court Register of changes in the structure of the Company's share capital as part of a conditional increase in the share capital

On 4.07.2018, in the current report No. 36/2018, the Company informed in reference to the content of the current report of the Company No. 16/2018 dated April 11, 2018, that according to the information obtained by the Company, on June 29, 2018 District Court for Cracow - Śródmieście in Cracow, XI Commercial Division of the National Court Register, entered into the registrar of entrepreneurs changes in the share capital structure of the Company as part of the conditional increase in share capital resulting from the issue of 2,000,000 ordinary bearer N-series shares of the Company with a nominal value of PLN 0.20 each, issued by the Company in exercising the rights of holders of registered E-series subscription warrants.

In connection with the above, the Company informs that the Company's share capital currently stands at PLN 38,469,932.80 and is divided into 181,194,964 shares with a nominal value of PLN 0.20 each, representing 181,119,964 votes at the General Shareholder Meeting.

17.08.2018

Consent of the President of the Office of Competition and Consumer Protection to the merger of Vistula Group S.A. based in Cracow with Bytom S.A. based in Cracow.

On August 17, 2008, in the current report No. 40/2018, the Company announced the receipt on August 17, 2018 of the decision of the President of the Office of Competition and Consumer Protection from August 16, 2018 on the consent for concentration involving the merger of Vistula Group S.A. based in Cracow and Bytom S.A. based in Cracow. In the stated decision, the President of the Office of Competition and Consumer Protection has consented to the concentration.

23.08.2018

The first notification of shareholders about the intention to merge Vistula Group S.A. with Bytom S.A. in accordance with art. 504 par. 1 of the Code of Commercial Companies.

On 23.08.2018, in the current report No. 42/2018, the Company pursuant to art. 504 par. 1 of the Code of Commercial Companies, the first announcement to shareholders about the intention to merge with Bytom S.A. based in Cracow was made public.

27.08.2018

Information on the signing of letters of intent by a subsidiary of Vistula Group S.A. concerning the planned foreign acquisition.

On 27.08.2018, in the current report No. 43/2018, the Company announced that on August 27, 2018, a subsidiary of the Company, i.e. W.KRUK S.A. operating on the jewellery market in Poland, signed two letters of intent regarding planned acquisition projects on foreign markets. Signing of letters of intent is one of the elements of the development strategy of the Capital Group, which provides for acquisition projects including renowned brands with recognized market positions, operating in the apparel and jewellery segment, with retail distribution networks, which would lead to acceleration of development and creation of a much larger capital group. The signed documents include: i) a letter of intent with N.Lori s.r.o., Jermontox Holdings Ltd. and Jays Czech LLC regarding the possibility of acquiring all shares in a limited liability company under the Czech laws Klenoty Aurum s.r.o. being one of the leaders of the Czech market, operating a chain of jewellery stores on the Czech market, in which the subsidiary was granted exclusivity for the analysis period, and ii) a letter of intent with Liam Ltd. and Myra Investment Ltd. regarding the possibility of acquiring all shares in a limited liability company under Slovak law Montre s.r.o. operating a network of jewellery stores on the Slovak market, in which the subsidiary was granted exclusivity for the analysis period. The subsidiary intends to conduct analysis of the above entities in order to present share purchase offers. Letters of intent do not oblige any of the parties to enter into a transaction. If the acquisition process runs smoothly, the Company estimates that it may end in the first quarter of 2019.

07.09.2018

The second notification of shareholders about the intention to merge Vistula Group S.A. with Bytom S.A. in accordance with art. 504 par. 1 of the Code of Commercial Companies.

On 07.09.2018, in the current report No. 47/2018, the Company pursuant to art. 504 par. 1 of the Code of Commercial Companies, made public the second notification of shareholders about the intention to merge with Bytom S.A. based in Cracow.

04.10.2018

Announcement of the Management Board of the Vistula Group S.A. based in Krakow, convening the Extraordinary General Shareholder Meeting on October 31, 2018.

On 04.10.2018, in the current report No. 49/2018, the Company made public announcement on convening the Extraordinary General Shareholder Meeting as at October 31, 2018 at 2:00 PM at the registered office of the Company in Cracow at Pilotów 10 St., with the agenda including, among others: adoption of a resolution regarding the merger of the Company with the company BYTOM S.A. based in Cracow, including, inter alia: (i) consent to the merger plan and amendments to the Articles of Association, including an increase in share capital by PLN 10,652,175.20 through the issuance of 53,260,876 ordinary bearer O-series shares with a nominal value of PLN 0.20 each, (ii) adoption of a resolution regarding amendments to the Company's Articles of Association; (iii) adoption of a resolution on increasing the number of members of the Supervisory Board of the current joint term and appointing an additional Member of the Supervisory Board.

12.10.2018

Making public the information memorandum regarding the issuance of new O series shares of the Company in connection with the merger with Bytom S.A.

On 12.10.2018, in the current report No. 52/2018, the Company informed about the publication on 12.10.2018 on the Company's website www.vistulagroup.pl in the section: "For Investors" and on the website of the brokerage house, i.e. Dom Maklerski BOŚ S.A. based in Warsaw www.bossa.pl - an electronic version of the Company's information memorandum prepared in connection with the public offer of the to-be-issued ordinary bearer O series shares and the intention to apply for their admission and introduction to trading on the regulated market in connection with the merger of the Company and the Bytom S.A. based in Cracow, approved on October 8, 2018 by the Polish Financial Supervision Authority.

19.10.2018

Notification regarding a significant block of shares

On 19.10.2018, in the current report No. 53/2018, the Company announced that on October 19, 2018 it received from Quercus Towarzystwo Funduszy Inwestycyjnych S.A. acting on behalf of managed investment funds - QUERCUS Parasolowy SFIO, QUERCUS Multistrategy FIZ and QUERCUS Absolute Return (hereinafter: "Funds") notification pursuant to art. 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies of July 29, 2005 (hereinafter: "Act") on reducing by the Funds the share in the total number of votes in Vistula Group S.A. below the 5% threshold of the total number of votes in the Company. The change in the stake held so far took place as a result of transactions on the regulated market on October 18, 2018. Pursuant to art. 69 par. 4 point 2 of the Act before the change the Funds held 9,095,515 shares of the Company, which constituted 5.01% of the share capital of the Company. The shares held entitled to 9,095,515 votes at the General Shareholder Meeting, which constituted 5.01% of the total number of votes at the General Shareholder Meeting. According to art. 69 par. 4 point 3 of the Act on October 18, 2018 the Funds held 8,829,750 shares of the Company, which constituted 4.87% of the share capital of the Company. The shares held entitled to 8,829,750 votes at the General Shareholder Meeting, which constituted 4.87% of the total number of votes at the General Shareholder Meeting.

There are no subsidiaries of the Funds holding shares of the Company as well as there are no persons referred to in art. 87 par. 1 point 3 letter c. Pursuant to art. 69 par. 4 point 7 of the Act, the number of votes, calculated in the manner specified in art. 69b par. 2 of the Act, the purchase of which would be eligible or obligated Funds, as holders of financial instruments referred to in art. 69b par. 1 point 1 of the Act, and financial instruments referred to in art. 69b par. 1 point 2 of the Act, which are not exercised solely by cash settlement is 0. According to art. 69 par. 4 point 8 of the Act, the number of votes, calculated in the manner specified in art. 69b par. 3 of the Act to which financial instruments referred to in art. 69b par. 1 point 2 of the Act is 0.

25.10.2018

Candidacy of Jan Piłch to the Supervisory Board of Vistula Group S.A. reported by IPOPEMA 2 FIZAN represented by IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A.

On 25.10.2018, in the current report No. 54/2018, the Company announced that on October 25, 2018, the shareholder IPOPEMA 2 FIZAN, represented by IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A. based in Warsaw, in connection with the Extraordinary

VRG S.A. Capital Group

General Shareholder Meeting of the Company convened for October 31, 2018, nominated Mr. Jan Pilch to be appointed to the Supervisory Board of the Company.

30.10.2018

Approval of Annex No. 1 to the information memorandum concerning the issuance of new O-series shares of the issuer in connection with the merger with Bytom S.A.

On 30.10.2018, in the current report No. 55/2018, the Company informed about the publication on 30.10.2018 on the Company's website www.vistulagroup.pl in the "For Investors" section and on the brokerage house website, i.e. Dom Maklerski BOŚ SA based in Warsaw www.bossa.pl - electronic version of Annex No. 1 to the Company's information memorandum prepared in connection with the public offer of to-be-issued ordinary bearer O-series shares and the intention to apply for their admission and introduction to trading on a regulated market in connection with the merger of the Company and Bytom S.A. based in Cracow, approved on October 29, 2018 by the Polish Financial Supervision Authority. Annex No. 1 to the Memorandum was drawn up in connection with the publication by the Company on October 19, 2018 of current report No. 53/2018 regarding a notification received by the Issuer regarding a significant block of shares.

31.10.2018

Resolutions adopted by the Extraordinary General Shareholder Meeting of Vistula Group S.A. on October 31, 2018

On 31/10/2018, in the current report No. 56/2018, the Company made public the information on the following resolutions adopted by the Extraordinary General Shareholder Meeting of the Company convened for October 31, 2018:

- a) resolution no. 03/10/2018 regarding the merger of Vistula Group S.A. and BYTOM S.A. based in Cracow, including, among others: consent to the merger plan and amendments to the Articles of Association, including an increase in share capital by PLN 10,652,175.20 through the issuance of 53,2660,876 ordinary bearer O-series shares with a nominal value of PLN 0.20 each
- b) resolution no. 04/10/2018 regarding amendments to the Company's Articles of Association providing for a change of the Company's name to VRG Spółka Akcyjna and an increase in the maximum number of members of the Company's Supervisory Board to 7 persons;
- c) resolution No. 05/10/2018 regarding increasing the number of Supervisory Board members of the current joint term and appointing an additional Member of the Supervisory Board envisaging an increase in the number of Supervisory Board members of the current joint term in office to seven persons and conditional appointment of Jan Pilch to the Supervisory Board.

The above-mentioned resolution No. 05/10/2018 of the Extraordinary General Shareholder Meeting of Vistula Group S.A. from October 31, 2018, enters into force on the day of entry into the register of entrepreneurs of the National Court Register changes in the Articles of Association of Vistula Group S.A. arising from resolution No. 04/10/2018 of the Extraordinary General Shareholder Meeting of Vistula Group S.A. from October 31, 2018 and merger with Bytom S.A. resulting from resolution No. 03/10/2018 of the Extraordinary General Meeting of Vistula Group S.A. from October 31, 2018.

16.11.2018

Conditional appointment of Mr. Michał Wójcik to the Management Board of Vistula Group S.A.

In the current report No. 59/2018, the Company informed that on November 16, 2018 the Supervisory Board of the Company adopted a resolution regarding the conditional appointment of Mr. Michał Wójcik to the Management Board of the Company and entrusting him the function of the Vice-President of the Management Board. The above resolution came into force on the day and on the condition of the entry into the registrar of entrepreneurs of the National Court Register of the Company's merger with Bytom S.A. based in Cracow according to the resolution No. 03/10/2018 of the Extraordinary General Meeting of the Company of October 31, 2018 regarding the merger of Vistula Group S.A. and Bytom S.A.

30.11.2018

In the current report No. 64/2018, the Company announced that on November 30, 2018 the District Court for Cracow - Śródmieście in Cracow, XI Commercial Division of the National Court Register, entered the merger of the Company (the acquiring company) with Bytom S.A. based in Cracow (acquired company) in the registrar of entrepreneurs of the National Court Register. According to art. 493 § 2 of the Code of Commercial Companies, the merger of the companies took place on the day the merger was entered into the registrar applicable to the registered headquarters of the acquiring company. This entry triggers the effect of deleting from the registrar the acquired company, i.e. Bytom S.A. Pursuant to art. 494 of Code of Commercial Companies the Company is the legal successor of Bytom S.A., i.e. on the merger date it has assumed all rights and obligations of Bytom S.A. as the acquired company. In connection with the merger of the Company with Bytom S.A. the share capital of the Company was increased. The share capital was increased from the current amount of PLN

VRG S.A. Capital Group

38,469,932.80 to PLN 44,122,108.00. The registration of the share capital increase was made by the District Court for Cracow-Śródmieście in Cracow on November 30, 2018. After registration of the share capital increase, the total number of Company shares of all issues comes at 234,455,840 shares with a nominal value of PLN 0.20. The total number of votes at the General Shareholder Meeting of the Issuer amounts to 234,455,840. In addition, on November 30, 2018, the following changes to the Articles of Association were registered:

1) § 1. par. 1 of the Articles of Association of the Company has received the following wording: "The Company's name is: VRG Spółka Akcyjna."

2) § 1. par. 2 of the Articles of Association of the Company has received the following wording: "The company may use the abbreviation: VRG S.A."

3) § 8 of the Articles of Association of the Company has received the following wording:

"1. The share capital is divided into 234,455,840 shares with a nominal value of PLN 0.20 (say: twenty groszy) each.

2. The share capital is PLN 49,122,108 (forty-nine million, one hundred and twenty-two thousand, one hundred and eight zloty)."

4) § 17. par. 1 has received the following wording: "The Supervisory Board consists of 5 - 7 members. The term of office of the Supervisory Board lasts three years."

04.12.2018

Notification regarding a significant block of shares

In the current report No. 67/2018, the Company informed that on October 4, 2018, Mr. Jerzy Mazgaj, Chairman of the Supervisory Board, acting pursuant to art. 69 par. 1 of the Act on Public Offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies of July 29, 2005, informed the Company that due to the change in the share capital structure of the Company of November 30, 2018 (current report No. 64 / 2018 regarding the increase of the Company's share capital in connection with the merger with another company), the Company's shareholding has changed. Prior to the event, Mr. Jerzy Mazgaj held 16,216,333 shares, which constituted 8.95% of the share capital and 16,216,333 votes, which constituted 8.95% of the total number of votes at the General Shareholder Meeting of the Company. The entity related to Mr. Jerzy Mazgaj - Krakchemia S.A. based in Cracow, held 4,000,000 shares and 4,000,000 votes at the General Shareholder Meeting of the Company. Prior to the event, Mr. Jerzy Mazgaj had 20,216,333 shares, which constituted 11.16% of the share capital and 20,226,333 votes, which constituted 11.16% in the total number of votes at the General Shareholder Meeting of the Company.

After the event Mr. Jerzy Mazgaj holds 17,944,333 shares, which constitute 7.65% of the share capital and 17,944,333 votes, which constitute 7.65% of the total number of votes at the General Shareholder Meeting of the Company. After the event, including the related entity, Mr. Jerzy Mazgaj holds 21,944,333 shares, which account for 9.36% of the share capital and 21,944,333 votes, which constitute 9.36% of the total number of votes at the General Shareholder Meeting of the Company.

On the same day, in the current report No. 68/2018, the Company informed that on 4.12.2018 it received from PTE PZU S.A. based in Warsaw ("PTE PZU"), acting on behalf of the PZU Open Pension Fund "Złota Jesień" ("OFE PZU"), a notification prepared pursuant to art. 69 par. 1 point 2, para. 2 point 1 lit. a) and art. 69a paragraph 1 point 1 of the Act on Public Offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies of July 29, 2005. In the notification of PTE PZU informed the Company that on 30.11.2018 it received information about registration on 30.11.2018 by the District Court for Cracow - Śródmieście in Cracow, the increase in Company's share capital, changing its Articles of Association, including changing the Company's name into VRG S.A. in connection with the merger of the Company with Bytom S.A. As a result of the registration of the above-mentioned increase in the Company's share capital and the conversion of Bytom S.A. shares held by OFE PZU so far for VRG S.A. shares the share of OFE PZU in the total number of votes in the Company decreased and exceeded the threshold of 15% of the total number of votes. At the same time, this share, which so far amounted to over 10% of the total number of votes, decreased by at least 2% of the total number of votes.

Before registering the Company's share capital increase and share exchange, OFE PZU held 33,998,758 shares, which constituted 18.76% of the share capital, gave 33,998,758 votes at the General Shareholder Meeting of the Company, which constituted 18.76% of the total number of votes at the Company's General Shareholder Meeting.

After registering the share capital increase of the Company and share exchange, OFE PZU held 34,093,568 shares, which constituted 14.54% of the share capital, gave 34,093,568 votes at the General Shareholder Meeting of the Company, which constituted 14.54% of the total number of votes at the Company's General Shareholder Meeting.

OFE PZU informed at the same time that: there are no subsidiaries holding shares in VRG S.A., there is no situation indicated in art. 69 par. 4 point 6 above act, it also does not have financial instruments referred to in art. 69b par. 1 point 1) and 2) above Act.

06.12.2018

Notification regarding a significant block of shares

In the current report No. 69/2018, the Company informed that on 6.12.2018 it received from IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A. based in Warsaw, ("IPOPEMA"), information prepared pursuant to Article 69 (1) (2), Article 69a (1) point 1 and Article 87 (1) (2) of the Act on public offer and conditions for introducing financial instruments to the organized trading system and on public companies of July 29, 2005 (hereinafter the "Act") that as a result of registration of the merger of VRG S.A. based in Cracow (the acquiring company) with Bytom S.A. based in Cracow (company acquired), which took place on 30.11.2018, the participation of the IPOPEMA 2 FIZAN fund managed by the IPOPEMA ("Fund", "IPOPEMA 2 FIZAN") as well as the total share of funds managed by the IPOPEMA in the total number of votes in the Company fell below 10% threshold in the total number of votes in the Company. Before the aforementioned event, the

IPOPEMA 2 FIZAN fund held 21,177,000 shares of the Company, which constituted 11.67% of the share capital of the Company and gave 21,137,000 votes, which constituted 11.67% of the total number of votes at the General Shareholder Meeting of the Company. After the aforementioned event, the IPOPEMA 2 FIZAN fund holds 21,177,000 shares of the Company, which constitutes 9.02% of the Company's share capital and gives 21,137,000 votes and constitutes 9.02% of the total number of votes at the General Shareholder Meeting of the Company. Prior to the aforementioned event, all funds managed by the IPOPEMA held a total of 21,177,000 shares of the Company, which constituted 11.67% of the Company's share capital and gave 21,137,000 votes, representing 11.67% of the total number of votes at the General Shareholder Meeting of the Company. After the aforementioned event, all funds managed by the IPOPEMA have a total of 21,137,000 shares of the Company, which constitutes 9.02% of the share capital of the Company and gives 21,137,000 votes and constitutes 9.02% in the total number of votes at the General Shareholder Meeting of the Company. At the same time, the IPOPEMA informed that IPOPEMA 2 FIZAN does not have the financial instruments referred to in art. 69b par. 1 of the Act.

Prior to the aforementioned event, all funds managed by the IPOPEMA held a total of 21,177,000 shares of the Company, which constituted 11.67% of the Company's share capital and gave 21,137,000 votes, representing 11.67% of the total number of votes at the General Shareholder Meeting of the Company. After the aforementioned event, all funds managed by the IPOPEMA hold a total of 21,117,000 shares of the Company, which constitutes 9.02% of the Company's share capital and gives 21,137,000 votes and constitutes 9.02% of the total number of votes at the General Shareholder Meeting of the Company.

14.12.2018

Receipt of a statement on lack of exercise by the National Support Center for Agriculture (KOWR) of the right to acquire the O-series shares of merger issuance addressed to the shareholders of the acquired company.

In the current report No. 70/2018, the Company informed on receiving on December 14, 2018 a statement of the National Center for Agricultural Support ("KOWR") dated 13.12.2018 on lack of exercise of the right to purchase merger issuance shares, i.e. 53,268,876 O-series shares addressed to the shareholders of the taken over company Bytom S.A. issued on the basis of resolution No. 03/10/2018 of the Extraordinary General Shareholder Meeting of the Company of 31.10.2018. The declaration was issued in connection with notification of KOWR based on the Act on shaping the agricultural system on the entry on 30.11.2018 of the Company's merger with Bytom S.A. to the National Court Register and the right of KOWR to acquire merger shares. The procedure described above was applicable in connection with agricultural real estate owned by the Company and was presented in the Company's information memorandum.

In relation with the completion of the above procedure, the Company immediately took the steps necessary for admission of the merger shares to trading on the regulated market, in particular concerning:

- 1) designation by the National Deposit of Securities S.A. ("KDPW") of a reference day, specifying the ownership status of the shares of the taken-over company Bytom S.A., according to which the merger shares were allocated in the proportion resulting from the share exchange parity;
- 2) adoption by the KDPW of a conditional resolution on the registration of merger shares;
- 3) registration of merger shares in KDPW and their admission and introduction to trading on the main market of the WSE.

14.12.2018

Approval of Annex No. 2, Annex No. 3 and Annex No. 4 to the information memorandum concerning the issuance of new O-series shares of the Company in connection with the merger with Bytom S.A.

In current report No. 71/2018, the Company announced that on December 12, 2018 received the information on the decision taken by the Polish Financial Supervision Authority on approving annex no. 2, annex no. 3 and annex no. 4 to the Company's information memorandum prepared in connection with the public offer of the new ordinary bearer O-series share issuance and the intention to apply for their admission and introduction to trading on a regulated market in connection with the merger of the Company with Bytom S.A. based in Cracow, approved on October 8, 2018 by the Polish Financial Supervision Authority ("Memorandum"). Annex No. 2 to the Memorandum was prepared in connection with the publication by the Company on November 14, 2018 of the interim report for the third quarter of 2018. Annex No. 3 to the Memorandum was drawn up in connection with the Company's receiving on November 27 and 29, 2018 notifications of transactions on the Company's shares and in connection with the publication by Bytom S.A. as the acquired company on November 28, 2018 of the interim report for III quarter of 2018. Annex No. 4 to the Memorandum was prepared in connection with the appointment of new members of the Company's governing bodies as a consequence of registration of the merger of the Company with Bytom S.A. and amendments to the Company's Articles of Association on November 30, 2018. Electronic versions of annex No. 2, annex No. 3 and Annex No. 4 to the Memorandum were published on 14.12.2018 on the website of the Company at: www.vrg.pl (aka: www.vistulagroup.pl) in the section: "For Investors" and on the website of the brokerage house, that is Dom Maklerski BOŚ S.A. based in Warsaw www.bossa.pl.

18.12.2018

Resolution of the KDPW S.A. Management Board regarding the conditional registration in the depository of securities of O-series merger shares issued in connection with the merger of VRG S.A. and Bytom S.A. and setting of a reference day

In the current report No. 72/2018, the Company informed that on December 18, 2018 it received information that the Management Board of the National Deposit of Securities S.A. had taken a resolution No. 754/2018 on 17.12.2018 regarding the conditional registration in the securities depository of 53,2660,876 O-series merger shares issued by VRG S.A. in connection with the merger of VRG S.A. and Bytom S.A. made by replacing the shares of Bytom S.A. for the share of VRG S.A. In addition, the resolution referred to above indicated the date of 18.12.2018 as the reference day referred to in § 219 of the Detailed Rules of Operation of the National Depository for Securities. The condition for the registration of O-series shares was the introduction of these shares to trading on the regulated market, for which other shares of the Company were marked with the ISIN code PLVSTLA00011. The registration took place as a result of the allocation of shares of VRG S.A. pursuant to § 217 of the Detailed Rules of Operation of the National Depository for Securities, by replacing the shares of the company BYTOM S.A. for shares of VRG S.A. in a ratio of 1: 0.72, in connection with the merger of these companies pursuant to art. 492 § 1 point 1 of the Code of Commercial Companies, through the acquisition of BYTOM S.A. by VRG S.A. The registration was to take place within 3 days of receipt by the National Depository of a decision on the introduction of the above-mentioned shares for trading on the regulated market, for which other shares of the Company were marked with the abovementioned ISIN code, but not earlier than on the day indicated in this decision as the day of introduction of these shares to trading on this regulated market. In the described resolution, the Management Board of the National Depository stated that with the allocation of VRG S.A. O-series shares the shares of the BYTOM S.A. company are withdrawn from the National Depository for Securities and the participation of BYTOM S.A. in the National Depository for Securities in the Issuer type ceases.

20.12.2018

Approval of Annex No. 5 and Annex No. 6 to the information memorandum concerning the issuance of new O-series shares of the Company in connection with the merger with Bytom S.A.

In current report no. 73/2018, the Company informed on receiving on December 12, 2018 the information on the decision taken by the Polish Financial Supervision Authority on approving annex No. 5 and annex No. 6 to the Company's information memorandum prepared in connection with the public offering of new ordinary bearer O-series shares issuance and the intention to apply for their admission and introduction to trading on a regulated market in connection with the merger of the Company with Bytom S.A. based in Cracow, approved on October 8, 2018 by the Polish Financial Supervision Authority ("Memorandum") Annex No. 5 to the Memorandum was drawn up in connection with the receipt by the Company on 4.12.2018 of notifications of a change in the share in the total number of votes at the General Shareholder Meeting of the Company. Annex No. 6 to the Memorandum was prepared in connection with the receipt by the Company of the change in the total number of votes at the General Shareholder Meeting of the Company on November 6, 2018. The electronic versions of Annex No. 5 and Annex No. 6 to the Memorandum were published on 20.12.2018 on the Company's website at: www.vrg.pl (aka: www.vistulagroup.pl) in the section: "for Investors" and on the website of the brokerage house, i.e. Dom Maklerski BOŚ S.A. based in Warsaw www.bossa.pl.

21.12.2018

Admission and introduction to trading of O-series merger shares issued in connection with the merger of VRG S.A. and Bytom S.A.

In the current report No. 74/2018, the Company informed that it received information on the adoption of resolution No. 1295/2018 of the Warsaw Stock Exchange Management Board in Warsaw on December 21, 2018. regarding the admission and introduction to exchange trading on the main market of WSE of O-series bearer shares of VRG S.A., in which the WSE Management Board stated that in accordance with § 19 par. 1 and 2 of the Exchange Rules, there are 53,260,876 ordinary bearer shares of the O series of VRG S.A. with a nominal value of PLN 0.20 each. On the basis of § 36, § 37 and § 38 par. 1 and 3 of the Exchange Rules, in connection with § 3a par. 1, 2 and 3 of the Stock Exchange Regulations, the WSE Management Board decided to introduce, as of December 28, 2018, the ordinary bearer O-series shares of VRG S.A. to the main market subject to the condition that the National Depository for Securities S.A. on December 28, 2018, registers these shares and marks them with the code "PLVSTLA00011".

27.12.2018

Statement by KDPW S.A. regarding the registration of the Company's O-series shares

In the current report No. 76/2018, the Company informed on the basis of a communication from the National Depository for Securities S.A. of December 27, 2018 that on December 28, 2018 on the basis of resolution No. 754/2018 of the Management Board of the National

VRG S.A. Capital Group

Depository for Securities S.A. of December 17, 2018, 53,260,876 ordinary bearer O-series shares issued by VRG S.A. in connection with the merger of VRG S.A. and Bytom S.A. conducted by replacing the shares of Bytom S.A. for shares of VRG S.A. will be registered in the National Depository for Securities under ISIN PLVSTLA00011.

28.12.2018

Notification regarding a significant block of shares

In Current Report No. 77/2018, the Company announced that on December 28, 2018, Colian Holding S.A. based in Opatówek (hereinafter: "Colian"), acting in accordance with Article 69 paragraph 1 of the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organized Trading and Public Companies of July 29, 2005 (hereinafter: "the Act"), informed the Company that on December 28, 2018, Colian sold 4,200,000 shares of the Company, which constituted about 1.79% of all Company shares entitling to exercise 1.79% of votes at the General Shareholder Meeting of the Company. According to the received notification from Colian:

- 1) before selling the above shares, Colian held 13,800,226 shares, which constituted 5.89% of the share capital of the Company and entitled to exercise 5.89% of the total number of votes at the General Shareholder Meeting of the Company.
- 2) in connection with the execution of the transaction Colian held 9,600,226 shares, which accounted for 4.09% of the share capital of the Company and entitled to exercise 4.09% of votes in the total number of votes at the General Shareholder Meeting of the Company.
- 3) Colian subsidiaries do not hold any shares of the Company.
- 4) Colian did not have any contract referred to in art. 87 par. 1 point 3 lit. c of the Act, i.e. a contract, the subject of which is the transfer of rights to exercise the voting right.
- 5) Colian and its subsidiaries do not have the financial instruments referred to in art. 69b of the Act.

04.01.2019

Notification regarding a significant block of shares

In the current report No. 2/2019, the Company informed that on January 4, 2019, it received from IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A. based in Warsaw ("IPOPEMA"), information sent pursuant to Art. 69 par. 1 point 1, art. 69a paragraph 1 point 1 and art. 87 par. 1 point 2 of the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to organized trading system and on public companies (the "Act") that as a result of IPOPEMA 21 FIZAN a purchase of shares in VRG S.A. ("Company") (formerly under the business name: VISTULA GROUP SA) based in Cracow, in a transaction conducted on the regulated market on December 28, 2018, settled on December 28, 2018 and the result of the assimilation of the shares of BYTOM SA based in Cracow with the shares of the Company, carried out on December 28, 2018, the share of funds managed by the Company in the total number of votes in the Company increased above the 10% threshold. The funds managed by the IPOPEMA held a total of 21,177,000 shares of the Company, which constituted 9.02% of the share capital of the Company and entitled to 21,137,000 votes, which constituted 9.02% of the total number of votes at the General Shareholder Meeting of the Company. After the above-mentioned events, all funds managed by the IPOPEMA have a total of 25,455,558 shares of the Company, which constitute 10.86% of the Company's share capital and entitle to 25,455,558 votes and constitute 10.86% of the total number of votes at the General Shareholder Meeting of the Company. At the same time, the Company informs that funds managed by the IPOPEMA do not have financial instruments referred to in Article 69 b par. 1.



51,626 m²
Group's floorspace
at the end of 2018

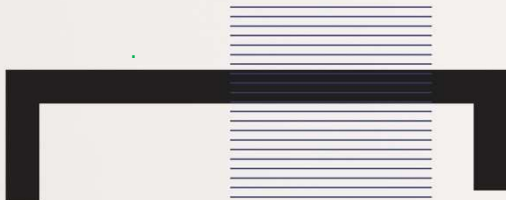
6. FINANCIAL RESULTS OF VRG S.A. GROUP IN 2018

At the end of 2018, retail floorspace increased to approx. 51.6 thousand m². Growth in floorspace in the apparel segment amounted to 71% (the area of acquired Bytom amounted to 15.8 thousand m²), while in the jewellery segment floorspace grew by approx. 10%.

Retail floorspace (end of period):

	ths m ²	
	31.12.2018	31.12.2017
Apparel segment	42.1	24.6
Jewellery segment	9.6	8.7
Total floorspace	51.6	33.3

As at the date of this report, the majority of revenues came from a network of retail store of individual brands belonging to the Capital Group. As at the date of this report, the Capital Group retail network encompasses 568 locations, including franchise stores of Vistula, Wólczanka, Bytom, Deni Cler and W.KRUK brands. Out of the operating stores, the Group only owns 2 locations. The Group uses the remaining locations on the basis of medium / long-term leases for a period of mostly 5 years, a small part of contracts is concluded for an indefinite period. The majority of the stores are located in modern shopping malls.

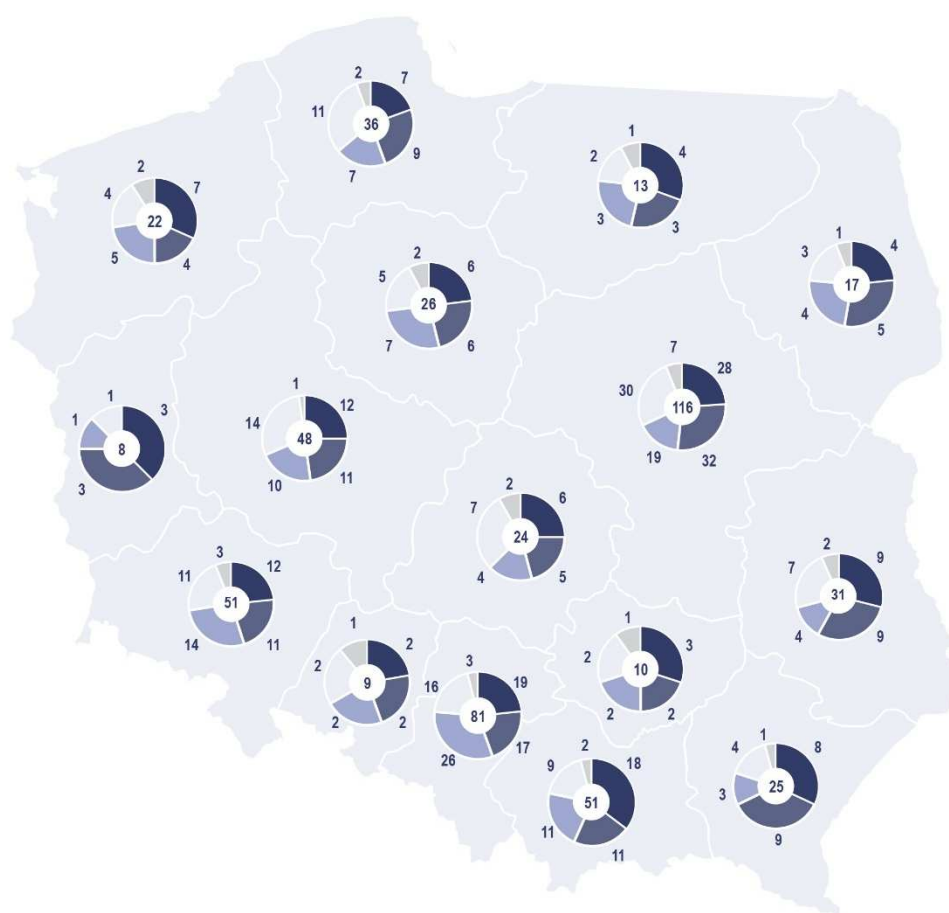


568
stores
at the end of 2018



VRG S.A. Capital Group

Below we present distribution and number of branded stores of the Capital Group at the end of 2018 by individual brands.

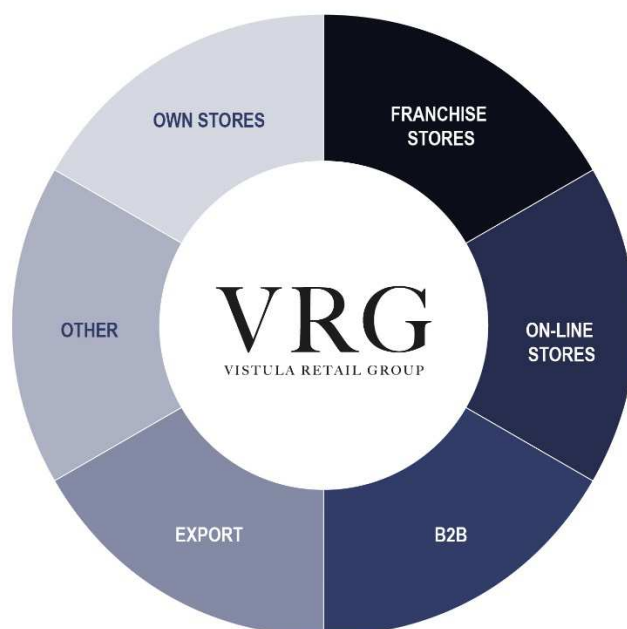


Selected financial data of VRG Group

Financial data	PLN ths	
	2018	2017
Revenues	805,674	688,513
EBITDA	89,266	78,374
EBIT	71,917	62,832
Net profit	53,572	43,208

Revenues

Sales conducted by VRG Group are carried out in the following channels:



In 2018, revenues of the Capital Group amounted to PLN 805.7 million and were PLN 117.2 million (17%) higher than revenues in the same period of the previous year. The Group recorded higher revenues in both core business segments. Consolidated EBITDA amounted to PLN 89.3 million in 2018 and was 14% higher than in the previous year.

In the current year, the Group achieved a net profit of PLN 53.6 million compared to PLN 43.2 million, i.e. by 24% more than in 2017.

APPAREL SEGMENT

Apparel segment	PLN ths			
	4Q18	4Q17	2018	2017
Revenues	161,944	128,112	483,068	417,272
Cost of sales	77,760	60,641	238,155	203,166
Gross profit on sales	84,184	67,471	244,913	214,106
Other operating income	2,998	281	3,479	825
Profit from sale of non-financial non-current assets	-	-	-	-
Selling costs	51,274	40,740	170,130	144,462
Administrative expenses	13,036	11,232	41,876	38,167
Other operating costs	2,877	1,439	4,577	4,052
Loss from sale of non-financial non-current assets	- 109	387	- 741	- 542
Profit (loss) from operations	20,104	13,954	32,550	28,792

VRG S.A. Capital Group

Apparel segment	PLN ths			
	4Q18	4Q17	2018	2017
Financial income / costs	- 362	- 1,095	- 1,738	- 6,249
Pre-tax profit (loss)	19,742	12,859	30,812	22,543
Income tax	2,685	2,833	5,155	5,244
Net profit (loss) for the period	17,057	10,026	25,657	17,299

Increase in retail sales

Revenues from the apparel segment sales amounted to PLN 483.1 million in 2018 and were PLN 65.8 million (i.e. 16%) higher than revenues in 2017.

Clothing segment	PLN m			
	4Q18	4Q17	2018	2017
Revenue	161.9	128.1	483.1	417.3
Retail sales	154.1	119.9	453.1	387.7
Processing	5.0	5.7	20.1	18.1
B2B	2.8	2.5	9.9	11.5

In 2018, the Group recorded the following results in the following retail channels:

VISTULA Increase by PLN 26.1m (+ 11%)	WÓLCZANKA Increase by PLN 15.2m (+15%)	DENI CLER MILANO Decrease by PLN 0.3m (-0,6%)
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The increase in retail sales is related to high on-line sales dynamics, floorspace development as well as revenues of the Bytom brand equal to PLN 24.4 million. Newly opened stores increase floorspace which generates higher revenues.

B2B sales at PLN 9.9m

B2B sales recorded a decrease in sales in comparison to the previous year by PLN 1.6 million (-14%). At the same time, the value of processing services increased by 11% compared to 2017. The Group focuses on the development of retail sales (94% share in revenues in 2018 compared to 93% share in 2017), where the gross profit margin is significantly higher than in the case of processing and B2B sales. B2B sales remain a complement to the apparel segment's business offer.

Gross profit on sales

Gross profit from sales of the apparel segment amounted to PLN 244.9 million in 2018 and was 14% higher (increase by PLN 30.8 million) from the one generated in the previous year. In the fourth quarter, gross profit on sales YoY dynamics increased to 25% (growth of PLN 16.7 million).

In 2018, the gross margin was 50.7% compared to 51.3% in 2017. The key reason behind a lower gross profit margin was the increase in Internet sales which bear a lower margin.

Selling costs

Selling costs increased by PLN 25.7 million in 2018 (up 18%). The share of selling costs in revenues in 2018 was 35.2% compared to 34.6% in 2017, which means an increase in the share of costs in revenues by 0.6 p.p. The increase in the proportion of selling costs to revenues was due to higher marketing outlays as well as increase in personnel costs.

Administrative expenses

General administrative expenses amounted to PLN 41.9 million in 2018 and were ca. 10% higher compared to 2017. At the same time, the share of general administrative expenses in sales revenues fell to 8.7% compared to 9.1% in 2017. In the fourth quarter of 2018, the proportion of general administrative expenses in revenues came at 8% and decreased by 0.8 pp. compared to the previous year.

Increase of operating result in the apparel segment

Despite the negative result on other operating activity related to the liquidation of stores and inventory, the operating result increased to PLN 32.6 million, i.e. by 13% compared to 2017. The EBIT increase resulted from general administrative expenses growing at a slower pace than the gross profit on sales. Segmental operating result was positively impacted by the recognition of negative goodwill on the acquisition of BTM 2 sp. z o.o., which increased the result by PLN 2.4 million.

Financial income and costs

In 2018, the net financial result in the apparel segment amounted to PLN -1.7 million in comparison to PLN -6.2 million in 2017. Lower net financial costs were a consequence of lower negative foreign exchange rate differences.

Increase of net profit in the apparel segment

In the apparel segment, VRG Group achieved a net profit of PLN 25.7 million in 2018 compared to PLN 17.3 million in 2017, which means a 48% YoY increase.



5 main brands
in VRG Group

JEWELLERY SEGMENT

Jewellery segment	PLN ths			
	4Q18	4Q17	2018	2017
Revenues	110,197	94,963	322,606	271,241
Cost of sales	50,544	42,274	155,228	125,967
Gross profit on sales	59,653	52,689	167,378	145,274
Other operating income	531	262	1,184	641
Selling costs	31,592	27,506	102,698	86,066
Administrative expenses	7,539	7,689	25,435	24,608
Other operating costs	23	42	33	28
Loss from sale of non-financial non-current assets	369	240	1,029	1,173
Profit (loss) from operations	20,661	17,474	39,367	34,040
Financial income / costs	-1,547	-536	-4,451	-1,598
Pre-tax profit (loss)	19,114	16,938	34,916	32,442
Income tax	3,738	3,279	7,001	6,533
Net profit (loss) for the period	15,376	13,659	27,915	25,909

Revenues

Revenues of the jewellery segment in VRG Capital Group amounted to PLN 322.6 million in 2018 and were higher than the segment's results in 2017 by PLN 51.4 million (19%).

The increase in sales of the jewellery segment was achieved due to higher sales per m2 and floorspace development (10% increase in floorspace compared to the same period of the previous year).

Gross profit on sales

Gross profit from the sales of the jewellery segment amounted to PLN 167.4 million in 2018 and was 15% higher than the one generated in the corresponding period of the previous year.

Gross profit margin fell by 1.7 p.p. from 53.6% in 2017 to 51.9% in 2018. The change in the gross margin was influenced by: higher share of watches sales, more promotional activities than in the last year and growth in share of on-line revenues.

Selling costs

Selling costs in the jewellery segment increased by 19% in 2018 (an increase of PLN 16.6 million) as compared to 2017. Selling costs increased with dynamics comparable to the dynamics of revenue growth. The share of selling costs in total revenues slightly increased by 0.1 p.p. from 31.7% in 2017 to 31.8% in 2018 due to higher than last year increase in wages and rental costs.

Administrative expenses

The value of general administrative expenses amounted to PLN 25.4 million in 2018 and was higher by 3% compared to the previous year.

The share of general administrative expenses in jewellery segment revenues amounted to 7.9% in 2018 and was lower by 1.2 p.p.

Increase of the operating result in the jewellery segment

VRG Group within the jewellery segment achieved an increase in operating profit by PLN 5.3 million (+ 16%) in 2018. The increase in the operating result was influenced by high sales dynamics and a lower growth in general administrative expenses in relation to the dynamics of the gross profit.

Financial income and costs

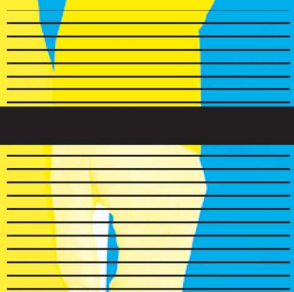
The net financial activity in the jewellery segment amounted to PLN -4,5 million in 2018 in relation to PLN -1.6 million in 2017. This YoY change was due to a negative balance of foreign exchange rate differences in the amount of PLN 3.3 million.

Increase of net profit in the jewellery segment

The net profit of the jewellery segment amounted to PLN 27.9 million in 2018 compared to PLN 25.9 million in 2017, i.e. an increase by 7.7% YoY.



**Franchise
constitutes
17% of Group's
floorspace**



Structure and characteristics of statement of financial position

Consolidated balance sheet	31.12.2018		31.12.2017	
	value	share (%)	value	share (%)
	PLN ths		PLN ths.	
Non-current assets, including:	593,249	53.3%	425,471	54.6%
<i>Intangible assets</i>	507,253	45.6%	358,798	46.1%
<i>Fixed assets</i>	78,046	7.0%	59,380	7.6%
Current assets, including:	520,102	46.7%	353,354	45.4%
<i>Inventory</i>	460,781	41.4%	315,282	40.5%
<i>Receivables</i>	23,907	2.1%	20,204	2.6%
<i>Cash and cash equivalents</i>	33,523	3.0%	16,420	2.1%
Total assets	1,113,351		778,825	
Equity attributable to dominating entity, including:	805,097	72.3%	542,491	69.7%
<i>Share capital</i>	49,122	4.4%	38,070	4.9%
<i>Net profit (loss) for the current period</i>	53,572	4.8%	43,208	5.5%
Long-term liabilities and provisions	76,788	6.9%	85,304	10.9%
<i>Long-term loans and borrowings</i>	70,758	6.4%	82,125	10.5%
Short-term liabilities and provisions, including:	231,466	20.8%	151,030	19.4%
<i>Trade liabilities</i>	192,820	17.3%	109,854	14.1%
<i>Short-term loans and borrowings</i>	25,881	2.3%	32,933	4.2%
Total equity and liabilities	1,113,351		778,825	

Assets

In 2018, the assets of VRG SA Group increased by approx. 43% compared to 2017, which was mainly due to merger with Bytom S.A.

Increase in intangible assets by PLN 148.5 million

A significant increase in intangible assets in 2018 as compared to December 31, 2017 resulted mainly from recognition of goodwill as a result of the acquisition of Bytom S.A.

Increase in fixed assets by PLN 18.6 million

The change in fixed assets was primarily the effect of acquisition of fixed assets owned by Bytom S.A. (net value of acquired fixed assets as at November 30, 2018 was approx. PLN 18 million). Other changes are the effect of completed investments (new store openings) in the reporting period.

Increase in inventory by 46%

The reason for inventory growth is the systematic development of floorspace in both the apparel and jewellery segments, opening of new stores and acquisition of the Bytom brand (PLN 87.9 million).

In the apparel segment, the value of inventories increased by 72% YoY (effect of Bytom inventories, 15% YoY without Bytom), while in the jewellery segment by 25%. The Group's inventories per m2 amounted to PLN 8,928, growing by 6% YoY.

Equity and liabilities

Equity

Changes in equity by PLN 262.6 million resulted from:

- issuance of shares in connection with merger with Bytom S.A. worth PLN 206.4m (of which PLN 11.1m increased share capital and PLN 195.3m capital reserves),
- net profit for 2018 in the amount of PLN 53.6 million,
- valuation of stock-option program in the amount of PLN 0.2 million,
- consolidation adjustments in the amount of PLN 2.4 million.

Long-term and short-term indebtedness

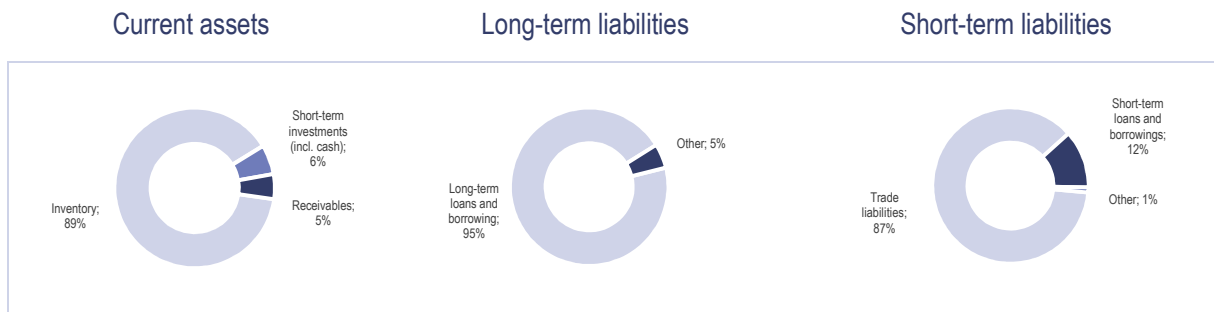
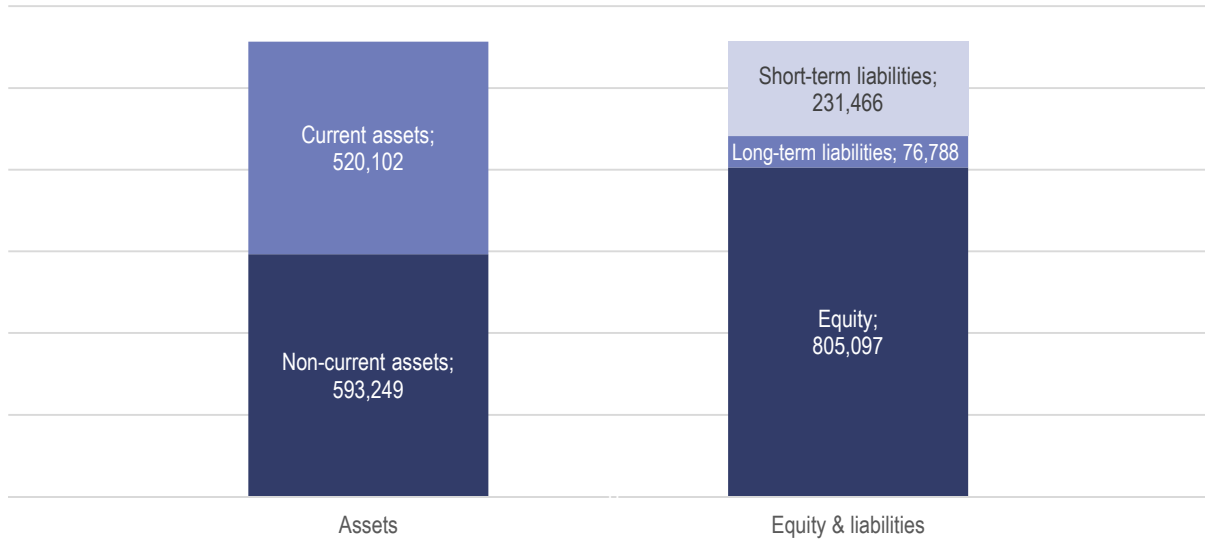
Indebtedness under long-term loans at the end of 2018 amounted to PLN 74.4 million compared to PLN 83.9 million, which means a PLN 9.5 million reduction compared to the end of 2017. The amount of leases increased due to taking over of liabilities of Bytom S.A. In case of short-term debt, increase results from reverse factoring in the amount of PLN 20.9 million, which was held by Bytom S.A. The table below presents financial liabilities at the end of 2018 and 2017 and net debt, which improved by PLN 11.6 million.

Net debt	31.12.2018	31.12.2017
Long-term debt	74,385	83,862
Long-term loans and borrowings	70,758	82,125
Finance lease liabilities	3,627	1,737
Short-term debt	48,488	33,481
Loans and borrowings	14,627	20,446
Short-term part of long-term loans	11,254	12,487
Reverse factoring	20,868	0
Finance lease liabilities	1,739	548
Cash	-33,523	-16,420
Net debt	89,350	100,923

The increase in short-term liabilities by 54% YoY is primarily due to consolidation of liabilities of Bytom S.A. as a result of the merger, including factoring liabilities in the amount of PLN 20.9 million.

The diagram below presents the structure of the balance sheet, including the most important components of assets and liabilities.

Balance sheet analysis at the end 2018



Significant off-balance sheet items

Significant off-balance sheet items are described in Notes No. 29 and 29a to the consolidated financial statements.

Significant risk factors

The following is a summary of the key risk factors that may affect the Company's results and economic and financial situation. The following factors may have a material adverse effect on the Group's development prospects, results and financial position.

Economic risk related to the macroeconomic situation

The level of the Group's revenues depends on the economic situation, including: dynamics of economic growth, level of unemployment, level of household income and indebtedness, individual consumption, consumer optimism indicators, level of the euro against the Polish zloty exchange rate, interest rates and the state fiscal policy.

There is a risk that if the economic situation weakens or deteriorates again, there will be fluctuations in the demand for products offered by the Group, which will adversely affect the results and financial position.

Risk related to the instability of the Polish legal system, including tax system

The potential risk for the Group's operations, just as for all entities with commercial activity, may be the volatility of the law and its interpretation. Changes in commercial law, tax regulations, labor and social security law and other regulations governing the operations of enterprises, in particular in the Group's industry, entail serious risk of running a business and may hinder or prevent the implementation of planned operational activities and financial forecasts. Subsequently, changes in law may lead to a deterioration in the Group's condition and financial results. New legal regulations may potentially raise certain risks related to interpretation problems, lack of case-law practice, unfavourable interpretations adopted by courts or public administration bodies, etc.

Tax law is characterised by a lack of stability. Tax law provisions are often changed, many times to the disadvantage of taxpayers. Changes in corporate taxation in the area of corporate income tax, tax on goods and services or other taxes may have a negative impact on the Company's activity and earnings levels. Interpretations of tax authorities are also subject to changes, are replaced by others or are contradictory. This results in uncertainty as to the manner in which tax authorities apply law in various, often complex, practical examples occurring in the course of business. The Company is also exposed to risk related to the possibility of changes in interpretation of tax law provisions issued by tax authorities.

The factors described above may have a material adverse effect on the Group's growth outlook, results and financial position.

Risk associated with introduction of a trade ban on Sundays

In March 2018, regulations that introduced a trade ban on Sunday entered into force. Introduction of such a prohibition may mean for the Company a significant drop in revenues realized in brick-and-mortar stores as Sunday is the fourth most important trading day in the week, and its percentage share in sales in 2017 was 14% and fluctuated depending on the individual brands in the Company from 11 - 17 %. We do not assume a proportional translation of the restrictions introduced into the drop in sales and operating result. The Company has taken all the necessary steps, including cost reduction, to minimize the impact of the restrictions introduced, however, loss of some of the revenues realized by the Company on Sundays should be reckoned with. Sales data after the introduction of two closed Sundays show that the consumer demand partly shifts to Saturdays and Mondays and migrates to the Internet, however, this effect is not neutral. The increase in sales in e-commerce channel as well as the declining profitability of the traditional stores is noticeable. The impact of this risk on the Group's financial results may grow in the face of current regulations, which assume further restriction of trade on Sundays.

Risk associated with adopting the wrong strategy

There is a risk that the adopted development strategy of the Group, whose basic assumptions are presented in point 7 "Planned development activities" of the Management Board's report on the Group's operations, proves to be inadequate to the changing expectations of customers or market conditions. There is a risk that the implementation of the strategy will be delayed or some elements will not be implemented or will not give the expected results. There is, among others, a risk that the Group will not be able to obtain the planned new floorspace, the launch will be delayed or new locations will not achieve the assumed sales results.

Risk related to the intensification of competition

VRG S.A. operates in a highly competitive segment of men's fashion. This segment is characterized by fragmentation: on one hand, we possess established Polish brands such as Vistula, Bytom, Wólczanka, W.KRUK but on the other hand there are global brands that aggressively enter the Polish market. This market is characterized by quite low entry barriers. We are also dealing with the emergence of competition from newly established brands. The VRG Group may be forced to look for new supply markets to keep its offer competitive. In addition, it may be necessary to increase marketing and promotion expenditures to reach the target customers. In order to reduce this risk, the Management Board monitors the competitors' activities on an ongoing basis in terms of floorspace development, products offered and the level of prices.

Risk of changing the tastes and behaviours of buyers

An important factor in the success of an apparel company is the sense of changes in fashion trends and current consumer preferences. There is a risk that individual collections or part of the Company's offer, despite the efforts made, will differ from the expectations of customers in a given season, which may cause problems with sales, the need to reduce sales prices or write off the value of part of the inventory. To reduce this risk, the design department analyses the changing trends and needs of customers so that we still offer the desired products at a good price-to-quality ratio. In addition, an analysis of the sales of individual assortments is carried out in order to select appropriate products in subsequent collections of brands owned by the Company.

Over the recent years, as a result of development of new communication technologies, a change in the behaviour of the modern customer is noticeable, i.e. the use of the Internet and mobile devices in the process of purchasing clothes. Thanks to the use of Internet in the purchasing process, the consumer has access to a wide range of brands, often on a global scale. The consumer has the ability to quickly compare products offered in terms of quality and price. He/she pays attention to the delivery time as well as the manufacturing process and country of origin of the product. Knowledge about behaviour of today's consumers and the way of thinking about the purchase of clothing is an important factor affecting the success of apparel companies. VRG S.A. is aware of the changes taking place and undertakes a number of activities aimed at meeting the requirements of today's customers of the clothing market. These activities include: developing an on-line sales channel, customizing the websites of on-line stores to the expectations of the customers (paying attention to whether the website is friendly and easy to use) and mobile devices, shortening the time of the delivery.

Risk related to lease agreements

The operations of the Company are based in a predominant part on retail sale of goods through its own network of stores. One cannot exclude the risk of losing one or several locations, for example in connection with the intention to modernize the entire shopping mall or change in the pricing policy of the landlord. A risk of termination of the lease agreement cannot be excluded if the Company breaches the terms of the rental agreement or due to lack of renewal of the lease agreement in locations characterized by the highest profitability for the Company or bringing satisfactory financial results. There is a risk that the lease terms proposed to the Company for the next period may unfavourably deviate from the previous conditions in a given location.

Loss of existing locations may cause that it will be necessary to temporarily limit operations in a given area or finding attractive locations will involve increased costs.

Risk related to inventory management

The management of finished products and trade goods is one of material factors affecting the sales results in the Company's industry. On one hand, the level of inventory should make it easier to make a purchasing decision when offering a given seasonal collection, which leads to an increase in inventory at each point of sale. On the other hand - a higher level of inventories generates additional need for working capital and may lead to accumulation of difficult to sell inventory (seasonal products, "fashion", unsuccessful collections).

Inappropriate inventory management constitutes a risk for prices, margins and the necessary level of working capital, which may adversely affect the development prospects, results and financial position of the Company.

Foreign exchange risk and risk related to the hedging policy

The company generates revenues primarily in PLN, while it incurs significant costs in EUR and USD, which results in exposure of the financial result to exchange rate risk. In periods of PLN depreciation in relation to the main settlement currencies, the Company incurs higher costs due to accounting for foreign exchange rate differences.

In currencies other than PLN, the Company bears the costs of (a) purchasing materials for production (fabrics, accessories, jewellery materials), jewellery, watches and supplementary items in the apparel segment (shoes, knitwear, leather and other accessories) and (b) resulting from lease contracts of commercial space.

In case of significant and long-term depreciation of the Polish currency against the euro and the dollar, there is a risk of a significant deterioration in the financial results achieved by the Company.

Based on the sensitivity analysis carried out:

VRG S.A. Capital Group

- the average annual increase in the USD to PLN rate by 1.0% will reduce the financial result by 2.0%.
- the average annual increase in the EUR to PLN rate by 1.0% will reduce the financial result by 3.0%.

In recent years, the Company has undertaken measures to limit the impact of the exchange rate increase on the level of the achieved intake margin mainly in terms of the USD / PLN exchange rate. The above mentioned changes encompass implementation of the hedging policy, which is to significantly reduce the risk of possible strengthening of the USD, which could have a material adverse effect on the margin realized by the Company. Forward contracts are related to particular deliveries of goods, especially in the fashion segment, and they do not concern the neutralization of possible risk related to increase in rental payments due to a change in the EUR / PLN exchange rate. However, it should be emphasized that while the hedging policy is intended to protect the Parent Company against the risk of significant depreciation of the Polish zloty, especially against the USD, at the same time, in case of the trend reversal and a significant strengthening of the Polish currency it may have a negative impact on the financial results. This impact will be visible in the valuation of currency liabilities related to forward contracts.

Risk of higher prices of raw materials and production costs of suppliers

The Company purchases imported materials for production, especially high-quality fabrics and sewing accessories as well as gold, silver, diamonds and other gems. The cost of the above materials is an important factor affecting the cost of manufacturing of individual products in the Company's offer.

In addition, the Company purchases clothing accessories as well as jewellery and luxury watches. The Company, with regard to the required quality, actively seeks the optimal service providers and suppliers. There is a significant risk that with further increase in prices of raw materials or production costs of suppliers / service providers, with little room to alter prices, it will not be possible to maintain margins appropriate to a given type of assortment.

Risk of cost of external services

External services have a significant share in operating costs. These services consist primarily of rents and other fees for lease of commercial space, costs related to sewing services and costs related to transportation and logistics. The Company also purchases a number of standard services (e.g. advertising, telecommunications, legal, consulting, etc.).

One cannot exclude the risk of worsening the commercial conditions of one or more external services purchased by the Company, in particular rental costs.

Interest rate risk

As at 31.12.2018, the Company held loan liabilities measured at amortized cost in the amount of PLN 96,639 thousand. Therefore, the Company is exposed to interest rate risk due to a change in the debt valuation based on a variable interest rate. An increase in the level of interest rates may increase the cost of financing and, consequently, reduce the Company's profitability.

On the basis of the sensitivity analysis carried out, the average annual increase in the reference interest rate by 1% will result in a reduction of the financial result by 0.05%.

Risk of termination of loan agreement

The Company concluded on March 9, 2015 loan agreements regarding investment financing with PKO BP S.A. bank i.e. a term loan agreement (Loan A) up to PLN 47.6 million and a term loan agreement (Loan B) up to PLN 71.4 million taken on March 31, 2015 by a subsidiary of the Company, i.e. W.KRUK S.A. while maintaining a guarantee from the Company.

The above Loan Agreements have been concluded in accordance with the Loan Market Association standards and include a number of covenants to be fulfilled by the Company and W.KRUK S.A. In case of a deterioration of economic situation and a weakening of consumer demand, meeting of covenants may be threatened and thus the risk of terminating contracts by the financing bank arises. Due to the large value of financing, the Parent Company will not be able to refinance it at a short notice.

Along with the merger with Bytom S.A., the Company took over multi-product agreements regarding current financing by banks: ING Bank Śląski S.A. (the amount of the Agreement is PLN 40 million) and BGŻ BNP Paribas S.A. (for the amount of PLN 9 million and a factoring agreement in the amount of EUR 3 million). These agreements contain covenants, which Bytom was required to meet, and at the time of

VRG S.A. Capital Group

the merger, VRG S.A. is responsible for these. In case of a deterioration of economic situation, weakening of the demand for the Company's products, meeting of these covenants may be at risk, which results in the risk of termination of contracts by the financing banks.

Risk of losing financial liquidity

The Company has loan liabilities. As a result, collaterals covering a significant part of the assets were established. The servicing of the above liabilities is carried out primarily using current cash flows from operations.

In the extreme case of a rapid, simultaneous drop in demand and increase in costs (especially in a situation of steep zloty depreciation), the Company may experience difficulties in maintaining liquidity.

Risk of collateral and loss of collateral assets

In relation with bank loan and other agreements concluded with many entities, the Company has established numerous collaterals on its entire assets - on real estate and movables, inventory and trademarks. The sum of collaterals exceeds the carrying amount of the Company's assets.

There is a risk of failure to meet deadlines or other contractual terms. Delays in the realisation of the above-mentioned obligations may result in immediate termination of all or part of the financing and resultant taking over the assets of the Company by creditor in order to satisfy the subject of the collateral. Loss of significant assets may lead to substantial difficulties in running the business of the Company or even completely block the possibility of conducting business, achieving revenues and profits.

Risk of transactions with related parties

The Company concludes and will conclude transactions with related parties, especially with the production company, the company responsible for the women apparel segment and a company responsible for the jewellery segment. Transactions with related parties may be subject to examination by tax authorities to determine whether they were concluded on an arm's length basis and whether the entity correctly determined tax liabilities. In the opinion of the Management Board of the Company, transactions with related parties are concluded and will be conducted on market terms. There is a risk that the tax authorities will question the marketability of the terms of selected transactions with a related parties, which could result in the necessity to pay additional tax with interest for overdue payments.

Risk related to the shareholder structure

The Company is characterised by a fragmented shareholding structure, where the largest shareholder does not exceed 20% of votes at the General Shareholder Meeting, and four significant shareholders hold a total of 45.22% of votes at the General Shareholder Meeting. Most of these shareholders have owned shares of the Parent Company for several years, they participate in shaping the Company's activities through representatives in the Supervisory Board.

However, one cannot rule out the risk that one or more of major shareholders will reduce their shareholding or will cease investing in the Company's shares. It cannot be excluded that decisions regarding the strategy and operational activities relevant to the Company will be delayed or even blocked. It cannot be ruled out that despite the current cooperation, the interests of significant shareholders will be divergent / contradictory. The factors listed above may have a material adverse effect on the Company's development prospects, results and financial position.

Risks related to transfer of an organized jewellery business unit of the Company (W.KRUK Unit) in the form of an in-kind contribution to W.KRUK S.A. subsidiary based in Cracow

Since August 1, 2014, in the organizational structure of the Company, a business unit of W.KRUK was separated. This is a part of the Company's operations related to jewellery industry conducted under the W.KRUK brand, which constitutes an organizationally and financially separate unit of tangible and intangible assets in the Company, including commitments intended to perform specific economic tasks in the jewellery segment of the Company ("W.KRUK Unit"). On March 31, 2015, the W.KRUK Unit was sold as an organized business unit of the Company in the form of an organizationally separated set of tangible and intangible assets, by contributing the organized business unit of the Company in-kind to the Subsidiary. The Company acted on the basis of an interpretation received from the Tax Office, however,

it cannot be ruled out that the transaction may involve risk of different interpretations of its effects by tax administration in the light of the applicable PCC, CIT and VAT regulations, which may mean additional financial consequences for the Company.

Risk related to guarantees granted to subsidiaries

In relation with the separation of the organized business unit in the form of jewellery assets and transferring them to the subsidiary W.KRUK SA, the Company carried out a simultaneous financial restructuring. As part of this process, W.KRUK S.A. obtained new financing from PKO BP Bank and the Company guaranteed for the debts of the subsidiary. In the second quarter of 2015, the subsidiary DCG S.A. received refinancing from the PKO BP Bank, and during the third quarter of 2016, the subsidiary VG Property Sp. z o.o. obtained an investment loan from PKO BP Bank. The above liabilities of subsidiaries of DCG S.A. and VG Property Sp. z o.o. have been guaranteed by the Company.

In the event of a sharp deterioration of economic situation and cessation of debt servicing by W.KRUK S.A. or DCG S.A. and VG Property Sp. z o.o. on the basis of the guarantee granted, the Company may be obliged to settle outstanding liabilities of subsidiaries which could result in loss of financial liquidity of the Company.

The risk related to disruptions in the functioning of information systems

The Company uses a number of IT systems, software and programs to provide the appropriate level of communication within the organizational structures of the companies comprising the Group, registering and processing information on economic events in all areas of its operations. The risk of IT disruptions cannot be ruled out in the following areas: (i) Infrastructure (e.g. failures of servers, workstations, network devices, lack of connection to external networks), (ii) software (e.g. malfunction, unauthorized removal, impact of computer viruses, (iii) data resources (loss or destruction of data, unauthorized access to data, unauthorized reproduction of data, unauthorized modification of data).

As part of the procedures and IT tools used, the Company strives to minimize the possibility of occurrence of the above-described events, but it is not possible to completely exclude the probability of their occurrence, and consequently their negative impact on security and credibility of information and database resources and on security and continuity of service provision.

Risk related to the EU GDPR Directive

Since May 25, 2018, the Regulation of the European Parliament and the EU Council 2016/67 of April 27, 2016 on the protection of individuals with regard to the processing of personal data and on free movement of such data and the repeal of Directive 95/46/WE became applicable in the Polish legal order (GDPR), which applies to all entities processing personal data in their business activities. The GDPR introduces a number of changes and extends the responsibilities of administrators and data processors. An important issue is the determination of the maximum level of penalties for infringements of the provisions of the GDPR Directive. The maximum levels were set at EUR 20,000,000 or 4% of the total annual turnover of the enterprise from the pre-infringement financial year.

In connection with the above, the Company carried out works aimed at:

- adapting its activities to the requirements of GDPR, which include: organizing training for employees, whose activities the provisions of the GDP will affect, primarily employees of the marketing, sales and HR departments, loyalty programs service department,
- development of a new Information Security Policy;
- developing a new Instruction for managing information systems used for data processing;
- preparing and implementing changes in solutions of organizational and technical nature;
- development of threats and risk analysis in the processing of personal data.

However, the risk of occurrence of incidents related to breaching of GDPR provisions may not be completely excluded, which could cause additional negative financial consequences for the Company.

Risks related to cooperation with an external logistics operator

Smoothness and punctuality of deliveries of goods to the network of traditional stores and deliveries of goods purchased by customers of on-line stores of VRG S.A. is based on outsourcing of logistics services to an external operator. There is a risk that disruptions in the organization of the external work of the logistic operator related, for example, to the problems of staffing and the availability of appropriate storage areas may cause disruption of the following logistics processes:

VRG S.A. Capital Group

- disruptions in the flow of warehouse processes (admission / release);
- delays and errors in deliveries to traditional stores in the period of increased needs - change in collections;
- delays and errors in shipments to customers of on-line stores in the period of increased needs - intense sell-offs.

Actions taken by VRG S.A. aimed at limiting the above risks relate respectively to:

- introduction of a procedure for regular audits of logistics structures and systems made available for the needs of VRG S.A. by the external operator;
- improvement of the admission and release plan from the external operator's warehouse and precise pre-selection of the necessary storage space;
- introduction of a system of planning releases of goods in weekly cycles and a system of transferring information to the logistics operator on the quantity and dates of planned releases of goods;
- introduction of planning the number of e-commerce orders on a monthly basis - based on analytical data from on-line stores;
- negotiations on increasing the available storage space at an external operator, regarding guaranteeing the possibility of implementing daily minimum goods releases for traditional stores and daily minimum deliveries to customers of on-line stores.

However, it is not possible to completely exclude the risk of incidents related to disruption of the aforementioned logistics processes, which could cause the Company additional negative consequences related to fall in sales as a result of late replenishment of a network of traditional stores or loss of some on-line store customers as a result of delays in paid deliveries. One cannot completely rule out the negative effects of deterioration of the image of the Company's brands as a result of the appearance on the Internet and social media of critical comments from customers of on-line stores who do not receive the purchased goods within the required period.

Risk related to the quality of customer service in individual stores

The characteristics of the market in which the Company operates require appropriate level of services quality and customer care in the branded stores of Vistula, Bytom, Wólczanka and W.KRUK. The company implements a training system for employees, develops customer service standards and a system of control of introduced standards. There is a risk that if the customer service system is not implemented correctly, the level of services provided in individual stores may be equally good. This may translate into a loss of clients' trust in the brands owned by the Company and deterioration of the Company's image, and it may consequently result in a decrease in the results achieved in individual stores and by the Company in general.

Risk related to merger of the Company with Bytom S.A.

The Company's Management Board sees a number of synergies related to the merger with Bytom S.A. Thanks to a leap in the scale of operations of the Capital Group, its negotiating position with suppliers of both fabrics and accessories will increase, whereas unification of purchasing policy will enable reduction of delivery costs, and coordination and consolidation of purchases. The Capital Group will also be a significant tenant of retail space and a significant advertiser. It will be possible to reduce the network operational management costs and logistics costs resulting from identical locations in shopping malls of individual brand stores. Also, the combination of departments serving both companies and not directly linked to revenues (e.g. accounting, IT) and more effective human resources management should enable the lowering of costs.

However, there is a risk that the expectations of the Company's Management Board as to synergies achieved as a result of the merger will not be met in full or be lower than assumed. Additionally, it cannot be excluded that there will be a cannibalization of brands or the resignation of some customers from the offer of the Capital Group.

In connection with the principle of general succession resulting from art. 494 of the Code of Commercial Companies, as at the date of the merger, the Company has assumed all the rights and obligations of Bytom S.A. Therefore, there is a risk of transferring responsibility to the Company for liabilities of Bytom S.A.

Markets

The Group offers its products mainly to retail customers through a network of branded stores. The dominant market for companies from the Group is the domestic market.

Sourcing

For production on the domestic market in 2018, the Company used mainly raw materials of foreign origin. Domestic sources of raw materials used for the production of products constituted a minority. Supply sources for fabrics, jewellery and accessories were diversified - none of the suppliers exceeded the threshold of 10% share in total purchases.

Organizational or capital relations

Organizational or capital relations are presented in point 1.2 information and explanations to the consolidated financial statements.

Transactions with related parties

Transactions with related parties are presented in Note No. 32 to the consolidated financial statements.

Bank loans

Information on bank loans is included in Note No. 19 to the consolidated financial statements.

Loans granted

Information on loans granted was included in Note No. 17 to the consolidated financial statements.

Proceedings pending in a court or a public administration authority

Information on proceedings pending in a court or a public administration authority is included in point 7 of the information and explanations to the consolidated financial statements.

Guarantees granted

Information on guarantees granted is included in point 8 of the information and explanations to the consolidated financial statements.

Financial resources management

As a result of budgetary management of financial resources, the Group has the ability to meet its obligations. In the opinion of the Management Board of the Parent Company, there are no threats as regards servicing and repayment of liabilities.

Use of proceeds from issuance

In 2018, the parent company issued N-series shares as part of a conditional share capital increase.

On 11.04.2018, in the current report No. 16/2018 the Company, taking into account the content of § 5 par. 1 point 9 and § 34 of the Ordinance of the Minister of Finance of February 19, 2009 on current and periodic information published by issuers of securities and conditions for recognizing information required under the law of non-member countries as equivalent, informed that on April 11, 2018 it received from Dom Maklerski Banku Ochrony Środowiska S.A. based in Warsaw, as an entity acting as a settlement agent, notification of registration on April 11, 2018 by the National Depository for Securities S.A.. 2,000,000 N-series shares of the Company with a nominal value of PLN 0.20. The registration of the aforementioned N-series shares in the National Depository for Securities (subscription and registration of shares on securities accounts of persons entitled to subscribe them) took place on the basis of the settlement instructions referred to in § 13 par. 3 of the Detailed Rules of Operation of the National

VRG S.A. Capital Group

Depository for Securities, in accordance with resolution No. 342/16 of the Management Board of the National Depository for Securities S.A. from May 27, 2016, about which the Company informed in the current report No. 28/2016.

At the same time, the Company informs that on April 11, 2018, pursuant to § 38 par. 1 and 3 of the Stock Exchange Regulations, in accordance with resolution No. 528/2016 of the Management Board of the Warsaw Stock Exchange S.A. of May 27, 2016, about which the Company informed in the current report No. 29/2016, 2,000,000 N-series shares with a nominal value of PLN 0.20 each for stock were introduced to trading on the main market of WSE under the code "PLVSTLA00011". The first listing date of 2,000,000 N-series shares will be April 12, 2018.

The above N series shares were taken up by participants of the stock option program for members of the Company's Management Board, key managers or other persons of significant importance to the Company (and companies from its Capital Group) ("Stock Option Scheme"), established by resolution No. 21/04/2015 of the Ordinary General Shareholder Meeting of the Company of April 15, 2015, about which the Company informed in current report No. 25/2015, who exercised the right of their respective E-series subscription warrants. The above shares were taken up and paid on April 11, 2018 at the price of PLN 2.00 per share, for a total amount of PLN 4,000,000.00.

According to art. 451 § 2 and art. 452 § 1 of the Code of Commercial Companies, the acquisition of rights from N-series shares and the increase in the share capital of the Company took place upon the registration of N-series shares on the securities account of the Entitled Persons, i.e. on April 11, 2018.

In connection with the above, the share capital of the Company increased from the amount of capital PLN 38,069,932.80 divided into 179,194,964 shares with a nominal value of PLN 0.20 (representing 179,194,964 votes at the General Shareholder Meeting of the Company) to the capital amount of PLN 38,469,992.80 divided into 181,194,964 shares with a nominal value of PLN 0.20 (representing 181,119,964 votes at the General Shareholder Meeting of the Company).

The Company informed in a separate current report on the registration of the above-mentioned increase in the share capital of the Company resulting from the issuance of N-series shares in the registrar of entrepreneurs of the National Court Register, the entry in the register is declaratory.

In addition, as a result of the merger with Bytom S.A., in 2018 the Parent Company issued new O-series shares. In current report No. 72/2018, the Company informed that on December 18, 2018 the Management Board of the National Deposit of Securities of S.A. accepted a resolution No. 754/2018 of 17.12. 2018 regarding the conditional registration in the securities depository of 53,2660,876 O-series merger shares issued by VRG S.A. in connection with the merger of VRG S.A. and Bytom S.A. made by replacing the shares of Bytom S.A. for the share of VRG S.A. In addition, the resolution referred to above indicated 18.12.2018 as the reference day referred to in § 219 of the Detailed Rules of Operation of the National Depository for Securities. The condition for the registration of the O-series shares was the introduction of these shares to trading on the regulated market, on which other shares of the Company were traded and marked with the ISIN code PLVSTLA00011. The registration took place as a result of the allocation of shares of VRG S.A. pursuant to § 217 of the Detailed Rules of Operation of the National Depository for Securities, by replacing the shares of the BYTOM S.A. for shares of VRG S.A. in a ratio of 1: 0.72, in connection with the merger of these companies pursuant to art. 492 § 1 point 1 of the Code of Commercial Companies, through the acquisition of BYTOM S.A. by VRG S.A. The registration was to take place within 3 days of receipt by the National Depository of a decision on the introduction of the above-mentioned shares for trading on the regulated market, on which other shares of the Company were marked with the abovementioned ISIN code, but not earlier than on the day indicated in this decision as the day of introducing these shares to trading on this regulated market. In the mentioned resolution, the Management Board of the National Depository stated that with the allocation of O-series shares of VRG S.A. shares of the BYTOM S.A. are withdrawn from the National Depository for Securities and the participation of BYTOM SA in the National Depository for Securities in the Issuer type ceases.

VRG S.A. Capital Group

In its current report No. 74/2018, the Company informed that it received information on the adoption of resolution No. 1295/2018 of the Stock Exchange Management Board in Warsaw S.A. from 21.12.2018 concerning the admission and introduction to trading on the main market of WSE O-series bearer ordinary shares of the VRG S.A., in which the Stock Exchange Management Board stated that in accordance with § 19 par. 1 and 2 of the Exchange Rules, there 53,260,876 ordinary bearer O-series shares of VRG S.A. with a nominal value of PLN 0.20 each are admitted to trading on the main market. On the basis of § 36, § 37 and § 38 par. 1 and 3 of the Exchange Rules, in connection with § 3a par. 1, 2 and 3 of the Stock Exchange Regulations, the Exchange Management Board decided to introduce, as of December 28, 2018, the ordinary O-series bearer shares of VRG SA on the main market on the exchange market subject to the condition that the National Depository for Securities S.A., will register these shares and mark them with the code "PLVSTLA00011" on December 28, 2018.

In the current report No. 76/2018, the Company informed on the basis of a communication from the National Depository for Securities S.A. of December 27, 2018 that on December 28, 2018 on the basis of resolution No. 754/2018 of the Management Board of the National Depository for Securities S.A. of December 17, 2018, 53,260,876 ordinary bearer O-series shares issued by VRG S.A. in connection with the merger of VRG S.A. and Bytom S.A. conducted by replacing the shares of Bytom S.A. for shares of VRG S.A. will be registered in the National Depository for Securities under ISIN PLVSTLA00011.

Delivery of published forecasts

VRG S.A. did not make public any forecast of financial results for 2018.

7. PLANNED DEVELOPMENT ACTIVITIES

In 2019 VRG S.A. will continue the organic growth strategy. The goals for 2019 are: continuation of the double-digit growth of the Group's revenues, increase of the gross margin by 1 p.p. YoY thanks to first revenue/margin synergies and achievement of bottom-line dynamics exceeding top-line growth.

The Group intends to achieve the above objectives through the following activities:

- increasing floorspace in the apparel and jewellery segment, due to further expansion of the traditional stores network of all Group brands, which by the end of this year should approach the total of 607 stores with 55.7 thousand m² of floorspace. As part of the investment plan for 2019, net 39 new own and franchise stores with a total floorspace of ca. 4.1 thousand m² are to be launched. This will increase the Group's sales area by some 8%. Floorspace development planned for 2019, assumes an increase in sales network of W.KRUK by some 1.4 thousand m², and the apparel segment floorspace by 2.7 thousand m². The total 2019 capex for floorspace expansion, including upgrades of the most important stores, further improvements in IT systems, on-line sales and other investments will amount to some PLN 25 million;
- dynamic development of on-line sales in the apparel and jewellery segment, as a beneficiary of the observed trend of a gradual shift in demand for clothing to the Internet channel; the Company follows the trends in on-line channel and carefully observes the behaviour of e-consumers, trying to systematically introduce appropriate technological changes and improvements in the display of the assortment, which have an impact on the growth of on-line sales. We assume that the investments made and planned will ensure dynamic development of this distribution channel and will allow on-line sales to reach 14% of Group's revenues by the end of 2019;
- improvement of sales efficiency from m² through the development and improvement of the product offering taking into account the expectations and needs of clients of our brands and focusing activities within the communication strategy of all Group's brands on PR, press and online advertising, social media channels.

The current advertising activities of VRG Group are focused on the promotion of the Spring / Summer 2019 collection. The new collection of the Vistula brand combines attractive patterns, a wide range of colours and modern, fashionable cuts suited to the needs of modern men. The offer will include a wide range of formal and casual outfits. For special events, the timeless suits will remain indispensable. Special attention is attracted by the offering of shirts inspired by pop-art. The Wólczanka brand in the men's collection in a large part offers classic models of shirts in shades of white, blue and navy blue, animated with microstructures, delicate stripes and a more pronounced strips and checked fabrics. The men's collection also contains shirts with a more nonchalant and even extravagant character. In the women's collection, Wólczanka focuses on motives taken from nature. Beside flowers, shirts will also contain leaves and other colourful plants. For after hours, we present shirts decorated with an original interpretation of the classic pastel and checked fabrics. The faces of the latest collection of Bytom are Tomek Lipiński and Dawid Ogrodnik, promoting the brand as well as culture and art. The new collection is kept in a vintage style and is a combination of stylistics of the 80's and stage extravaganza of jazz musicians. The whole collection is made of the best of Italian shirt and suit fabrics.

The Deni Cler brand in its collection continues the departure from the formal style in favour of everyday elegance. The current marketing communication of the W.KRUK brand promotes the unveiling of a collection designed with Ewa Chodakowska. This collection is a modern design gold and silver and brass jewellery, combined with the motive of volcanic berry OHELO, which was the inspiration for the creation and the name of the collection.

In 2018, the Company finalized the merger with Bytom S.A. After completing formal issues, the priority of the Management Board is to achieve synergies, both revenue and cost. Revenue synergies should be visible by improving the gross margin as a result of combined purchasing policy mainly on foreign markets. The Management Board estimates that improvement of gross margin of the Vistula, Wólczanka and Bytom brands should translate into PLN 8-10 million of margin synergy per year. Cost synergies should be achieved in the areas of selling and general administrative expenses and should amount to some PLN 2 million annually, supporting the Group in achieving the planned cost discipline. The Management Board expects that all synergies will be realized in 2020, but the first effects should be visible already in 2019.

At the same time, the Management Board will continue its activities related to the strategic goal of building a House of Brands through acquisition and consolidation activities on the Polish market and foreign markets in close proximity. This idea means that the Group gathers many affined brands that are strong players on their local markets. This will allow for further building of shareholder value through the use of acquisition opportunities on the market, transfer of managerial and optimization experience to other countries and further fast and cost-effective development, without the need to incur marketing efforts to promote the brands on new markets. The first practical example of such activities is the subsidiary W.KRUK S.A. which signed a letter of intent to purchase a company from the jewellery sector operating in the Czech Republic. The project is at the due diligence stage, and its completion should take place in 2019.

8. STATEMENT OF THE MANAGEMENT BOARD


The Management Board declares that, to the best of its knowledge, the financial statements and comparable data have been prepared in accordance with the applicable accounting principles and that they reflect in a true, reliable and clear manner the financial position of the issuer and its financial result and that the financial statements present a true picture of the development and the situation, and the Company's achievements, including a description of basic risks and threats.

The Management Board declares that the entity authorized to audit financial statements, who audited the financial statements, was lawfully selected and that the entity and the auditors conducting the audit met the conditions for

VRG S.A. Capital Group

expressing an impartial and independent opinion on the audited annual financial statements, in accordance with applicable regulations and professional standards.

The Company informs that a separate report has been prepared on non-financial information (in accordance with Article 49b par. 9 of the Accounting Act) regarding the Issuer, as well as the Issuer's Capital Group. Information on diversity policy has been included in the Statement on the application of corporate governance principles, which forms part of the Report of the Management Board on the operations of the Capital Group.



**On-line sales
already consti-
tute 12% of
Group revenue**

9. Statement on application of corporate governance rules in 2018

The Management of VRG S.A. based in Cracow (hereinafter „the Company”) presents its statement on application of corporate governance rules created according to the Ordinance of Minister of Finance from March 29, 2018 on current and periodical reports provided by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Official Journal of Laws of 2018, item 757).

This statement constitutes a separate part of the Company’s Report on Operations for 2018 which is part of the Company’s annual report for 2018.

This statement consists of the following parts:

- I. Corporate governance rules to which the Company is subject to
- II. Description of main features of the Company’s internal control and risk management system relating to the process applied to preparation of separate and consolidated financial statements
- III. Indication of the Company’s shareholders holding directly or indirectly significant blocks of shares with information on number of shares held by these entities, their percentage stake in equity, number of votes resulting therefrom and their percentage share in the total number of votes at the General Shareholder Meeting
- IV. Indication of holders of any securities that give special control rights, along with a description of these rights
- V. Indication of any restrictions on the exercise of voting rights, such as limitation of the exercise of voting rights by the holders of a given part or number of votes, and time limitations regarding the exercise of voting rights or clauses, in which, with the cooperation of the Company, rights related to securities are separated from possession of those securities
- VI. Indication of any restrictions on the transfer of ownership of the Company’s securities
- VII. Description of the rules for altering the Company’s Articles of Association
- VIII. Description of the way General Shareholder Meeting functions and its basic powers together with a description of shareholders’ rights and how they are exercised
- IX. Composition and changes that have occurred during the last financial year, and a description of the activities of the management and supervisory bodies of the Company and their committees
- X. Description of rules regarding the appointment and dismissal of managing persons and their rights, in particular the right to decide on the issuance or buyback of shares
- XI. Description of diversity policy applied to the administrative, managing and supervising authorities with respect to aspects such as e.g. age, sex or education and professional experience, the objectives of this diversity policy, how it is implemented and the effects in the reporting period

I.

Corporate governance rules the Company is subject to

The set of corporate governance rules to which the Company was subject in the financial year 2018 is included in the document "Best Practice of WSE Listed Companies 2016" constituting an annex to the Stock Exchange Resolution No. 26/1413/2015 dated 13 October 2015 regarding the adoption of "Best Practice of WSE Listed Companies 2016". Based on par. 29 para. 3 of the Regulations of the Warsaw Stock Exchange S.A. on January 12, 2016, the Company made public via the Electronic Information Base (EBI) EBI report 1/2016 regarding non-compliance with the detailed principles contained in "Best Practice of WSE Listed Companies 2016". Information on Company's non-compliance to individual recommendations contained in the document "Best Practices of WSE Listed Companies 2016" has been included in this Company's statement forming part of the annual report for 2018.

Compliance with the corporate governance rules contained in the document "Best Practice of WSE Listed Companies 2016"

The Management Board of the Company declares that in the financial year ended December 31, 2018, the Company and its bodies adhered to all recommendations (subject to the scope of exceptions described below for specific principles) and the detailed principles of corporate governance contained in the "Best Practices for WSE Listed Companies 2016", as amended by the Resolution of the Stock Exchange Council No. 26/1413/2015 of October 13, 2015, with the following exemptions:

Disclosure Policy, Investor Communication

I.Z.1.16. A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation information about the planned transmission of a general meeting, not later than 7 days before the date of the general meeting;

The principle is not applied.

The reason for resignation from application of the above principle in the Company are too high costs of providing adequate equipment and technical capabilities that would allow for the implementation of resultant tasks, not commensurate with the potential benefits arising for shareholders. In connection with the above, the record of the course of the General Shareholder Meeting in the form of audio or video will not be posted on the Company's corporate website in the near future. Other rules regarding the organization and course of the General Shareholder Meeting are applicable. The company adheres to the applicable law in this area and strives to implement the proper information policy.

I.Z.1.20. A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation an audio or video recording of a general meeting;

The principle is not applied.

The reasons for the Company's resignation from the application of the above are presented in the explanation of non-application of the principle I.Z.1.16.

I.Z.2. A company whose shares participate in the exchange index WIG20 or mWIG40 should ensure that its website is also available in English, at least to the extent described in principle I.Z.1. This principle should also be followed by companies not participating in these indices if so required by the structure of their shareholders or the nature and scope of their activity.

The above rule did not apply to the Company in 2018.

Management Board, Supervisory Board

II.Z.2. A company's management board members may sit on the management board or supervisory board of companies other than members of its group subject to the approval of the supervisory board.

The principle is not applied.

The above principle is not applied in the Company. The Company's internal regulations as well as agreements with members of the Management Board, do not impose such restrictions. The Company complies with applicable law, i.e. art. 380 of the Code of Commercial Companies, according to which a member of the management board may not deal with competing interests or participate in a competitive company without the consent of the Company. In case of the intention to undertake such activities, a member of the Management Board is required to obtain consent of the Supervisory Board of the Company.

Internal systems and functions

III.Z.2. Subject to principle III.Z.3, persons responsible for risk management, internal audit and compliance should report directly to the president or other member of the management board and should be allowed to report directly to the supervisory board or the audit committee.

The principle was not applied in 2018.

The above principles were applied in the Company only in part. The Company's Management Board did not separate in the Company's organizational structure any unit responsible for internal audit or compliance functions, nor did it appoint persons responsible for these functions. These activities are carried out within each of the organizational divisions of the Company.

III.Z.3. The independence rules defined in generally accepted international standards of the professional internal audit practice apply to the person heading the internal audit function and other persons responsible for such tasks.

The principle was not applied in 2018.

The reasons for withdrawing from the full application of the above principle in the Company are given in the explanation of non-application of the rule III.Z.2.

General Meeting, Shareholder Relations

IV.Z.2. If justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings.

The principle is not applied.

The reasons for the Company's non-compliance with the above principle are given in the explanation of non-application of the principle I.Z.1.16. In addition, the Company explains that currently in the Company's Articles of Association there are no provisions that would allow shareholders to participate in the Company's General Shareholder Meeting using electronic means of communication. Due to the wording of art. 406 (5) of the Code of Commercial Companies, which permits the introduction of electronic communication within the framework of the General Shareholder Meeting only when the Article of Association allow for it, the Company currently cannot provide shareholders with participation in the General Shareholder Meeting using electronic means of communication in real time.

IV.Z.9. Companies should strive to ensure that draft resolutions of the general meeting contain a justification, if it helps shareholders to pass a resolution with adequate understanding. If a matter is put on the agenda of the general meeting at the request of a shareholder or shareholders, the management board or the chair of the general meeting should request presentation of the justification of the proposed resolution. In important matters and matters which

may give rise to any doubt of shareholders, the company should provide a justification, unless it otherwise provides the shareholders with information necessary to pass a resolution with adequate understanding.

The principle is not applied.

The above rule was applied in part by the Company, which should be understood that the Company was making efforts to provide shareholders with justifications, in particular, to draft resolutions on issues that are material or likely to raise doubts about atypical or rare issues in the Company. In the Company's opinion, justification for each resolution of the General Meeting, including resolutions that are taken as standard under the provisions of the Code of Commercial Companies, is not necessary for the proper decision-making process of the General Meeting.

Conflict of Interest, Related Party Transactions

V.Z.6. In its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may arise in the company, as well as the rules of conduct where a conflict of interest has arisen or may arise. The company's internal regulations should among others provide for ways to prevent, identify and resolve conflicts of interest, as well as rules of excluding members of the management board or the supervisory board from participation in reviewing matters subject to a conflict of interest which has arisen or may arise.

The principle is not applied.

Decisions of the Company's bodies are made in accordance with law, in particular the Code of Commercial Companies, and therefore the Company will not define the criteria and circumstances in which the Company may encounter a conflict of interest.

Remuneration

VI.Z.2. To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years.

The principle is not applied.

The above principle is not currently applied in the Company. Motivational programs currently operating in the Company based on subscription warrants authorizing to take up shares of the Company, introduced on the basis of resolutions of the General Shareholder Meeting, do not meet the requirements indicated in the above principle.

VI.Z.4. In this activity report, the company should report on the remuneration policy including at least the following:

- 1) general information about the company's remuneration system;
- 2) information about the conditions and amounts of remuneration of each management board member broken down by fixed and variable remuneration components, including the key parameters of setting the variable remuneration components and the terms of payment of severance allowances and other amounts due on termination of employment, contract or other similar legal relationship, separately for the company and each member of its group;
- 3) information about non-financial remuneration components due to each management board member and key manager;
- 4) significant amendments of the remuneration policy in the last financial year or information about their absence;
- 5) assessment of the implementation of the remuneration policy in terms of achievement of its goals, in particular long-term shareholder value creation and the company's stability.

The principle is not applied.

The above principle was not applied in its entirety as the Company has not yet formally adopted the regulations defining the remuneration policy and rules for its determination regarding the members of the supervisory and management bodies. The remuneration of the Members of the Management Board is determined by the Supervisory Board. The basic component of the remuneration of Management Board Members is a lump-sum monthly remuneration paid out under a contract of employment. In addition, the Company implemented a stock option plan based on subscription warrants authorizing to subscribe for the Company's shares, the assumptions of which are made available by the Company on its website. The appointment of the members of the Supervisory Board is determined by the General Shareholder Meeting. Members of the Supervisory Board receive a lump-sum monthly remuneration for serving in the Supervisory Board, the amount of which is determined by the resolution of the General Shareholder Meeting. The remuneration of Members of the Management Board and of the Supervisory Board received in the Company and for performing functions in the authorities of subsidiaries included in the Capital Group are disclosed in the annual and semi-annual reports of the Company.

II.

Description of main features of the Company's internal control and risk management system relating to the process applied to preparation of separate and consolidated financial statements

The Company's financial statements are prepared in a systematic manner based on the organizational structure applicable in the Company. The management accounting tools and IT systems used in the Company to record business events in the accounting books provide the basis for assessing that the Company's financial statements are prepared in a reliable manner and contain all relevant data necessary to determine the financial standing of the Company and its assets.

Substantive supervision over the process of preparation of financial statements and periodic reports of the Company, as well as consolidated financial reports is exercised by the Vice President of the Management Board responsible for financial matters.

The Accounting Department in Finance Division is responsible for the organization of work related to the preparation of financial statements and reports directly to the Vice President of the Management Board of the Company for financial matters.

The Management Board is responsible for the internal control system in the Company and its effectiveness in the process of preparing financial statements and periodical reports prepared and published in accordance with the rules of the Ordinance of the Minister of Finance of March 29, 2018 regarding current and periodic information published by issuers of securities and conditions for recognizing information required by law of a non-member state as equivalent (Official Journal of Laws of 2018, item 757).

The Company's financial results are also monitored on an ongoing basis during the financial year and are subject to periodic review by the Supervisory Board. At each Supervisory Board meeting, the Company's Management Board presents information on the current financial situation of the Company.

The effective internal control system and risk management in the financial reporting process is ensured by:

- preparation of procedures specifying the rules and division of responsibility for drawing up financial statements;
- determination of the reporting scope based on applicable International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS);
- development, implementation and exercise of supervision over consistency of accounting principles used by companies from VRG SA Capital Group, and

VRG S.A. Capital Group

- semi-annual reviews and annual audits of the published financial statements of the Company and VRG S.A. Capital Group by an independent auditor.

The risk management system applied in the Company is aimed at identifying and preventing or limiting to the greatest extent the adverse effects of risks related to the Company's operating activities. The Management Board of the Company is responsible for the effective management of these risks, and the Supervisory Board, through the Audit Committee, exercises constant supervision over the activities of the Management Board in the scope of the potential impact of those risks on the results of the Company's business. "Risk management regulations at VRG S.A. in Cracow", introduced based on the recommendations of the Audit Committee, is the key internal document which ensures the monitoring of risks along with the register of key mitigation measures and measures limiting their impact on the Company's operations.

Annual and semi-annual financial statements are subject to independent audit and review by certified auditors who express their opinion on the reliability, correctness and clarity of these statements and the correctness of the accounting books that constitute the basis for their preparation.

The selection of the statutory auditor is made by the Supervisory Board at the request of the Management Board, taking into account the recommendations of the Audit Committee from a group of reputable auditing companies guaranteeing high standards of services and the required independence.

Examination is carried out in accordance with the provisions of:

- chapter 7 of the Act of September 29, 1994 on accounting (unified text Official Journal of Laws of 2018 item 395, as amended) (hereinafter: "Accounting Act"),
- auditing standards issued by the National Council of Certified Auditors.

In particular, the research includes checking the correctness of the accounting principles and significant estimates applied by the Company, examining - on a random basis - evidence and accounting entries that result in the numbers and disclosures in the financial statements, as well as the overall assessment of the financial statements.

The task of the Company is to prepare such financial statements, including figures and verbal explanations, which:

- present true and fair view of all information relevant for the assessment of the Company's financial and asset situation as at that date, as well as its financial result for a given period,
- have been prepared, in all material respects, properly, that is, in accordance with the accounting principles of International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of ordinances of the European Commission, and in areas not regulated in these standards - pursuant to requirements of the Accounting Act and executive ordinances issued on its basis and on the basis of correctly kept accounting books,
- are consistent with the provisions of law affecting the content of the financial statements and the provisions of the Articles of Association of the Company.

The company has documentation describing the accounting principles adopted by it, as specified in art. 10 of the Accounting Act. The applied principles of cost accounting, valuation of assets and liabilities and determining the financial result are compliant with International Accounting Standards and the provisions of the Accounting Act.

Responsibility for the correctness of the Company's accounts lies with the Management Board.

The accounting records are kept using computer technology with application of programs for which the Company has obtained a license. The accounting books are kept at the registered office of the Company. Records kept enable to determine the financial result, VAT tax and other budgetary commitments. The accounting register ensures correctness and completeness of entries.

VRG S.A. Capital Group

The chronology of economic events is respected.

Entries in the accounting books reflect the actual state, data is entered in full and correctly, on the basis of accounting documents qualified for booking. Continuity of records and correctness of applied procedures are ensured.

Accounting documents meet the requirements of the Accounting Act.

Only selected employees have access to data entry into the computer system. Access control is carried out at every stage of preparation of financial statements, starting from entering source data, through data processing, to generating information output.

III.

Indication of the Company's shareholders holding directly or indirectly significant blocks of shares with information on number of shares held by these entities, their percentage stake in equity, number of votes resulting therefrom and their percentage share in the total number of votes at the General Shareholder Meeting

1. Shareholder structure of the Company's equity in accordance with the information available to the Company as at December 31, 2018

As at 31.12.2018, the share capital of VRG S.A. was divided into 234,455,840 ordinary bearer shares, which entitled to a total of 234,455,840 votes at the General Shareholder Meeting of VRG S.A. ("the Company").

The table below presents information on shareholders who, to the best of the Company's knowledge, held, directly or indirectly through subsidiaries, at least 5% of the total number of votes at the General Shareholder Meeting.

No.	Shareholders	Number of shares held	Share in equity (in %)	Number of votes at the AGM	Share in the total number of votes at the AGM (in %)
1	Open Pension Fund PZU „Złota Jesień” ¹	34,093,568	14.54	34,093,568	14.54
2	Nationale-Nederlanden Open Pension Fund and Nationale-Nederlanden Voluntary Pension Fund ²	24,535,000	10.46	24,535,000	10.46
3	Jerzy Mazgaj with related party Krakchemia S.A. ³	21,944,333	9.36	21,944,333	9.36
4	IPOPEMA TFI ⁴	21,137,000	9.02	21,137,000	9.02

¹ information on number of shares presented in accordance with notification received by the Company pursuant to art. 69 par. 1 point 2, para. 2 point 1 lit. a) and art. 69a paragraph 1 point 1 of the Act of 29 July 2005 on public offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies

² information on number of shares stated on the basis of number of shares registered by Nationale-Nederlanden Open Pension Fund and Nationale-Nederlanden Voluntary Pension Fund at the Company's Extraordinary General Shareholder Meeting on 31.10.2018 and publicly available sources of information on the total number of shares held jointly by Nationale- Nederlanden Open Pension Fund and Nationale-Nederlanden Voluntary Pension Fund in the equity of acquired Bytom S.A.

³ information on number of shares presented in accordance with notifications received by the Company pursuant to art. 69 of the Act of 29 July 2005 on public offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies and in accordance with notifications received by the Company pursuant to art. 19 MAR. According to the information possessed by the Company, Mr. Jerzy Mazgaj owns 17,944,333 shares of the Company independently, which constitutes 7.65% of the Company's equity and is entitled to 17,944,333 votes at the General Shareholder Meeting of the Company, which constitutes 7.65% of the total number of votes at the General Shareholder Meeting of the Company.

⁴ information on number of shares stated in accordance with the notification received by the Company pursuant to art. 69 par. 1 point 2, art. 69a paragraph 1 point 1 and art. 87 par. 1 point 2 of the Act of 29 July 2005 on public offer and conditions for introducing financial instruments to organized trading system and on public companies, applies to shares held jointly by funds managed by IPOPEMA TFI. According to information possessed by the Company, the IPOPEMA 2 FIZAN fund owns 21,137,000 shares of the Company independently, which constitutes 9.02% of the Company's share capital and is entitled to 21,137,000 votes at the General Shareholder Meeting of the Company, which is 9.02% the total number of votes at the General Shareholder Meeting of the Company.

2. Shareholder structure of the Company's equity in accordance with the information held by the Company as at the date of preparation of the annual report for the financial year 2018

VRG S.A. Capital Group

The table below contains information about Shareholders who had as at the date of preparation of the annual report for the financial year 2018, at least 5% of the total number of votes at the General Meeting of Shareholders, according to information possessed by the Company.

As at 18.03.2019, the share capital of VRG S.A. is divided into 234,455,840 ordinary bearer shares, which entitle to a total of 234,455,840 votes at the General Shareholder Meeting of VRG S.A. ("the Company").

The table below presents information on shareholders who, to the best of the Company's knowledge, hold, directly or indirectly through subsidiaries, at least 5% of the total number of votes at the General Shareholder Meeting.

No.	Shareholders	Number of shares held	Share in equity (in %)	Number of votes at the AGM	Share in the total number of votes at the AGM (in %)
1	Open Pension Fund PZU „Złota Jesień” ¹	34,093,568	14.54	34,093,568	14.54
2	IPOPEMA TFI ²	25,455,558	10.86	25,455,558	10.86
3	Nationale-Nederlanden Open Pension Fund and Nationale-Nederlanden Voluntary Pension Fund ²	24,535,000	10.46	24,535,000	10.46
4	Jerzy Mazgaj with related party Krakchemia S.A. ³	21,944,333	9.36	21,944,333	9.36

¹ information on number of shares presented in accordance with notification received by the Company pursuant to art. 69 par. 1 point 2, para. 2 point 1 lit. a) and art. 69a paragraph 1 point 1 of the Act of 29 July 2005 on public offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies

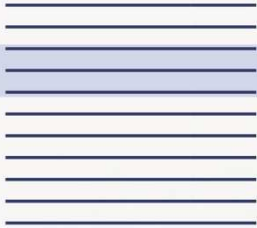
² information on number of shares stated in accordance with notification received by the Company pursuant to art. 69 par. 1 point 1, art. 69a paragraph 1 point 1 and art. 87 par. 1 point 2 of the Act dated 29 July 2005 on public offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies, applies to shares held jointly by all funds managed by IPOPEMA TFI

³ information on number of shares presented on the basis of the number of shares registered by Nationale-Nederlanden Open Pension Fund and Nationale-Nederlanden Voluntary Pension Fund at the Extraordinary General Shareholder Meeting of the Company on 31.10.2018 and publicly available sources of information on the total number of shares held jointly by Nationale- Nederlanden Open Pension Fund and Nationale-Nederlanden Voluntary Pension Fund in equity of acquired Bytom S.A.

⁴ information on the number of shares stated in accordance with the notifications received by the Company pursuant to art. 69 of the Act of 29 July 2005 on public offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies and in accordance with notifications received by the Company pursuant to art. 19 MAR. According to information possessed by the Company, Mr. Jerzy Mazgaj owns 17,944,333 shares of the Company independently, which constitutes 7.65% of the Company's share capital and is entitled to 17,944,333 votes at the General Shareholder Meeting of the Company, which constitutes 7.65% of the total number of votes at the General Shareholder Meeting of the Company.



**2019 target:
8% YoY Group
floorspace
growth**



IV.

Indication of holders of any securities that give special control rights, along with a description of these rights

All the Company's shares are ordinary bearer shares with which no preference is associated, particularly with regard to special control rights.

V.

Indication of any restrictions on the exercise of voting rights, such as limitation of the exercise of voting rights by the holders of a given part or number of votes, and time limitations regarding the exercise of voting rights or clauses, in which, with the cooperation of the Company, rights related to securities are separated from possession of those securities

According to the Company's Articles of Association, there are no limitations in the exercise of voting rights, such as limitation of the right to vote by the holders of a certain part or number of votes, time limits regarding the exercise of voting rights or clauses, under which, with the cooperation of the Company, capital rights related to securities are separated from the possession of securities.

VI.

Indication of any restrictions on the transfer of ownership of the Company's securities

Pursuant to the Company's Articles of Association, restrictions on the transfer of ownership of the Company's securities do not occur.

VII.

Description of the rules for altering the Company's Articles of Association

According to the wording of art. 430 § 1 of the Code of Commercial Companies, amendment to Articles of Association requires a resolution of the General Shareholder Meeting and entry in the registrar.

According to art. 402 § 2 of the Code of Commercial Companies, in the announcement on convening the General Shareholder Meeting, whose agenda includes the intended change to the Articles of Association, it is necessary to present the existing provisions as well as the content of the proposed changes. If it is justified by a significant scope of intended changes, the announcement may contain a draft of a new uniform text of the Articles of Association together with enumeration of the new or amended clauses of the Articles of Association.

In accordance with the Company's Articles of Association, any amendments to the Articles of Association belong to the exclusive competence of the General Shareholder Meeting, which takes decisions in this matter in the form of resolutions. Competences resulting from exclusive entitlements to make amendments to the Articles of Association of the Company, the General Shareholder Meeting conducts on the request of the Company's Management Board submitted together with a written opinion of the Supervisory Board. Shareholders' request in these matters should have an opinion of the Company's Management and Supervisory Board.

According to art. 415 of the Code of Commercial Companies, the resolution regarding the amendment of Articles of Association is passed by a three-fourths majority, however, a resolution to amend the Articles of Association increasing the benefits of shareholders or reducing the rights granted personally to individual shareholders requires the consent of all concerned shareholders.

VIII.

Description of the way General Shareholder Meeting functions and its basic powers together with a description of shareholders' rights and how they are exercised

1. Description of the functioning of the General Shareholder Meeting and its basic powers:

The General Shareholder Meeting of the Company is the body deciding on basic matters relevant to the functioning of the Company.

The Company's General Shareholder Meeting operates based on the provisions of the Code of Commercial Companies, the Company's Articles of Association and in accordance with the permanent Regulations of the General Shareholder Meeting adopted by resolution No. 2 of the Ordinary General Shareholder Meeting of the Company of June 30, 2004, as amended by resolution No. 29/06/2009 of the Ordinary General Shareholder Meeting of the Company on June 29, 2009.

The full text of the Company's Articles of Association, specifying in detail the competences of the General Shareholder Meeting, is available at the Company's registered office and at the Company's website at www.vrg.pl.

Until August 3, 2009, the Company convened the General Shareholder Meeting pursuant to art. 402 of the Code of Commercial Companies by an announcement made at least three weeks before the date of the General Shareholder Meeting, which included the date, time and place of the General Shareholder Meeting and a detailed agenda, and in the case of the intended amendment of the Articles of Association, the existing provisions as well as the content of proposed changes, as well as if it was justified by a significant scope of intended changes, the announcement included a draft of a new uniform text of the Articles of Association together with enumeration of new or amended provisions of the Articles of Association.

In the period from August 3, 2009, due to new regulations introduced into the Code of Commercial Companies, the following general principles apply to the General Shareholder Meeting of the Company in relation to the rules of convening the General Shareholder Meeting. Provisions of the Articles of Association that are inconsistent with these regulations are not applicable to the General Meetings of the Company after that date.

The General Meeting may be ordinary or extraordinary.

The General Shareholder Meetings of the Company are held at the registered office of the Company or in other places permitted by generally applicable regulations.

In the light of the provisions of § 30 para. 1 of the Company's Articles of Association the competences of the General Shareholder Meeting include:

- 1) consideration and approval of the Management Board's report on the Company's operations and financial statements for the previous financial year,
- 2) adopting a resolution on the distribution of profit or coverage of losses,
- 3) granting discharge to members of the Company's governing bodies for the performance of their duties,
- 4) change of the subject of the Company's activity,
- 5) change of the Company Articles of Association,
- 6) increasing or decreasing the share capital,
- 7) merger of the Company, division of the Company, transformation of the Company,
- 8) dissolution and liquidation of the Company,

VRG S.A. Capital Group

9) issuance of convertible bonds or bonds with pre-emptive rights and issuance of subscription warrants referred to in art. 453 § 2 of the Code of Commercial Companies,

10) all provisions regarding claims for damages caused when establishing the Company or exercising management or supervision,

11) redemption of shares.

In addition to the abovementioned matters, resolutions of the General Shareholder Meeting are required for matters specified in the Code of Commercial Companies.

Competences mentioned in point 2), 4), 5), 6), 7), 9) above, the General Shareholder Meeting executes at the request of the Company's Management Board together with a written opinion of the Supervisory Board. The shareholders' request in these matters should be reviewed by the Company's Management and the Supervisory Board.

The Ordinary General Shareholder Meeting is convened by the Management Board of the Company and should take place within 6 months after the end of the Company's financial year. The Ordinary General Shareholder Meeting may also be convened by the Supervisory Board if the Management Board fails to convene it on that date.

The Extraordinary General Shareholder Meeting is convened by the Management Board of the Company on its own initiative or on the initiative of shareholders representing at least 1/20 (one twentieth) of the share capital of the Company. The Extraordinary General Shareholder Meeting should be convened within 2 (two) weeks from the moment the motion is submitted by authorized entities.

The Extraordinary General Shareholder Meeting may also be convened by the Supervisory Board, anytime it deems the convocation necessary.

The Extraordinary General Shareholder Meeting may be convened by shareholders representing at least half of the share capital or at least a half of all votes in the Company. Shareholders appoint the chairman of this Meeting.

The General Shareholder Meeting of a public company is convened through an announcement made on the Company's website and in a manner specified for the provision of current reports in accordance with the provisions of the Act on Public Offerings and Conditions for Introducing Financial Instruments to Organized Trading and Public Companies. The announcement should be made at least twenty-six days before the date of the General Shareholder Meeting.

The announcement about the General Shareholder Meeting of a public company should contain at least:

- 1) the date, time and place of the General Shareholder Meeting and the detailed agenda,
- 2) a detailed description of the procedures for participating in the General Shareholder Meeting and exercising the voting rights, in particular information on:
 - a) the shareholder's right to demand putting certain issues on the agenda of the General Shareholder Meeting,
 - b) the right of the shareholder to submit draft resolutions regarding matters added to the agenda of the General Shareholder Meeting or matters that are to be included in the agenda before the date of the General Shareholder Meeting,
 - c) the right of the shareholder to submit draft resolutions regarding matters added to the agenda during the General Shareholder Meeting,
 - d) the manner of exercising the right to vote through a proxy, in particular about the forms used during the proxy voting, and the method of notifying the Company by means of electronic communication on appointment of a proxy,

VRG S.A. Capital Group

- e) the possibilities and manner of participation in the General Shareholder Meeting by means of electronic communication,
 - f) the manner of speaking during the General Shareholder Meeting by means of electronic communication,
 - g) the manner of exercising the right to vote by correspondence or by means of electronic communication,
- 3) the day of registration to participate in the General Shareholder Meeting referred to in art. 406¹ of the Code of Commercial Companies,
 - 4) information that the right to participate in the General Shareholder Meeting is only available to persons who are shareholders of the Company on the day of registration of participation in the General Shareholder Meeting,
 - 5) an indication of where and how a person entitled to participate in the General Shareholder Meeting may obtain the full text of the documentation to be presented to the General Shareholder Meeting and draft resolutions or, if no resolutions are envisaged, comments of the Management Board or the Supervisory Board regarding matters put on the agenda of the General Shareholder Meeting or matters to be included in the agenda before the date of the General Shareholder Meeting,
 - 6) indication of the address of the website on which information on the General Shareholder Meeting will be made available.

A shareholder or shareholders representing at least 1/20 of the Company's share capital may request that particular matters be placed on the agenda of the General Shareholder Meeting, which they request to be convened pursuant to Art. 400 § 1 of the Code of Commercial Companies and also on the agenda of the next General Shareholder Meeting.

In the case of election of Supervisory Board members by group voting, the Chairman of the General Meeting shall call on shareholders or their representatives participating in the General Shareholder Meeting to form a separate group or groups to elect one or several members of the Supervisory Board; these persons, however, do not take part in the selection of other members of the Supervisory Board.

If at least one group capable of electing a member of the Supervisory Board is not appointed, the Chairman of the General Shareholder Meeting states that the General Shareholder Meeting does not elect the members of the Supervisory Board.

After the election of the members of the Supervisory Board by the created group or groups, the General Shareholder Meeting shall elect the remaining members of the Supervisory Board by voting in which all shareholders or their representatives participate, whose votes have not been cast in the selection of members of the Supervisory Board elected by voting in separate groups.

The General Shareholder Meeting is opened by the Chairman of the Supervisory Board or another person in accordance with art. 409 § 1 of the Code of Commercial Companies, who then manages the election of the Chairman of the General Shareholder Meeting. The person opening the General Shareholder Meeting should refrain from any other substantive or formal decisions.

The Chairman of the General Shareholder Meeting prepares and signs the attendance list containing the list of participants of the General Shareholder Meeting with the number of shares that each of them represents and the votes they are entitled to. The list, after being signed by the Chairman of the General Shareholder Meeting, is displayed during the General Shareholder Meeting.

The Chairman of the General Shareholder Meeting is obliged to ensure the proper conduct of the proceedings and voting. The Chairman of the General Shareholder Meeting gives the floor to the participants of the meeting. The Chairman of the General Shareholder Meeting may present to the General Shareholder Meeting the rules of voting and adopting resolutions. He may also, in justified cases, announce short breaks in the proceedings.

VRG S.A. Capital Group

However, the Chairman of the General Shareholder Meeting is not entitled, without the consent of the General Shareholder Meeting, to delete or change the order of matters included in the agenda.

The Returning Committee is appointed only if an electronic system of counting votes is not provided or if the appointment of such a committee is demanded by a shareholder and the General Shareholder Meeting will adopt an appropriate resolution on this matter. In this case, a two-person committee is elected by the General Shareholder Meeting.

At the shareholder's request, the General Shareholder Meeting may appoint a Resolutions and Motions Committee. In this case, a two-person committee is elected by the General Shareholder Meeting.

At the request of a shareholder, the General Meeting may establish a Returning Committee combined with Resolutions and Motions Committee - performing the functions of both the Returning Committee and the Resolution and Motion Commission referred to in § 6 and 7 of the Regulations of the General Shareholder Meeting.

The General Shareholder Meeting may order breaks in the session by a two-thirds majority of votes. In total, the breaks cannot last longer than 30 days.

In the light of the provisions of § 26 para. 1 of the Company's Articles of Association, the General Shareholder Meeting may adopt resolutions regardless of the number of shareholders present and shares represented, unless the provisions of the Code of Commercial Companies state otherwise.

Unless the Company's Articles of Association or the Code of Commercial Companies provide otherwise, each share gives the right to one vote at the General Shareholder Meeting.

Pursuant to the provisions of § 28 of the Company's Articles of Association, voting during the General Shareholder Meeting is public. Secret voting is ordered at elections and on motions to dismiss members of the authorities or receivers of the Company, or to hold them liable, as well as in personal matters. In addition, a secret ballot shall be arranged at the request of at least one of those present entitled to vote.

Resolutions of the General Shareholder Meeting are adopted by a simple majority of votes cast, unless the provisions of the Code of Commercial Companies or the Company Articles of Association provide otherwise.

Resolutions on a significant change in the subject of the Company's operations are passed by a two-thirds majority of votes by open and registered vote. Such resolutions require an announcement.

Resolutions of the General Shareholder Meeting shall be included in the minutes drawn up by a notary public. The minutes should state the correctness of convening of the General Shareholder Meeting and its ability to adopt resolutions, state the resolutions and on each resolution indicate: the number of shares from which valid votes were cast, the percentage of these shares in the share capital, the total number of valid votes, the number of votes "in favour", "against" and "abstaining" and objections raised. An attendance list with signatures of the participants of the General Shareholder Meeting and a list of shareholders voting by correspondence or otherwise using the electronic communication means shall be attached to the minutes. The Management Board attaches the evidence of convening the General Shareholder Meeting to the book of minutes.

The minutes also include resolutions that were not adopted by the General Shareholder Meeting.

The excerpt from the minutes along with the evidence of convening the General Shareholder Meeting and the powers of attorney granted by the shareholders are attached to the book of minutes by the Management Board.

Shareholders may review the book of minutes and request the issuance of resolutions certified by the Management Board.

Other rules regarding the course of the General Meeting are regulated by the Code of Commercial Companies.

2. Description of shareholders' rights and the manner of exercising them:

The Company's shares are bearer shares with which no preference is associated. Each shareholder of the Company has the right to vote, which is exercised through the presence at the General Shareholder Meeting of the Company.

The property and corporate rights of the Company's shareholders are described below. Since all shares issued by the Company are dematerialized, only the regulations regarding the rights of shareholders entitled to dematerialized shares are discussed below.

The following rights are associated with the possession of the Company's shares:

1. Property rights resulting from shares:

■ Right to dividend

The right to dividend is defined as the right to participate in the Company's profits.

This right is absolute, which means that a shareholder cannot be deprived of it by means of provisions in the Company's Articles of Association or a resolution of the General Shareholder Meeting.

However, in order to benefit from the right to dividend, certain conditions must be met, the most important of which is the Company's profit.

The amount to be distributed among shareholders may not exceed the profit for the last financial year, increased by undistributed profits from previous years, and the amounts transferred from the reserve capital and other capital reserves created from profit, which may be allocated for the payment of dividends. This amount should be reduced by uncovered losses, treasury shares and amounts that, according to the law or Articles of Association, should be allocated from the profit for the last financial year to reserve capital or other capital reserves (Article 348 § 1 of the Code of Commercial Companies).

The entitlement to participate in the profit results from the fact of being a shareholder (holding shares) and is a property right inextricably linked to the shares.

Profit which is the base for dividend payment must be disclosed in the financial statements audited by the auditor; this profit should be simultaneously allocated by the General Shareholder Meeting for pay out to shareholders.

The rules for appointing those entitled to dividend for a given financial year are specified in the Code of Commercial Companies, Detailed Operating Principles of the National Depository for Securities ("KDPW") and the Regulations of the Warsaw Stock Exchange S.A.

The payment of the dividend takes place via KDPW. KDPW, after receiving financial resources from the Company, then transfers the amounts due from the dividend to the securities accounts of the shareholders entitled to the dividend in accordance with the resolution of the General Shareholder Meeting. A claim for payment of a dividend becomes due as of the date indicated in the resolution of the General Shareholder Meeting and is subject to statute of limitations on general terms.

The Company's Articles of Association do not authorize the Management Board to pay shareholders an advance on the anticipated dividend (i.e. interim dividend).

■ Pre-emptive right

The shareholder has the right of priority to subscribe for new shares in relation to the number of shares held (pre-emptive right) while maintaining the requirements referred to in art. 433 of the Code of Commercial Companies.

A shareholder may be deprived of pre-emptive rights in part or in full in the interest of the Company. The Management Board presents the General Shareholder Meeting with a written opinion justifying the reasons for deprivation of the pre-emptive right.

Deprivation of the pre-emptive right requires a resolution of the General Shareholder Meeting adopted by a majority of four fifths of votes. However, the provision on the necessity to obtain a majority of at least 4/5 votes does not apply if the resolution on the share capital increase states that new shares are to be taken up entirely by a financial institution (underwriter), with the obligation to offer them subsequently to shareholders enabling them to exercise pre-emptive rights on the terms specified in the resolution and if the resolution states that new shares are to be taken up by the underwriter, if the shareholders to whom the pre-emptive rights are vested, do not take part or all of the shares offered to them.

Depriving shareholders of pre-emptive right of shares may take place only if it has been announced in the agenda of the General Shareholder Meeting.

Pre-emptive right is a security within the meaning of art. 3 point 1 of the Act of July 29, 2005 on Trading in Financial Instruments (consolidated text, Official Journal of Laws of 2018, item 2228, as amended) (hereinafter: "Act on Trading in Financial Instruments"), thus it may be subject of listing on the regulated market. Pre-emptive right is associated with shares already issued. The condition for the creation of this right is the adoption of a resolution by the General Shareholder Meeting on the issuance of new shares by the Company.

A resolution to increase the share capital (unless shareholder have been deprived of pre-emptive rights) should indicate the pre-emptive right day, according to which the shareholders who are entitled to the right to collect new shares are determined. The pre-emptive rights day cannot be determined later than within three months from the day the resolution on the increase of the share capital is taken, and in the case of a public company - six months from the day of adopting the resolution.

■ Right to transfer shares

One of the basic principles contained in the Code of Commercial Companies is the right to sell shares by the shareholder. The sale takes place under the rules set out in the Civil Code.

Disposal means the legal act of transferring the ownership of the securities from the seller to the buyer. The sale may take the form of pecuniary (sale) or unpaid activities (donation). The provisions of the Company's Articles of Association do not contain any restrictions relating to the acquisition or sale of shares in the Company.

Upon the registration of the Company's shares by KDPW, the shares of the Company were dematerialized. At the time of dematerialisation, the rules regarding the acquisition of securities changed, as disposing effect in the form of disposal of shares takes place at the moment of registration the Company's shares on the buyer's account.

In case of dematerialized shares, a special procedure for the sale of shares applies:

rights from such securities arise when the securities are first recorded on the securities account and are held by the person who is the holder of the account. The contract obliging to transfer dematerialized securities transfers these securities to the buyer upon making the appropriate entry on the securities account. If the determination of the right to benefit from these securities took place on the day on which the transaction was settled at KDPW, or later, and these securities are still recorded in the account of the seller, the benefits accrue to the buyer at the time of subscription on his securities account .

■ The right to establish a pledge or usufruct on shares

Establishing a pledge on shares

A shareholder may establish a pledge on his/her shares in the Company.

The Company's Articles of Association do not provide for any restrictions in this regard.

The right to set a pledge on shares results for the entitled person from art. 337 of the Code of Commercial Companies, in which it refers to the disposition of shares, and thus also to perform activities related to the establishment of a pledge or usufruct on shares of the Company.

The subject of the pledge on shares is not the share itself, but the rights incorporated in the shares. For this reason, the provisions of the Civil Code on pledge on rights - regulated in art. 327 - 335 of the Civil Code apply.

In the light of art. 329 § 1 sentence 1 of the Civil Code, to establish a pledge on a right, the provisions on the disposal of this right shall apply. Establishment of a pledge will require the conclusion of an agreement between a shareholder acting as a pledger and his creditor acting as a pledgee, and then transferring the ownership of shares to the pledgee.

The legal status of the pledgee of shares is regulated, inter alia, in the provisions of: art. 340 § 1 and 3, art. 341, art. 362 § 3, art. 588 of the Code of Commercial Companies.

The establishment of a pledge on shares of companies whose shares are admitted to public trading is covered by a separate legal regime.

In connection with the conclusion of the pledge agreement, the pledgee will in principle be entitled to property rights, which are referred to as the benefits of the law (Article 54 of the Civil Code). These rights include: voting rights, the right to dividend, the right to participate in the liquidation mass.

With regard to the voting right, it should be mentioned that pursuant to art. 340 § 3 of the Code of Commercial Companies, in the period when the shares of a public company on which the pledge was established or used are recorded in securities accounts maintained by an authorized entity in accordance with the provisions on trading in financial instruments, the shareholder has the right to vote.

Establishment of usufruct on shares

A shareholder may establish usufruct on his/her shares of the Company.

The Company's Articles of Association do not provide for any restrictions in this regard.

The legal admissibility of establishing usufruct on shares results from art. 265 of the Civil Code stating that the rights may also be subject to usufruct. The establishment of usufruct on shares will relate to rights related with those shares. The legal status of the beneficiary of the person signing the usufruct on the shares (user) is regulated by the provisions of art. 4 § 1 points 4 a), art. 340, 341 § 2, art. 343 § 2 and 406 § 1 of the Code of Commercial Companies.

Establishment of usufruct on shares requires the conclusion of an agreement with the participation of a shareholder and a third party for whom the right of usufruct is established (user).

One should also indicate to a regulation contained in art. 340 § 3 of the Code of Commercial Companies, according to which in the period when the shares of a public company on which the pledge or usufruct was established are recorded in securities accounts maintained by an authorized entity in accordance with the provisions on trading in financial instruments, voting rights from such shares is entitled to a shareholder.

2. Corporate shareholders' rights:

■ The right of a shareholder to elect the members of the Company's Supervisory Board

The Supervisory Board of the Company consists of 5 - 7 members. The number of members of the Supervisory Board is determined by the General Shareholder Meeting.

Members of the Supervisory Board are appointed and dismissed by the General Shareholder Meeting for the joint term in office.

If the election is made via the General Shareholder Meeting at the request of shareholders representing at least one fifth of the share capital, the election of the Supervisory Board may be made by voting in separate groups.

The Regulations of the General Shareholder Meeting in force at the Company provide for rules of conduct in the event of election of members of the Supervisory Board by voting in separate groups.

Persons representing at the General Shareholder Meeting this portion of shares, which falls due after division of the total number of represented shares by the number of Supervisory Board members, may form a separate group to elect one member of the Supervisory Board, without taking part in the selection of other members of the Supervisory Board.

The election of the Supervisory Board by groups prefers minority shareholders. Thanks to the possibility of creating separate groups, they can introduce their representatives to the Supervisory Board. The selection of groups takes place at the request of shareholders even when the Company's Articles of Association provide for a different manner of appointing the Supervisory Board. The selection of groups applies to all members of the Supervisory Board. The only exception is when the Supervisory Board consists of a person appointed by an entity authorized to choose independently on the basis of separate legal provisions. Only the other members of the Supervisory Board are subject to election.

If the Supervisory Board was elected by voting in separate groups, each group has the right to delegate one of the Supervisory Board members elected by it to permanent individual performance of supervisory activities. These members have the right to participate in meetings of the Management Board in an advisory capacity. The Management Board is obliged to notify them in advance about each of their meetings.

Members of the Supervisory Board, delegated to permanent individual performance of supervision, receive a separate remuneration, the amount of which is determined by the General Shareholder Meeting. The General Shareholder Meeting may entrust this right to the Supervisory Board. These persons are obliged with the competition ban referred to in art. 380 of the Code of Commercial Companies.

■ **The right to convene and request the convening of an Extraordinary General Shareholder Meeting or placing certain matters on the agenda of the General Shareholder Meeting**

Shareholders or a shareholder of the Company representing at least one twentieth of the Company's share capital have the right to request that an Extraordinary General Shareholder Meeting be convened and that specific matters be placed on the agenda of the Meeting. The request to convene an Extraordinary General Shareholder Meeting should be submitted to the Management Board in writing or in electronic form.

If, within two weeks from the date of submitting the request to the Management Board, the Extraordinary General Shareholder Meeting is not convened, a registry court may authorize the shareholders that demand the meeting to convene the Extraordinary General Shareholder Meeting. The court appoints the chairman of this Meeting. The Meeting referred to shall adopt a resolution deciding whether the costs of convening and holding the Meeting shall be borne by the Company. Shareholders, on whose request the Meeting has been convened, may apply to the registry court for exemption from the obligation to cover the costs imposed by the resolution of the General Shareholder Meeting. In the notification of convening the Extraordinary General Shareholder Meeting referred to in this paragraph, reference should be made to the decision of the registry court.

In addition, a shareholder or shareholders representing at least one twentieth of the share capital may request that certain matters be placed on the agenda of the next General Shareholder Meeting. The request should be submitted to the Management Board no later than twenty one days before the set date of the Meeting. The request should contain justification or a draft resolution regarding the proposed agenda item. The request may be submitted in

electronic form. The Management Board is obliged to announce immediately, but no later than eighteen days prior to the scheduled date of the General Shareholder Meeting, changes to the agenda, introduced at the request of shareholders. The announcement is made in a manner appropriate for convening the General Shareholder Meeting.

In addition, the right to convene an Extraordinary General Shareholder Meeting was granted to shareholders representing at least half of the share capital or at least half of the total votes in the Company. Shareholders appoint the chairman of this Meeting (Article 399 § 3 of the Code of Commercial Companies).

The above-described rights are governed by the provisions of the Code of Commercial Companies, whereas the Company's Articles of Association do not contain any restrictions or privileges for the Company's shareholders in this regard. Moreover, no personal rights connected with convening General Shareholder Meetings were granted in the Company's Articles of Association.

■ **The right to participate in the General Shareholder Meeting and the right to request copies of motions on issues included in the agenda of the General Shareholder Meeting**

The shareholder's right to participate in the General Shareholder Meeting is one of the fundamental absolute rights of a shareholder, i.e. rights which the shareholder cannot be deprived of. The implementation of this right is guaranteed by art. 412 of the Code of Commercial Companies.

According to art. 4061 § 1 of the Code of Commercial Companies, persons who are shareholders on the day of registration, i.e. sixteen days before the date of the General Shareholder Meeting, have the right to participate in the General Shareholder Meeting of the Company.

To participate in the General Shareholder Meeting of the Company, entitled from dematerialised bearer shares shareholder, should apply to the entity maintaining the securities account not earlier than after the announcement of convening the General Shareholder Meeting and no later than the first weekday after the registration of participation in the General Shareholder Meeting to obtain a personal certificate of the right to participate in the General Shareholder Meeting (Article 4063 § 2 of the Code of Commercial Companies in connection with Article 4063 § 6 and § 7 of the Code of Commercial Companies).

The Company establishes a list of persons entitled to participate in the General Shareholder Meeting based on the list prepared by the entity keeping the securities deposit in accordance with the provisions on trading in financial instruments. The Management Board presents a list for information at the Company's headquarters for 3 (three) business days prior to the date of the General Shareholder Meeting.

Shareholders may participate in the General Shareholder Meeting and exercise their voting rights in person or by proxy.

The Company's Articles of Association do not allow shareholders to participate in the General Shareholder Meeting by means of electronic communication.

The power of attorney to participate in the General Shareholder Meeting of a public company or to exercise the voting right must be granted in writing or in electronic form without the requirement to use a secure signature verified by means of a valid qualified certificate.

On 29 June 2009, the General Shareholder Meeting of the Company, by virtue of resolution No. 29/06/2009, changed the Regulations of the General Shareholder Meeting regarding the procedure of notifying the Company of the power of attorney in electronic form via electronic means of communication.

A shareholder is entitled to notify the Company of the power of attorney to participate in the General Shareholder Meeting of the Company or to exercise the right to vote in electronic form without the requirement to use a secure signature of such power of attorney in accordance with the rules set out below.

Before the date of the General Shareholder Meeting, the Company makes available on the website www.vrg.pl a form for a power of attorney, which after filling in, the shareholder may send to the Company via the Company's website.

A shareholder who wishes to grant a power of attorney in the aforementioned form, asks in person or in writing for the Company to issue a login and password, which allows the shareholder to carry out the verification and proxy procedure in an electronic form. The shareholder undertakes to keep the assigned login and password confidential to him. The login and password are sent to the shareholder by letter or courier to the address provided by him in the request. A shareholder may change the password independently via the Company's website.

Before granting a power of attorney in electronic form, each shareholder should assess the risk related to notifying the Company of granting a power of attorney by means of electronic communication without using a secure signature.

Detailed rules for the implementation of the above procedure are determined by the Management Board of the Company. The Management Board of the Company may introduce additional security at its own discretion.

According to art. 407 § 2 of the Code of Commercial Companies, a shareholder has the right to request copies of motions on matters included on the agenda within one week prior to the General Shareholder Meeting. Making copies of these applications takes place at the Company's expense.

In addition, pursuant to art. 407 § 1 of the Code of Commercial Companies, a shareholder may review the list of shareholders entitled to participate in the General Shareholder Meeting, which should be displayed on the Management Board's premises three business days prior to the General Shareholder Meeting and request a copy of the list with reimbursement of costs for copying. A shareholder of a public company may also request that the list of shareholders be sent to him free of charge by e-mail, giving the address to which the list should be sent.

■ **The right to submit draft resolutions for the General Shareholder Meeting**

In accordance with art. 401 § 5 of the Code of Commercial Companies, each shareholder may submit draft resolutions regarding matters included in the agenda during the General Shareholder Meeting.

In addition, pursuant to art. 401 § 4 of the Code of Commercial Companies, shareholders or shareholders representing at least one twentieth of the Company's share capital have been granted the right to notify the Company before the date of the General Shareholder Meeting in writing or using electronic communication means of draft resolutions regarding matters included in the agenda of the General Shareholder Meeting or matters to be included in the agenda. The company immediately publishes draft resolutions on the website.

■ **The right to adopt resolutions at the General Shareholder Meeting**

Shareholders present at the General Shareholder Meeting adopt resolutions provided for in the agenda. In cases not covered by the agenda, no resolution may be passed, unless the entire share capital is represented at the General Shareholder Meeting and none of those present objected to the adoption of the resolution.

The Code of Commercial Companies grants each share the right to one vote at the General Shareholder Meeting (Article 411 § 1 of the Code of Commercial Companies). The Company's Articles of Association do not contain any provisions to this effect. The provisions of the Company's Articles of Association also do not contain any restrictions on the exercise of voting rights by shareholders.

The Company's shareholders may vote differently from each of the shares held (Article 4113 of the Code of Commercial Companies).

The Regulations of the Company's General Shareholder Meeting do not provide for the possibility of voting (adopting resolutions) in correspondence.

The voting right vested to a shareholder is limited if the subject matter of the resolution is the extent of liability of that shareholder to the Company for any reason, including granting him discharge, waiving the liability towards the Company and a dispute between him and the Company (Article 413 of the Code of Commercial Companies)); in this case, the shareholder is excluded from the vote.

Voting during the General Shareholder Meeting may take place using the electronic vote counting system.

■ **The right to request a list of shareholders present at the General Shareholder Meeting**

The right to request verification of the attendance list of shareholders present at the General Shareholder Meeting is vested to shareholders representing jointly at least 1/10 of the share capital at this General Shareholder Meeting. According to art. 410 § 2 of the Code of Commercial Companies, the attendance list should be checked by a commission elected for this purpose, composed of at least three persons. Applicants have the right to choose one member of the commission.

■ **The right to a registered share certificate**

According to art. 328 § 6 of the Code of Commercial Companies, the Company's shareholder holding dematerialized shares has the right to a registered share certificate issued by the entity keeping the securities account in accordance with the provisions on trading in financial instruments. The certificate confirms the legitimacy to exercise the rights arising from the securities indicated in its content, which are not or cannot be exercised solely on the basis of entries on the securities account, excluding the right to participate in the General Shareholder Meeting.

The share certificate contains:

- 1) the company (name), registered office and address of the issuer and the number of the certificate;
- 2) number of securities;
- 3) the type and code of the security;
- 4) company (name), registered office and address of the Company;
- 5) the nominal value of the security;
- 6) name and surname or name (company) and registered office and address of the securities account holder;
- 7) information on the existing restrictions on the transfer of securities or the charges imposed on them;
- 8) date and place of issuance of the certificate;
- 9) the purpose of issuing the certificate;
- 10) the period of validity of the certificate;
- 11) in the event that a previously issued certificate concerning the same securities was invalid or destroyed or lost before its expiration date - indicating that it is a new certificate document;
- 12) signature of the person authorized to be issue on behalf of the issuing certificate, bearing the stamp of the issuer.

■ **The right to a registered certificate of the right to participate in the General Shareholder Meeting**

According to art. 328 § 6 of the Code of Commercial Companies, a shareholder of the Company holding dematerialized shares has the right to demand from the entity maintaining the securities account issuance of a personal certificate of the right to participate in the General Shareholder Meeting. The request should be submitted not earlier than after the announcement of convening the General Shareholder Meeting and no later than the first weekday after the date of registration of participation in the General Shareholder Meeting (Article 4063 § 2 of the Code of Commercial Companies). Acknowledgment includes:

- 1) the company (name), registered office, address and stamp of the issuer and the number of the certificate,
- 2) the number of shares,
- 3) type and code of shares,
- 4) the company (name), registered office and address of the public company that issued the shares,
- 5) the nominal value of the shares,
- 6) name and surname or company (name) of the holder of the shares,
- 7) registered office (place of residence) and address of the holder of the shares,
- 8) the purpose of issuance of the certificate,
- 9) date and place of issuance of the certificate,
- 10) signature of the person authorized to issue a certificate.

At the request of the holder of the certificate entitled to dematerialized bearer shares, a part or all of the shares registered on his securities account should be indicated in the contents of the certificate.

■ **The shareholder's right to challenge resolutions of the General Shareholder Meeting**

A shareholder right to appeal the resolutions of a General Shareholder Meeting is one of these rights that require an active participation on the side of the shareholder. This right consists of the possibility of a shareholder filing a lawsuit against the Company to revoke or cancel the resolution adopted by the General Shareholder Meeting. The competent court for this type of case is the commercial court.

The subject of appeal may be resolutions of the General Shareholder Meeting that are in contradiction with the Company's Articles of Association or best practices, as well as harming the Company's interest or aimed at harming the shareholder. The resolution may be appealed against by way of an action brought against the Company.

The annulment of a resolution of the General Shareholder Meeting concerns resolutions contrary to the Act. The resolution may be appealed against by way of an action brought against the Company.

The right to bring an action to revoke a resolution or annul the resolution of the General Shareholder Meeting is entitled to, inter alia:

- the shareholder who voted against the resolution, and after it had passed, he/she demanded for his objection to be protocolled,
- a shareholder who was unjustifiably not admitted to participate in the General Shareholder Meeting,
- shareholders who were not present at the General Shareholder Meeting, but only in the case of a faulty convening of the General Shareholder Meeting or the adoption of a resolution regarding a matter not covered by the agenda.

In the case of a public company, the time limit for bringing an action to repeal a resolution is one month from the date of receipt of information about the resolution, however not later than three months from the date of adoption of the resolution.

An action for annulment of a resolution of the General Shareholder Meeting of a public company should be brought within thirty days from the date of its publication, but no later than one year from the date of adoption of the resolution.

■ **The right to bring the Company to court**

A shareholder has the right to file a claim for compensation for damage caused to the Company if the Company does not bring to court the case to repair the damage caused to it within one year from the date of disclosure of the act causing the damage.

This right is governed by the provisions of the Code of Commercial Companies, in particular art. 486 of the Code of Commercial Companies.

3. Shareholder right to information:

■ **The right to request information from the Company's Management Board regarding the Company at the General Shareholder Meeting and in writing outside the General Shareholder Meeting**

As a rule, shareholders of a joint-stock company are entitled to request information about the Company at the General Shareholder Meeting, if it is justified to assess the issue covered by the agenda and provide information about the Company in writing outside the General Meeting pursuant to art. 428 of the Code of Commercial Companies.

The answer is considered to have been given if the relevant information is available on the Company's website in a separate place for asking questions and providing answers to them.

When the request for information has been submitted at the General Shareholder Meeting, the Management Board may provide information in writing outside the General Shareholder Meeting only if there are good reasons to do so. In such a case, the Management Board is obliged to provide information not later than within two weeks from the date of request at the General Shareholder Meeting. Such information together with the date of their publication and the person to whom the information was provided should be disclosed by the Management Board in writing in materials submitted to the nearest General Shareholder Meeting. The materials may not include information provided to the public and granted during the General Shareholder Meeting.

In addition, pursuant to the Code of Commercial Companies, the Management Board provides in writing information about the Company to the shareholder, also when such a request has been submitted outside the General Shareholder Meeting.

In both cases, the Management Board may refuse to provide information regarding the Company for the reasons set out below.

The Management Board refuses to provide information if it could cause damage to the Company, its related company or a subsidiary or cooperative, in particular by disclosing technical, commercial or organizational secrets of the Company.

In addition, in the case of public companies, it should be recognized that this right to information is subject to a certain limitation. The reason is the special mode of performing information obligations on the regulated market.

The Company, like any public company, is required to perform information obligations in the manner and scope provided for in the Act of July 29, 2005 on public offerings and conditions for introducing financial instruments to organized trading and on public companies (consolidated text Official Journal of Laws of 2018 item 512) (hereinafter: "Act on the offer").

In practice, this means sending information as part of current and periodic reports to the extent envisaged by implementing acts to the Act on Trading in Financial Instruments. The data is sent by the ESPI system to the Polish Financial Supervision Authority, and then, after 20 minutes, they are made public by providing them by one of the

national information agencies. Information provided by public companies until the time it is made public is confidential, and its submission in a manner different from the one indicated in the Act on the offer, is related to the administrative responsibility provided for in the said Act.

Bearing in mind the above, the Management Board of the Company has the right to refuse to provide information to a shareholder who had asked such a question on the basis of art. 428 of the Code of Commercial Companies. A refusal, however, may only apply to information that constitutes confidential information, or information that has been published as part of its notification duties. In the case of refusal to provide information already published, the Management Board has the right to invoke the principle of equal access to information and the fact that the mode of informing the shareholder of a public company is carried out within the ESPI system guaranteeing equal access to information.

So the application of art. 428 of the Code of Commercial Companies to a public company concerns, in principle, situation when the question asked by a shareholder concerns matters that need not be disclosed as part of reports sent to the Polish Financial Supervision Authority. Then, the provisions provided for in the abovementioned article apply.

A shareholder who was refused disclosure of the information requested during the General Shareholder Meeting and who raised objections to the minutes may submit on the basis of art. 429 of the Code of Commercial Companies, an application to the registry court to oblige the Management Board to provide information. The application should be submitted within one week from the end of the General Shareholder Meeting at which the information was refused. A shareholder may also submit an application to the registry court for obliging the Company to publish information given to another shareholder outside the General Shareholder Meeting.

The right to receive information only applies to the Management Board. Thus, formally, the Supervisory Board may refuse to answer a question asked by the shareholder or evade the answer.

The right to information belongs only to the shareholder, and thus the Management Board is not formally obliged to answer the question of the pledgee or user authorized to exercise the voting right at the General Shareholder Meeting. The Management Board's obligation to provide information arises only when it is justified for the assessment of a matter covered by the agenda. Therefore, the Management Board is not obliged to provide information on matters other than those on the agenda.

4. Rights of shareholders arising from acts regulating the capital market in Poland:

■ Shareholder's right to information

From among the rights granted to shareholders by the Act on the offer, the broadly understood right of the shareholder to the information is considered the most important from the point of view of the proper functioning of the market.

The right to information is the basic right under the Act on the offer, although none of the provisions of the Act on the offer expressly refer to it. It results from all rights and obligations imposed on investors and issuers.

The most important is that each shareholder of a public company should have access to the same information at the same time as all other shareholders. In other words, the most important is to provide equal opportunities in access to information. This is a basic task, implemented by the provisions of the Act on the offer. Each shareholder should have access to information related to the condition of the Company, the way it operates, and the planned direction of its development.

In the case of the Company, information about the Company is disclosed to the public in the form of current and periodic reports via the ESPI system.

Failure to provide this information or providing untrue information may lead to the investor making an incorrect investment decision and suffering damage. If this occurs, the shareholder / investor who has suffered damage as a result of failure by the Company to disclose information about such events or circumstances that could significantly affect the assessment of the security, has the right to demand its remedying in court.

■ **Other shareholder rights arising from acts regulating the securities market**

In order to implement the principles of compliance with the rules of fair trading and competition and the principle of ensuring universal access to reliable information, the Act on offer imposes numerous obligations on issuers, shareholders and investors who are not shareholders but plan to acquire shares in public companies. Fulfilment of these obligations is usually directly related to the creation of specific rights for shareholders: the right to information about the Company and its shareholders, the right to sell the Company's shares in response to a tender, which allows the Company's "withdrawal" at the right time to obtain a fair share price, the right to claim compensation in the event of damage due to false information in the prospectus.

In addition, the Act on the offer grants shareholders special rights, not related to the performance of any obligations, but related to activity of the investor / shareholder in the Company's structures. These include: the right to request the appointment of an auditor for special matters and the rights arising from the possession of a share certificate.

■ **Shareholders' right to appoint an auditor for special matters**

The right to control the affairs of the Company, implemented by initiating an examination of a particular case by the auditor for special matters, was granted to a shareholder or group of shareholders who hold at least 5% of the total number of votes at the General Shareholder Meeting. This right applies to both shareholders of a public company who hold shares in a public company not admitted to trading on a regulated market, as well as those who hold shares already admitted to trading on a regulated market.

The auditor for special matters may be an entity that has the expertise and qualifications necessary to investigate a particular matter. Depending on the case type, such qualifications may have, for example, persons holding the rights of a certified auditor, persons entered in the list of court experts or other persons possessing knowledge due to acquired professional experience.

There are two modes of appointing the auditor for special matters:

- appointing, through a resolution adopted by the General Shareholder Meeting, and
- appointment by way of a decision issued by the registry court.



**Group stores
were present in
98 cities in 2018**

IX.

Composition and changes that have occurred during the last financial year, and a description of the activities of the management and supervisory bodies of the Company and their committees

3. The Management Board

Composition of the Management Board:

At the balance sheet date of 31.12.2018 the Management Board composed of:

- Grzegorz Pilch – President of the Management Board
- Mateusz Żmijewski – Vice-President of the Management Board
- Michał Wójcik – Vice-President of the Management Board
- Erwin Bakalarz – Member of the Management Board.

The following changes took place within the Company's Management Board during the course of 2018:

Between 01.01.2018 and 30.11.2018 the Company's Management Board composed of:

- Grzegorz Pilch – President of the Management Board
- Mateusz Żmijewski – Vice-President of the Management Board
- Erwin Bakalarz – Member of the Management Board

On November 16, 2018, the Company's Supervisory Board adopted a resolution regarding the conditional appointment of Mr. Michał Wójcik to the Management Board of the Company and entrusting him the function of the Vice-President of the Management Board. Coming into force of the above mentioned resolution was conditional on the registration of merger between the Company and Bytom S.A. based in Cracow at the registrar of entrepreneurs of the National Court Register based on the Resolution No. 03/10/2018 of the Company's Extraordinary Shareholder Meeting dated October 31, 2018 regarding the merger of the Company and Bytom S.A. The above condition was met on 30.11.2018, in which the District Court for Cracow - Śródmieście in Cracow, XI Commercial Division of the National Court Register, registered the merger between the Company (the acquiring company) with and Bytom S.A. (company being acquired) in the registrar of entrepreneurs of the National Court Register.

As a result, from 30.11.2018 to 31.12.2018 the Company's Management Board composed of:

- Grzegorz Pilch – President of the Management Board
- Michał Wójcik – Vice-President of the Management Board
- Mateusz Żmijewski – Vice-President of the Management Board
- Erwin Bakalarz – Member of the Management Board

There were no changes within the Company's Management Board between the balance sheet date, i.e. 31.12.2018 and 18.03.2019 (date of publication of this statement).

Rules of Management Board operations:

The Management Board of the Company is appointed by law to conduct the affairs of the Company and to represent it. The Management Board of the Company operates based on the provisions of applicable law, including, in particular, the Code of Commercial Companies and the Accounting Act, as well as in accordance with the provisions of the Company's Articles of Association. The implementation of the competences of the Company's Management Board is carried out with respect for the binding corporate governance rules.

The manner of operation of the Company's Management Board is determined by the provisions of the Articles of Association and the Regulations of the Management Board. Both documents are available on the Company's website at www.vrg.pl.

The Management Board of the Company consists of 3-6 people. The term of the Management Board lasts for three consecutive years. The number of Management Board members is determined by the Supervisory Board. The Supervisory Board appoints the Management Board. Members of the Management Board are appointed for a joint term in office. The President, Vice-President, Member of the Management Board or the entire Management Board may be dismissed by the Supervisory Board before the end of the term.

The Management Board of the Company, chaired by the President, manages the Company and represents it. All matters related to the running of the Company not reserved by law or the Articles of Association to the competence of the General Shareholder Meeting or the Supervisory Board belong to the scope of the Board's activities.

The Management Board Regulations specify in detail the mode of operation of the Management Board. Regulations are adopted by the Management Board and approved by the Supervisory Board.

Two members of the Management Board or one member of the Management Board together with a proxy are required to make statements on behalf of the Company.

Resolutions of the Management Board are adopted by an absolute majority of votes.

In the contract between the Company and a member of the Management Board, as well as in a dispute with him, the Company is represented by the Supervisory Board or a proxy appointed by resolution of the General Shareholder Meeting.

The Company adopted Regulations of the Management Board. The provisions of the Regulations will be described below.

The Management Board consists of 3-6 members appointed by the Supervisory Board for a period of three years. The Supervisory Board appoints members of the Management Board for a joint term in office.

Members of the Board perform their duties in person. The Management Board may be composed of persons from or outside of the shareholders.

The mandates of the Management Board members expire at the latest on the date of the General Shareholder Meeting of the Company approving the financial statements for the last full financial year of serving as a member of the Management Board. After the mandates have expired, the members of the Management Board may be re-appointed to the Management Board. Members of the Management Board may be dismissed at any time by the Supervisory Board before the end of the term in office.

Contracts of employment and other contracts with the Members of the Management Board of the Company may be concluded on behalf of the Company by the Supervisory Board or a proxy appointed by resolution of the General Shareholder Meeting. The same procedure applies to other legal transactions between the Company and Members of the Management Board.

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The Management Board meets at least once a month. The President of the Management Board may set permanent dates of meetings of the Management Board.

The meeting of the Management Board is convened by the President, or during his absence by the member of the Management Board indicated by him.

At the duly justified request of a member of the Management Board, the meeting should be held no later than within 14 days from the date of the request.

Each member of the Management Board is required to present to the Management Board a matter requiring the adoption of a resolution of the Management Board.

In the notifications of meetings of the Management Board, the agenda should be given and the materials regarding matters covered by the agenda should be delivered.

If the President establishes fixed dates of meetings of the Management Board, the order of meetings is determined at the previous meeting of the Management Board, and materials regarding matters included in the agenda should be delivered on the date set by the President of the Management Board. In the situation described in the previous sentence, the change of the agreed agenda may take place on the initiative of the President or at the request of a member of the Board addressed to the President. If the President does not agree to the request referred to in the preceding sentence, a properly justified motion of a member of the Management Board should take place no later than within 14 days from the date of filing the application.

Employees or other persons who are competent for the discussed matter may be invited to the meeting of the Management Board.

For the validity of resolutions of the Management Board, all members of the Management Board must be notified of the meeting and at least two-thirds of its members must be present. If the President establishes fixed dates of meetings of the Management Board, they do not require separate convening and notification of Members of the Management Board.

Resolutions of the Management Board are adopted by an absolute majority of votes. All current members of the Board take part in voting on resolutions. Abstention from voting means a vote against a resolution. Each member of the Board has one vote. The order of voting on resolutions is determined by the President of the Board.

The minutes of the meetings of the Management Board are signed by the minutes clerk and members of the Management Board present at the meeting. The minutes should include the Members of the Management Board taking part in the meetings, the agenda, the number of votes cast for particular resolutions and dissenting opinions. The minutes are subject to approval at the next Management Board meeting and are signed by the Members of the Management Board present at the previous meeting. Approved protocols are attached to the book of minutes of the Management Board. The adopted resolutions are attached to the book of resolutions of the Management Board.

The scope of activities of the Management Board includes all matters of the Company not restricted by the Company's Articles of Association or the provisions of the Code of Commercial Companies to the competences of the General Shareholder Meeting of the Company or the Supervisory Board.

The Management Board, under the President's leadership, manages the Company and represents it. The Management Board provides organizational and administrative support for the functioning of other Company's bodies, collects the minutes of the General Meetings of the Company and minutes of its meetings.

Two members of the Management Board or one member of the Management Board together with a proxy are required to make statements on behalf of the Company.

The matters requiring resolutions of the Management Board include:

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- 1) approving projects of the Company's development programs,
- 2) approving the Company's production and trading plans,
- 3) making decisions about investment purchases,
- 4) determining the organisational structure of the Company's enterprise and subsidiaries,
- 5) appointing and dismissing directors of subsidiaries and their deputies,
- 6) granting proxy and power of attorney,
- 7) establishing and liquidation of plants and other organizational units of the Company as part of the internal structure of the Company,
- 8) establishing regulations regarding cash and other benefits for employees,
- 9) usage of unnecessary fixed assets,
- 10) signing and withdrawal from long-term contracts and contracts resulting in liabilities with a value of more than PLN 200 thousand,
- 11) Management's report on operations, balance sheet, profit or loss statement, cash flow statement and conclusions regarding the distribution of profit and coverage of losses,
- 12) applying to the General Shareholder Meeting of the Company in other matters reserved to its competence,
- 13) requesting that the Supervisory Board meetings be convened with the proposed agenda,
- 14) convening General Shareholder Meetings of the Company,
- 15) internal division of the work of Management Board Members,
- 16) making decisions on group dismissals,
- 17) setting organizational regulations and work regulations,
- 18) matters before which, even one member of the Board expressed objection,
- 19) granting loans,
- 20) granting guarantees,
- 21) other important property and non-property matters regarding the Company's operations.

The internal division of the work of the Management Board members is determined by the Resolution of the Management Board. On its basis, the members of the Board supervise the work of subordinate organizational units. The President of the Management Board manages the work of the Management Board, chairs the meetings of the Management Board and coordinates the work of other Management Board Members. In the event of temporary inability to perform duties by the President of the Management Board, he is replaced by a member of the Management Board indicated by him.

The costs of the Board's activities are covered by the Company. The Management Board meetings are secured by employees appointed by the President.

Amendments to the regulations require a resolution of the Management Board approved by the Supervisory Board.

4. The Company's Supervisory Board

Composition of the Supervisory Board:

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The Supervisory Board of the Company, in the light of the provisions of the Articles of Association of the Company and the Code of Commercial Companies, is the body supervising the activities of the Company.

At the balance sheet date of 31.12.2018 the Supervisory Board consisted of:

- Jerzy Mazgaj – Chairman of the Supervisory Board
- Katarzyna Basiak-Gała – Member of the Supervisory Board
- Artur Małek - Member of the Supervisory Board
- Maciej Matusiak – Member of the Supervisory Board
- Jan Pilch - Member of the Supervisory Board
- Grażyna Sudzińska-Amroziewicz - Member of the Supervisory Board
- Andrzej Szumański – Member of the Supervisory Board.

There were following changes within the composition of the Supervisory Board during 2018:

Between 01.01.2018 and 27.06.2018 the Supervisory Board consisted of:

- Jerzy Mazgaj – Member of the Supervisory Board
- Katarzyna Basiak-Gała - Member of the Supervisory Board
- Artur Małek - Member of the Supervisory Board
- Beata Pawłowska-Czerwińska - Member of the Supervisory Board
- Ryszard Petru - Member of the Supervisory Board
- Grażyna Sudzińska-Amroziewicz - Member of the Supervisory Board.

On June 27, 2018 the Company's Ordinary Shareholder Meeting based on its resolutions changed the composition of the Supervisory Board for a new joint term. The composition of the Supervisory Board for a new joint term is the following:

- Jerzy Mazgaj
- Katarzyna Basiak-Gała
- Artur Małek
- Maciej Matusiak
- Grażyna Sudzińska-Amroziewicz
- Andrzej Szumański.

The new Supervisory Board appointed Jerzy Mazgaj for the Chairman of the Supervisory Board. Between 27.06.2018 and 30.11.2018 the composition of the Supervisory Board was the following:

- Jerzy Mazgaj – Chairman of the Supervisory Board
- Katarzyna Basiak-Gała – Member of the Supervisory Board
- Artur Małek - Member of the Supervisory Board
- Maciej Matusiak- Member of the Supervisory Board
- Grażyna Sudzińska-Amroziewicz - Member of the Supervisory Board
- Andrzej Szumański - Member of the Supervisory Board.

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Mr Jan Pilch was conditionally appointed to the Supervisory Board on the basis of Resolution No. 05/10/2018 of the Company's Extraordinary General Shareholder Meeting on October 31, 2018 regarding increasing the number of Supervisory Board members of the current joint term and appointing an additional member of the Supervisory Board to the Supervisory Board of the Company, whose number of current common term was increased to 7 people.

The above-mentioned resolution No. 05/10/2018 of the Extraordinary General Shareholder Meeting of the Company on October 31, 2018 entered into force on 30.11.2018, i.e. on the day of registration into the registrar of entrepreneurs of the National Court Register changes to the Articles of Association resulting from the resolution No. 04/10/2018 of the Extraordinary General Shareholder Meeting of the Company of October 31, 2018 and the merger of the Company with Bytom SA resulting from resolution No. 03/10/2018 of the Extraordinary General Shareholder Meeting of the Company of October 31, 2018.

As a result of the above, between 30.11.2018 and 31.12.2018 the Supervisory Board consisted of:

- Jerzy Mazgaj – Chairman of the Supervisory Board
- Katarzyna Basiak-Gała – Member of the Supervisory Board
- Artur Małek – Member of the Supervisory Board
- Maciej Matusiak - Member of the Supervisory Board
- Jan Pilch - Member of the Supervisory Board
- Grażyna Sudzińska-Amroziewicz - Member of the Supervisory Board.
- Andrzej Szumański - Member of the Supervisory Board

Between the balance sheet date, i.e. 31.12.2018 and 18.03.2019 (date of this statement) the composition of the Supervisory Board has remained unchanged.

Principles of Supervisory Board operations:

The Supervisory Board is appointed by law to exercise supervision in all aspects of the Company's operations. The Supervisory Board of the Company conducts its activity based on the provisions of applicable law, in particular the Code of Commercial Companies, as well as in accordance with the provisions of the Company's Articles of Association. Implementation of the Supervisory Board's competences also takes place with respect to the binding corporate governance rules.

The manner of operation of the Company's Supervisory Board was determined by the provisions of the Articles of Association and the Regulations of the Supervisory Board. Both documents were placed on the Company's website at www.vrg.pl.

The Supervisory Board consists of 5 - 7 members. The term of office of the Supervisory Board lasts three years. The number of members of the Supervisory Board shall be determined by the General Meeting. Members of the Supervisory Board are appointed and recalled, subject to the provisions of § 22 para. 3 and 4 of the Company's Articles of Association, by the General Shareholder Meeting for a joint term in office.

The Supervisory Board elects the Chairman of the Supervisory Board and his Deputy from among its members, and, as the need arises, also the Secretary of the Supervisory Board. The Chairman of the Supervisory Board convenes meetings of the Supervisory Board and chairs them. The Chairman of the Supervisory Board of the previous term convenes and opens the first meeting of the newly elected Supervisory Board and chairs it until the

Chairman is elected. The Supervisory Board may dismiss the Chairman, his Deputy and the Secretary of the Supervisory Board.

The Supervisory Board holds meetings at least once a quarter. The Chairman of the Supervisory Board or his Deputy is also obliged to convene a meeting of the Supervisory Board within two weeks from the date of receipt of a written request to convene a meeting of the Supervisory Board included in the motion of the Management Board or a member of the Supervisory Board.

The Supervisory Board may adopt resolutions:

- at meetings,
- in writing,
- using means of direct remote communication.

A member of the Supervisory Board may participate in the adoption of resolutions of the Supervisory Board by casting his vote in writing via another member of the Supervisory Board.

A resolution of the Supervisory Board may be adopted in writing by signing a draft resolution by the each member of the Supervisory Board, indicating the date of voting and determining whether they vote for the resolution, against the resolution or abstain. Failure by a member of the Supervisory Board to sign a draft resolution and to send it signed in the above manner within 10 days from the date of sending the draft to the address provided by the Member of the Supervisory Board shall be deemed to be abstention.

For the validity of resolutions of the Supervisory Board, it is required to invite all members of the Supervisory Board to the meeting, and in the case of resolutions adopted in writing or using means of direct remote communication - notifying all members of the Supervisory Board about the contents of the draft resolution.

The Supervisory Board adopts resolutions by an absolute majority of votes, in the presence or (in the case of resolutions adopted in writing or using means of direct remote communication) with the participation of at least half of the composition of the Supervisory Board. In the event of an equal number of votes for and against the resolution of the Supervisory Board - the vote of the Chairman of the Supervisory Board decides.

If the text of the resolution does not provide otherwise, the resolution of the Supervisory Board shall enter into force on the day of its adoption. Adoption of a resolution in writing by signing a draft resolution by individual members of the Supervisory Board, indicating the date of voting and determining whether they vote for the resolution, against the resolution or abstain from voting at the moment of signing by all members of the Supervisory Board or 10 days from the date of sending the draft resolution to the members of the Supervisory Board.

The Supervisory Board may adopt, change, revoke its regulations defining the mode of its operation.

The Supervisory Board exercises permanent supervision over the activities of the Company.

In addition to matters reserved by the Company's Articles of Association, the special powers of the Supervisory Board include:

- 1) examination and evaluation of the financial statements for the previous financial year,
- 2) examination and evaluation of the Management Board's report on the Company's operations and the Management Board's motions regarding the distribution of profit or loss coverage,
- 3) submitting to the General Shareholder Meeting an annual written report on the results of the evaluation referred to in the previous items 1 and 2,
- 4) suspending the Management Board member or the entire Management Board for important reasons,

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- 5) delegating a member of the Supervisory Board, provided that this does not violate the provisions of § 17 section 1 of the Statute of the Company, to temporarily perform the functions of members of the Management Board unable to perform their duties,
- 6) approving the regulations of the Management Board of the Company,
- 7) determining remuneration for Members of the Management Board,
- 8) selection of an auditor who audits the financial statements,
- 9) adopting in the form of a resolution for the Company's internal purposes a uniform text of the Articles of Association of the Company, prepared by the Management Board of the Company,
- 10) issuing opinions on applications for redemption of the Company's shares.

The purchase and sale of real estate, perpetual usufruct or a share in real estate requires the consent of the Supervisory Board. Undertaking these activities does not require a resolution of the General Shareholder Meeting.

Members of the Supervisory Board perform their rights and duties in person.

The rules and amount of remuneration for members of the Supervisory Board are determined by the General Shareholder Meeting with the reservation that the remuneration of members of the Supervisory Board delegated to temporarily perform the duties of members of the Management Board is determined by the resolution of the Supervisory Board.

In the event of resignation or death of a member of the Supervisory Board, the Supervisory Board may supplement its composition by co-opting a new member for the period until the end of its joint term.

The Supervisory Board's resolution on co-optation is subject to approval by the next General Shareholder Meeting. The remuneration of members of the Supervisory Board delegated to temporarily perform the duties of members of the Management Board is determined by the resolution of the Supervisory Board.

The Company adopted the Regulations of the Supervisory Board. The provisions of the Regulations will be described below. The number of members of the Supervisory Board is determined by the General Shareholder Meeting. Members of the Supervisory Board may not be members of the Management Board, employees of the Company holding the position of an accountant, legal adviser and other employees reporting directly to a member of the Management Board, proxies, receivers or liquidators of the Company. Members of the Management Board and liquidators of subsidiaries of the Company may also not be members of the Supervisory Board.

A member of the Supervisory Board should have appropriate knowledge and experience and be able to devote the necessary amount of time to perform his/her duties. A member of the Supervisory Board should take appropriate actions so that the Supervisory Board receives information about significant matters concerning the Company.

A member of the Supervisory Board should be guided by the interest of the Company in the proceedings and independence of opinions and judgements, and in particular: (a) should not accept unjustified benefits that could adversely affect the assessment of the independence of his/her opinions and judgements, (b) expressly raise his/her objections and a separate opinion in the event that the decision of the Supervisory Board is in conflict with the interest of the Company.

Each member of the Supervisory Board provides the Management Board with information on its relations with the shareholder of the Company holding shares representing not less than 5% of the total number of votes at the General Shareholder Meeting. The term "related" is understood as a connection of an economic, family or other nature that may affect the position of a member of the Supervisory Board in a matter that will be voted on by the Supervisory Board. A member of the Supervisory Board should inform the Supervisory Board about a conflict of

interest or the possibility of its occurrence. A member of the Supervisory Board should refrain from taking part in the discussion and from voting on the resolution in the case in which the conflict of interests arose.

If during the term of office the personal composition of the Supervisory Board decreases as a result of the death or resignation of a member of the Supervisory Board, the Supervisory Board acting in accordance with the provisions of § 22 para. 3 of the Company Articles of Association may supplement its composition by co-opting a new member for the period up to the end of its joint term. The Supervisory Board's resolution on co-optation is subject to approval by the next General Shareholder Meeting. If the personal composition of the Supervisory Board decreases during the term of office and the Supervisory Board fails to exercise the right referred to in § 22 subpara. 3 of the Company's Articles of Association, the Chairman of the Supervisory Board submits an application to the Management Board of the Company for immediate convening of the General Shareholder Meeting of the Company with the agenda including the adoption of a resolution of the General Shareholder Meeting on supplementing the composition of the Supervisory Board. A member of the Supervisory Board should not resign from his function in a situation where it could have a negative impact on the Supervisory Board's ability to act, including adopting resolutions.

The Supervisory Board elects a Chairman from among its members, a Deputy Chairman and, if necessary, a Secretary. The term of office of persons performing these functions ends on the expiration of the term of office of the resigning Supervisory Board, however, the Chairman of the outgoing Supervisory Board convenes the first meeting of the newly elected Supervisory Board and chairs the meeting until the Chairman is elected. The Chairman, the Deputy Chairman and the Secretary may be recalled before the end of the term in office.

The Supervisory Board exercises permanent supervision over the activities of the Company. The Supervisory Board carries out its tasks:

- a) at meetings of the Supervisory Board,
- b) through current and ad hoc supervisory and control activities, in the performance of which it may:
 - i. browse each department of the Company's activities,
 - ii. demand reports and explanations from the Management Board and employees of the Company,
 - iii. review the assets of the Company,
 - iv. perform financial control of the Company,
 - v. check books and documents,
 - vi. oblige the Management Board to commission experts to develop expert opinions for the use of the Supervisory Board, if the problem requires special knowledge, qualifications, specialist activities or independent expert assessment..

The special powers of the Supervisory Board include:

- a) examination and evaluation of the financial statements for the previous financial year;
- b) examination and evaluation of the Management Board's report on the Company's operations and the Management Board's motions regarding distribution of profits or coverage of losses;
- c) submitting to the General Shareholder Meeting an annual written report on the results of the assessment referred to in point a and b;
- d) submitting to the General Shareholder Meeting a concise written assessment of the Company's situation, attached to the annual report made available to the public;
- e) suspension of a member of the Management Board or the entire Management Board for important reasons;

VRG S.A. Capital Group

- f) delegating a member or members of the Supervisory Board, provided that this does not violate the provisions of § 17 para. 1 of the Company's Articles of Association, for temporary performance of the duties of a member of the Management Board in the event of dismissal or suspension of a member of the Management Board or if the Management Board cannot act for other reasons;
- g) approval of the Regulations of the Company's Management Board;
- h) determining the remuneration of Management Board Members;
- i) selection of an auditor who audits the financial statements;
- j) giving opinions on applications for redemption of the Company's shares;
- k) consenting to purchase or sale by the Company of real estate or a share in real estate;
- l) adopting in the form of a resolution for the Company's internal purposes a uniform text of the Articles of Association prepared by the Management Board of the Company;
- m) adopting, amending and repealing the regulations of the Supervisory Board defining a detailed mode of its operation;
- n) preparing and presenting once a year to the Ordinary General Shareholder Meeting of the Company a concise evaluation of the Company's standing, including the assessment of the internal control system and the risk management system important for the Company;
- o) performing and presenting to the Ordinary General Shareholder Meeting once a year an assessment of the work of the Supervisory Board;
- p) reviewing and giving opinions on matters to be the subject of resolutions of the General Shareholder Meeting;
- q) expressing consent for the Company to conclude a significant transaction / contract with a related party. The above-mentioned obligation does not apply to typical transactions concluded on market terms as part of its operating activities by the Company with a subsidiary, in which the Company holds a majority equity interest. A related party is an entity that meets the definition of a related party within the meaning of the accounting regulations applicable to the Company;
- r) other competences delegated by the Company's Articles of Association or a resolution of the General Shareholder Meeting of the Company.

The Supervisory Board ensures that the Company complies with the applicable regulations related to the rotation of the auditing company and the key statutory auditor and mandatory grace periods.

Members of the Supervisory Board should participate in the proceedings of the General Shareholder Meeting in the composition enabling the substantive answer to questions asked during the General Shareholder Meeting.

Notification of a planned meeting of the Supervisory Board should be sent by registered mail, fax or e-mail to addresses, fax numbers or e-mail addresses of Supervisory Board members indicated by them as appropriate for delivery of all materials for Supervisory Board meetings, at least seven days before its date. For important reasons, the Chairman of the Supervisory Board may shorten this period. The notification should specify the date, place and agenda of the meeting. If all members of the Supervisory Board are present at the meeting, the oral notification by the Chairman of the Supervisory Board of the date, place and agenda of the next meeting, recorded in the minutes of the Supervisory Board meeting at which the notification in the above form was transferred.

The agenda of the meeting to which it relates may be changed or supplemented only in cases where all members of the Supervisory Board are present and consent or if it is necessary to protect the Company against damage or

if the object of the resolution is be an assessment of whether there is a conflict of interest between the members of the Supervisory Board and the Company.

For the validity of resolutions of the Supervisory Board, it is required to invite all its members.

It is possible to hold a meeting of the Supervisory Board in a teleconference mode in such a way that all participants can communicate with each other using means of telecommunications. For the validity of resolutions adopted during such a meeting, the protocol must be signed by all its participants.

Meetings of the Supervisory Board are convened by the Chairman or his Deputy. Meetings of the Supervisory Board are also convened at the request of the Management Board or a member of the Supervisory Board. The request to convene the Supervisory Board meeting should present the proposed agenda of the Supervisory Board and persons from the composition of the Management Board and other persons whose participation in the meeting is justified due to issues to be considered by the Supervisory Board. The Deputy Chairperson may convene meetings of the Supervisory Board only in a situation in which the Chairman cannot exercise this right due to fortuitous events directly affecting his person, preventing the activities of convening the meeting of the Supervisory Board, and only with prior written consent of all other members of the Supervisory Board (including the Deputy Chairman). The meeting should take place within two weeks of the submission of the application. If a meeting is convened by the Chairman, the Deputy Chairman has no right to convene a meeting of the Supervisory Board, and the previously convened meeting of the Supervisory Board by the Deputy is revoked.

Meetings of the Supervisory Board should take place at least once a quarter. The meeting is chaired by the Chairman and in his absence the Deputy Chairman. Meetings of the Supervisory Board are held at the registered office of the Company or in another place indicated in the notification of convening a meeting of the Supervisory Board.

Members of the Management Board and employees of the Company relevant to the discussed matter may participate in the Supervisory Board meetings, if they have been invited.

Voting is public. Secret voting is ordered:

- a) at the request of even one of the voters, and
- b) in the following matters:
 - i. appointing and dismissing Management Board Members,
 - ii. suspension of Management Board members for important reasons in their activities,
 - iii. in personal matters.

Meetings of the Supervisory Board are recorded in minutes. The report should contain:

- a) the date and place of the meeting,
- b) list of members of the Supervisory Board and other persons present at the meeting,
- c) adopted agenda,
- d) the content of the resolutions adopted, along with the number of votes cast for individual resolutions, the content of separate sentences or objections raised to resolutions or voting decisions.

At the meetings of the Supervisory Board, provisions are made in the form of:

- (a) resolutions,
- (b) motions and opinions for the General Shareholder Meeting,
- (c) post-inspection recommendations,

(d) motions and recommendations for the Management Board.

Resolutions of the Supervisory Board shall be marked with subsequent numbers as part of a given Supervisory Board meeting. Resolutions are signed by all members of the Supervisory Board participating in the meeting.

The minutes are signed by all members of the Supervisory Board participating in the meeting and by the minutes clerk.

The originals of the minutes of the Supervisory Board meeting and attachments are kept in the book of minutes of the Supervisory Board. The book of protocols is kept at the registered office of the Company. At the request of a member of the Supervisory Board, the Company issues copies of protocols and individual resolutions.

The Supervisory Board may appoint permanent or ad hoc committees acting as collegiate advisory and opinion-making bodies of the Supervisory Board, including the Audit Committee and the Nomination and Remuneration Committee.

A permanent Audit Committee currently operates within the Supervisory Board. The obligation to create an Audit Committee applies to Supervisory Board composed of six members. If the Supervisory Board consists of five members, the tasks of the Audit Committee may be performed by the entire Supervisory Board.

The Committee is appointed by the Supervisory Board with a resolution from among its members. The Committee elects the Chairman of the committee from among its members. The committee consists of three (3) to five (5) members.

The work of the committee is directed by the committee chairman. He/ she also supervises the preparation of the agenda. Meetings of the committee are convened by the Chairman of the committee who invites committee members to the meetings and notifies all other members of the Supervisory Board about the meeting. All members of the Supervisory Board have the right to participate in committee meetings. The committee chairman may invite members of the Management Board, Company employees and other persons to attend the committee meetings whose participation in the meeting is useful for the implementation of the committee's tasks. Notification of convening a committee meeting should be submitted to the committee member and other members of the Supervisory Board not later than 7 days before the committee meeting, and in urgent cases, no later than one day before the committee meeting. Members of the committee may vote on adopting resolutions in person, taking part in the committee meeting, or using means of distance communication. Resolutions of the committee are adopted by a simple majority of votes cast. In the case of a vote in which an equal number of votes for and against is cast, the Chairman of the committee shall have the casting vote. The committees submit annual reports on their activities to the Supervisory Board, which will be made available to shareholders by the Management Board of the Company.

The Supervisory Board may decide to establish a permanent Nomination and Remuneration Committee. The Nominations and Remuneration Committee advises the Supervisory Board on the appropriate development of the Company's policy in the field of employment and remuneration of the members of the Management Board of the Company. In particular, the tasks of the Nomination and Remuneration Committee include:

- a) planning the remuneration policy for Members of the Management Board, in particular in terms of the interests of the Company and its financial results,
- b) analysing remuneration and other benefits and disbursements to members of the Company's governing bodies and the terms of contracts concluded with them in order to recommend to the Supervisory Board decisions on concluding such contracts,
- c) preparation of reports containing evaluation and analysis regarding payment of remuneration to members of the Company's bodies submitted to the Supervisory Board before passing resolutions required by law, the Company's Articles of Association and internal Company's regulations,

- d) substantive assessment of candidates for the positions of Members of the Management Board of the Company and presentation of opinions on the matter to the Supervisory Board,
- e) substantive assessment of the application for dismissal of a Member of the Management Board from the position and presentation of an opinion on the matter to the Supervisory Board.

The costs of the Supervisory Board's activities are covered by the Company. The Supervisory Board uses the Company's office rooms, equipment and materials. The administrative and technical service of the Council is provided by the Office of the Company's Management Board.

Members of the Supervisory Board receive remuneration determined by the General Shareholder Meeting. Members of the Supervisory Board submit a written statement on familiarizing themselves with the corporate governance principles in the field of good practices of supervisory boards resulting from the document "Best Practice of WSE Listed Companies", including its subsequent amendments made by the Warsaw Stock Exchange Supervisory Board in Warsaw.

Members of the Supervisory Board exercise their rights and duties in person and are required to attend meetings of the Supervisory Board. The Supervisory Board may delegate its members to individual performance of particular supervisory activities, including participation, depending on the needs, in the meetings and work of the Management Board.

5. Audit Committee acting within the Supervisory Board

Composition of the Audit Committee:

As part of the Supervisory Board of the Company in the financial year 2018, the Audit Committee operated as a permanent collegial and advisory body of the Supervisory Board. The Audit Committee was appointed by way of a resolution of the Company's Supervisory Board of May 14, 2012, pursuant to art. 86 of the Act of May 7, 2009 on chartered auditors and their self-government, entities authorized to audit financial statements and on public supervision.

The composition of the Audit Committee during 2018 was subject to the following alterations resulting from changes in the composition of the Supervisory Board made on the basis of the resolutions of the Ordinary General Shareholder Meeting of the Company of 27.06.2018, which elected the Supervisory Board for the new joint term in office.

Between 01.01.2018 and 27.06.2018 the Audit Committee composed of the following members of the former Supervisory Board:

- Mr Artur Małek – Chairman of the Audit Committee,
- Mrs Grażyna Sudzińska-Amroziewicz – Member of the Audit Committee,
- Mr Ryszard Petru – Member of the Audit Committee.

At the meeting held on 03.07.2018, the Supervisory Board of the Company of the current term, acting on the basis of art. 128 para. 1 and art. 129 par. 1 of the Act of May 11, 2017 on statutory auditors, auditing companies and public supervision (hereinafter: "Act on certified auditors") appointed a permanent Audit Committee and determined its number for three persons. The following members of the Supervisory Board were appointed to the Audit Committee: Mr Artur Małek, Mr Maciej Matusiak, Mrs Grażyna Sudzińska-Amroziewicz.

As a result, between 03.07.2018 and 31.12.2018 the Audit Committee consisted of the following Supervisory Board members:

VRG S.A. Capital Group

- Mr Artur Małek – Chairman of the Audit Committee (appointed for this position by the resolution of the Audit Committee on August 23, 2018),
- Mr Maciej Matusiak – Member of the Audit Committee,
- Mrs Grażyna Sudzińska-Amroziewicz - Member of the Audit Committee.

Between the balance sheet date, i.e. 31.12.2018 and 18.03.2018 (date of the statement publication) the above mentioned composition of the Audit Committee has not changed.

Rules of Audit Committee operations:

The rules of operation of the Audit Committee (hereinafter: "the Committee") are determined by the provisions of § 15, 16, 17, 18 and 19 of the Regulations of the Supervisory Board, which is available on the Company's website at www.vrg.pl.

The Audit Committee advises the Supervisory Board on the proper implementation of principles of budgetary and financial reporting, internal control of the Company and matters related to cooperation with auditing companies and the Company's auditors.

In particular, the Committee's tasks include:

- a) monitoring of:
 - financial reporting process,
 - the effectiveness of internal control systems and risk management systems as well as internal audit, including financial reporting,
 - performing financial auditing activities, in particular conducting an audit by the audit company, including all applications and findings of the Audit Oversight Commission resulting from audits carried out in the auditing company;
 - controlling and monitoring the independence of the statutory auditor and the audit firm, in particular when the audit firm provides services other than audit to the public interest entity;
- b) informing the Supervisory Board about the results of the audit and explaining how this research contributed to the reliability of financial reporting in the public interest unit, and what was the role of the audit committee in the audit process;
- c) assessing the independence of the auditor and consenting to the provision of permitted non-audit services to the public interest entity;
- d) developing a policy for selecting an audit firm to conduct the audit and submitting it to the Supervisory Board for approval;
- e) development of a policy by the audit firm conducting the audit, by entities related to this auditing company and by a member of the auditing company's network of permitted non-audit services;
- f) determining the procedure for the selection of an audit firm by a public interest entity;
- g) presenting recommendations to the Supervisory Board regarding the selection of the audit firm referred to in art. 16 sec. 2 of Regulation (EU) No 537/2014 of the European Parliament and of the Council of April 16, 2014 on detailed requirements regarding statutory audits of financial statements of public-interest entities, repealing Commission Decision 2005/909 / EC, in accordance with the policies referred to in in point d) and point e);

- h) submitting recommendations aimed at ensuring the reliability of the financial reporting process in the public interest entity.

In justified cases, the Committee may use the assistance of experts. Meetings of the Committee should be held at least once every three months, before the Company publishes its financial statements.

The President of the Management Board, high-level employees responsible for particular functions, the chief accountant and the auditor who has recently examined the financial report or the auditor currently examining the Company's financial statements may take part in the Audit Committee's meetings.

The Audit Committee should submit to the Supervisory Board a report on its activities at least once a year, at the date of approval of annual reports.

The Supervisory Board is obliged to ensure, if such a need arises, to immediately complete the composition of the Committee to the one set forth in § 16 para. 4 of the Regulations of the Supervisory Board as a minimum. The Audit Committee may, without mediation of the Supervisory Board, request information, explanations and transfer of documents necessary to perform its tasks.

The Committee should be informed on the written request of the program of work of the certified auditor who audits the Company's financial statements and receive a report from that expert, including a description of all relations between the expert and the Company or its group. The Committee should receive information in a timely manner regarding issues arising from the survey.

In the case of the Audit Committee, the majority of its members, including the chairman, must meet the independence criteria referred to in art. 129 par. 3 of the Act on certified auditors, and at least one member of the Audit Committee must have knowledge and skills in the field of accounting or auditing of financial statements. The members of the Audit Committee should also have knowledge and skills in the industry in which the Company operates, and this condition is deemed met if at least one member of the Audit Committee has knowledge and skills in this industry or individual members in certain areas have the knowledge and skills in this industry.

In 2018, Members of the Audit Committee met the independence criteria within the meaning of art. 129 par. 3 and 4 of the Act on certified auditors, as well as in the meaning of the principle II.Z.4. "Best Practice of Companies WSE Listed Companies 2016". In the case of the Company, all members of the Audit Committee have knowledge and accountancy skills. Knowledge and skills in the aforementioned scope were gained by the members of the Audit Committee through obtaining education in the field of economic and related sciences in the framework of higher education, postgraduate studies, specialized courses and training, and through professional experience related to performing functions in the management and supervisory bodies of capital companies (in including the function of a member of the Audit Committee of these bodies). In particular, with respect to the education of members of the Audit Committee, it may be indicated that:

Mr. Artur Małek graduated in 2000 from the Finance and Banking Faculty at the University of Economics in Cracow (master). In 2001, he completed post-graduate studies at the School of Entrepreneurship and Management at the University of Economics in Cracow, Faculty of Accounting and Finance. Mr. Artur Małek is a graduate of Executive MBA - Oxford Brookes University / Polish Open University in Warsaw (2009 - 2011) and a graduate of the ICAN Institute - The Strategic Leadership Academy in Warsaw (2012 - 2013). In addition, he participated in a number of courses and training in the field of management and finance.

In the years 1986-1992, Mr Maciej Matusiak studied at the Lodz University of Technology. In 1994, he obtained a securities broker license (No. 1203) issued by the then Securities Commission (currently the PFSA). In 2002, he received the title of Chartered Financial Analyst (awarded by the CFA Institute, Charlottesville, VA, USA). In addition, he completed a series of training in financial analysis and investment advisory.

VRG S.A. Capital Group

Mrs. Grażyna Sudzińska-Amroziewicz studied Economics and Organization of Foreign Trade at the University of Gdańsk and was a participant in the development programs of the London Business School (UK, London), Institut Européen d'Administration des Affaires (Fontainebleau, France), CeDEP. Currently, she is pursuing post-graduate inter-faculty studies at the Center for Judicial Studies at the University of Warsaw.

Knowledge and skills in the industry in which the Company operates have members of the Supervisory Board in the person of Mr. Artur Malek and Mr. Maciej Matusiak. Mr. Artur Malek gained knowledge in the field of industry in the capacity of a member of the Supervisory Board of the Company and a member of the Audit Committee of the Company's Supervisory Board since April 2016. Mr. Maciej Matusiak gained knowledge of the industry in which the Company acts as a member of the Supervisory Board of LPP S.A. in the years 2004-2017.

In 2018, the Audit Committee held six meetings, the main topics of which were: scope, course and methodology of the auditor's work related to the review and audit of the separate and consolidated financial statements of the Company and the audit of financial statements of the subsidiaries W.KRUK S.A. and DCG SA, reviews of the internal control system and risk management in terms of ensuring that the main strategic, operational and financial risks are correctly identified and managed, detailed analysis of drafts of separate and consolidated financial statements published in the form of interim reports submitted by the Company to general public, obtaining additional information and explanations about them from the Management Board of the Company and indicating the need to introduce possible corrections, additional explanations or comments.

In 2018, the Audit Committee in relation to (i) adopted by virtue of Resolution No. 1 of the Company's Supervisory Board of December 11, 2017 "Policy of providing authorized services not being audit services (additional services) by the auditing company conducting the audit, by related parties of this auditing company and by a member of the auditing company's network "(hereinafter: " Policy "), and (ii) the fact that the auditing company Mazars Audyt Sp. z o.o. with headquarters in Warsaw performed for the Company of additional services including:

- a) verification of the Company's statements regarding the fulfilment and correctness of the calculation of financial ratios indicated in covenants of the bank loan agreement concluded by the Company with the PKO Bank Polski S.A.;
- b) audit of the pro-forma consolidated financial information prepared for the purposes of the information memorandum in relation to the public offer and applying for admission and introduction to trading on the regulated market of WSE of the O-series issuance shares, planned in connection with the intention of the merger between the Company and Bytom S.A. based in Cracow

- assessed that the services referred to in point a) and point b) above are the permitted services indicated in: (i) in point 3.

c) Policies as regards: assurance services in the field of pro-forma financial information, forecasts of results or estimates, included in the prospectus of the audited entity; (ii) points 3 letter f) Policies in the area of: confirming the fulfilment of the terms of loan agreements based on the analysis of financial information from audited financial statements, (iii) in point 3 letter i) policies for: certification of reports or other financial information for supervisors, supervisory boards or other supervisory bodies of the Company or owners beyond the scope of statutory audit and to help these bodies fulfil their statutory obligations and that provision of such services by Mazars Audyt Sp. z o.o. for the benefit of the Company and the Capital Group of the Company will not lead to any threat or risk for the security of independence referred to in art. 69-73 of the Act on Certified Auditors, and thus did not object to the performance of the additional services concerned by Mazars Audyt Sp. z o.o.

The main assumptions of the audit policy adopted by the Audit Committee and accepted for use in the Company's policy of selecting an audit firm to audit financial statements include:

VRG S.A. Capital Group

- 1.) The Company, in accordance with applicable law, submits its separate and consolidated financial statements for inspection and audit conducted by the auditing firm.
- 2.) The selection of the entity authorized to audit the Company's financial statements should be based on the following principles:
 1. An auditing company authorized to audit and review the separate and consolidated financial statements of the Company and the Capital Group of the Company is selected by the Supervisory Board of the Company upon the recommendation of the Audit Committee. The decision on the selection of an audit firm is made in the form of a resolution of the Supervisory Board.
 2. When selecting the audit firm, the Supervisory Board of the Company draws attention to:
 - 2.1. Number of chartered auditors employed by the audit firm and their professional qualifications, experience and skills, and in particular of the auditor to act as the key certified auditor and the audit team;
 - 2.2. Audit firm's experience - including revenues earned during the last 3 years from the audit of public interest entities;
 - 2.3. Audit firm experience in auditing the financial statements of companies listed on the regulated market of the Warsaw Stock Exchange S.A.;
 - 2.4. The scope of offered liability for damage suffered due to improper performance of the contract for the audit of the Company's and the Company's Capital Group's statements;
 - 2.5. The ability to conduct a review and audit within the time limits set by the Company (availability);
 - 2.6. Specialization in the industry of an audit company - experience in the areas of retail operations, risk management, internal control and corporate governance;
 - 2.7. The results of audit inspections of the audit firm and the updated public transparency report;
 - 2.8. Access of the audit firm to experts in the field of taxation, corporate finance, IT systems and internal control, help of whose the auditor will be able to use it when necessary in the Company's audit;
 - 2.9. The manner of conducting the examination: the nature of the scope, frequency of contacts with the Audit Committee, the Supervisory Board and the Management Board of the Company;
 - 2.10. Cost criterion, which is not decisive in the selection of the audit firm (amount of remuneration for the audit of financial statements - separate and consolidated);
 - 2.11. Geographical scope of the activity, i.e. the possibility of conducting an audit of financial statements of entities covered by consolidation, and located outside the Republic of Poland, if applicable in the case of the Company;
 - 2.12. Other criteria that may be set by the Audit Committee, including the need to ensure independence and impartiality.
- 3.) The choice is made taking into account the principles of impartiality and independence of the audit firm and the analysis of the work carried out by it for the benefit of the Company, going beyond the scope of the audit of financial statements to avoid conflicts of interest (maintaining impartiality and independence).
- 4.) The basis of the conducted audit and review by the auditing company are the applicable law, in particular the Accounting Act, International Financial Reporting Standards and the requirements of the Warsaw Stock Exchange S.A.
- 5.) The Supervisory Board of the Company is guided by the principle of rotation of the audit firm in accordance with the Act and the Regulation of the European Parliament and the Council (EU) No 537/2014 of April 16, 2014 on detailed requirements regarding statutory audits of financial statements of public interest entities. - repealing Commission Decision 2005/909 / EC ("the Regulation").
- 6.) The auditing company commences an examination or review after signing the contract with the Company. The contract with an audit company is concluded for periods and on terms consistent with the Act and the Regulation.

VRG S.A. Capital Group

Main assumptions of the audit policy adopted by the Audit Committee and adopted by the auditing company, by entities related to this auditing company and by a member of the auditing company network (hereinafter: "Covered Entities") for allowed non-audit services (services additional) include:

- 1.) The Company, in accordance with applicable law, submits its separate and consolidated financial statements to reviews and audits conducted by the audit firm.
- 2.) Provision by the Entity covered by the Procedure of permitted non-audit services (additional services), should be conducted based on the provisions resulting from the Act on statutory auditors and other legal regulations, professional standards of the certified auditor and should take into account the following principles:
 - 2.1. Entities covered by the Procedure may not provide directly or indirectly to the Company or related entities any prohibited services that are not auditing financial statements or auditing activities (hereinafter: "Prohibited Services").
 - 2.2. Prohibited services that are not auditing financial statements are services indicated in art. 5 para. 1 of the Regulation,
 - 2.3. Prohibited services are not services indicated in art. 136 sec. 2 of the Act on Certified Auditors,
 - 2.4. The company may commission the services referred to in art. 136 sec. 2 of the Act on Certified auditors, Entities covered by the Procedure only to the extent not related to the Company's tax policy, after the Audit Committee has assessed the threats and safeguards of independence referred to in art. 69-73 of the Act on Certified Auditors,
 - 2.5. Before requesting Entities covered by the Procedure for the provision of Permitted Services, the Company asks a certified auditor or an audit firm to ask if these are not the Services forbidden in the understanding of the Act on Certified Auditors;
 - 2.6. The Audit Committee assesses the threats and safeguards of independence referred to in art. 69-73 of the Act on certified auditors at the request of the Management Board, including: indication of additional services to be provided, as well as information as to whether the statutory auditor or the audit firm confirmed that the additional service indicated is not a Prohibited Service.

The Audit Committee's recommendation regarding the selection of an audit firm to audit the financial statements met the applicable conditions.

X.

Description of rules regarding the appointment and dismissal of managing persons and their rights, in particular the right to decide on the issuance or buyback of shares

The rules regarding appointment and dismissal of managing persons in the Company and their rights are described in part IX point 1) of this statement regarding the principles of operation of the Company's Management Board.

The Management Board of the Company is not entitled to make an independent decision regarding the issuance of shares. In accordance with the Company's Articles of Association, the Company's share issuance and share capital increase require an appropriate resolution of the General Shareholder Meeting.

The Management Board of the Company has the right to purchase shares of the Company on the terms set out in the provisions of the Code of Commercial Companies regarding the purchase of own shares.

XI.

Description of diversity policy applied to the administrative, managing and supervising authorities with respect to aspects such as e.g. age, sex or education and professional experience, the objectives of this diversity policy, how it is implemented and the effects in the reporting period

The company informs that it has no regulations describing the diversity policy applied by the Company with respect to the Company's governing bodies and its key managers, taking into account such elements of diversity policy as gender, education, age, and professional experience. In accordance with the principle of law equality in force in Poland, the Company recognizes that everyone has the right to equal treatment and that no one may be discriminated against in political, social or economic life from any reason, including employment. The Company follows this principle in its recruitment processes. At the same time, in relation to the members of the Company's bodies, the selection of persons holding the functions of Members of the Management Board and the Supervisory Board is made by the General Shareholder Meeting and the Supervisory Board, guided by relevant and corporate decisions and professional principles. In relation to key managers, the Company makes decisions on establishing cooperation with candidates, assessing their professional experience, seniority, and education in accordance with the scope of tasks for a given position. The Company employs both women and men in various age groups, having regard to the substantive criteria and fully observing the principles that it is unacceptable to limit the freedom and rights of a person and a citizen solely on the basis of race, sex, language, religion or lack thereof, social origin, birth and property.

Within the Group, both among the members of the Company's management and supervisory bodies as well as among all employees it is recognised that availability of a wide talent pool helps in development and implementation of the objectives of the organization as a whole. For this reason, differences and diversity are valued and desirable as important components of human capital to support creativity and openness to new ways of coping with new challenges associated with the transition process of economic, social and cultural affecting business conditions of the Company and its Group. It is the effect of the accumulation and cooperation of various experiences and competences that allows for the continuous development of the organization. The development of the Company and its Capital Group as well as the implementation of business objectives will be more effective if one notices and benefits from various experiences and needs occurring in the organization and its environment. As part of the Capital Group the Company respects employees regardless of age, sex, religion, differences of opinion, cultural differences or sexual orientation. The Capital Group assures that none of the internal documents contradicts the principle of gender equality and diversity. There are no regulations and practices within the Group companies that could indicate that either gender or group of employees should have a difficult or easier access to knowledge, benefits, privileges or would be in a special way charged with duties.

Grzegorz Pilch

Michał Wójcik

Mateusz Żmijewski

Erwin Bakalarz

President of the
Management Board

Vice-President of the
Management Board

Vice-President of the
Management Board

Member of the
Management Board

Cracow, March 18, 2019

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WÓLCZANKA

VISTULA

VRG Spółka Akcyjna
Pilotów 10 St.
31-462 Cracow

www.vrg.pl

VRG
VISTULA RETAIL GROUP



Independent Statutory Auditor's report
on the audit of annual consolidated financial statements
Of the capital group VRG S.A.
for the financial year ended 31 December 2018

Mazars Audyt Sp. z o.o.
ul. Piękna 18
00-549 Warszawa

INDEPENDENT STATUTORY AUDITOR'S REPORT ON THE AUDIT OF ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

For the General Assembly and the Supervisory Board of VRG S.A.

Report on the audit of annual consolidated financial statements

Opinion

We have conducted an audit of the annual consolidated financial statements of the capital group (the “dominant entity”, the “Group”), where VRG S.A. (“the Company”) is a parent entity. These financial statements comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit and loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the cash flow consolidated statement for the financial year from 1 January 2018 to 31 December 2018, information and explanations to the financial statements that include a description of the adopted accounting principles, as well as other explanations (the “consolidated financial statements”).

In our opinion, the accompanying consolidated financial statements:

- give a true and fair view of the Group's consolidated property and financial position as at 31 December 2018, and of its consolidated financial result and its consolidated cash flow for the financial year ended this day in accordance with the applicable International Financial Reporting Standards approved by the European Union and the adopted accounting principles (policy);
- comply with the relevant legislation and with the provisions of the dominant entity's Statutes, as to the form and content.

The present opinion is consistent with the additional report to the Audit Committee that we issued on 18 March 2019.

Legal bases for the opinion

Our audit was performed accordingly to the National Standards on Auditing as per International Standards on Auditing adopted by the National Council of Statutory Auditors (“NCSA”) and according to the Act on statutory auditors, audit companies and public supervision of 11 May, 2017 (“the Act on statutory auditors” - Journal of Laws item 1089 and its subsequent amendments), as well as the EU Regulation No 537/2014 of 16 April 2014 on specific requirements regarding statutory audit of the financial statements of public-interest entities (the “EU Regulation” - Journal of Laws EU L158). Our responsibility, according to these standards, has been described in the following section of this report Responsibility of the statutory auditor for audit of the consolidated financial statements.

We are independent of the Group’s companies in accordance with the Code of Ethics for professional accountants of the International Federation of Accountants (“the IFAC Code”), adopted by resolutions of the National Council of Statutory Auditors as well as accordingly to other ethical requirements which are applicable to the auditing of financial statements in Poland. We have fulfilled other ethical obligations according to these requirements and to the IFAC Code. During the audit the key statutory auditor and the audit firm remained independent of the Group’s Companies in accordance with the Act on Statutory Auditors and with the EU Regulation.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements for the current reporting period. They include the most significant assessed types of risk of material misstatement, including assessed risk of material misstatement due to fraud. We responded to these matters in the context of our audit of consolidated financial statements as a whole and while formulating our opinion. We have as well summarized our reaction to these types of risk and for cases we judged appropriate, we presented the most important observations related to these types of risk.

We do not express a separate opinion on these matters.

Key audit matter	How our audit responded to this matter
<p><u>Impairment of goodwill</u></p> <p>The goodwill recorded in consolidated financial statements as at 31 December 2018 amounted to PLN 324,033 thousand.</p> <p>The analysis of impairment was the Key</p>	<p>Our audit procedures included a critical assessment of accuracy of performing the impairment test, as well as of assumptions adopted in model, with particular attention to:</p> <ul style="list-style-type: none"> - the assessment of key assumptions regarding market parameters of the impairment test, including discount rates, risk ratios, long-term

Audit Matter as regards the balance of goodwill which is material for the financial statements. The process of assessment performed by the Management Board is based on material assumptions and the following assessments: budgets, future revenues, costs and cash flows, discount rate, long-term growth rate which depend on expectations as regards the future market and economic conditions.

Disclosures concerning performed impairment tests are presented in the note no. 9 of information and explanations to the consolidated financial statements.

growth rate and the exchange rates;

- the validation of the model's mathematical and arithmetical accuracy, for discounted cash flows and reconciliation of source data with financial forecasts approved by the Management Board of the Company;

- the assessment of rationality of financial forecasts approved by the Management Board of the Dominant entity, by performing an analysis of the previous forecasts realisation and of changes in environment having an impact on adopted forecasts;

- the assessment of the sensitivity analysis prepared by the Management Board of the Dominant entity, with taking into account the assessment of the discount rate, as well as changes at the level of the operating profit;

- the assessment of disclosures' correctness and completeness within this scope.

Assessments and comparisons performed during the audit and described above provided us with sufficient and appropriate audit evidence necessary to address the described risk linked with the impairment of the goodwill.

Stock valuation

The stocks recorded in the consolidated financial statements as at 31 December 2018 amounted to PLN 460,781 thousand.

The analysis of stocks valuation was the Key Audit Matter for the stock balance which is material for the financial statements. Valuation of stocks for the balance date in terms of their prudent valuation, as well as in terms of possible impairment losses, requires to take into account their specificity and many assumptions. Especially, it is necessary to estimate prices possible to obtain, to assess arrears and aging of each assortment group, as well as to verify the levels of impairment write-offs with taking

Our audit procedures included in particular:

- the review of accounting principles concerning the stocks valuation and related material judgements and assessments;

- the assessment of the impairment write-off policy, its legitimacy and compliance with applied methodology;

- the analysis of impairment write-offs calculation model, including completeness and correctness of calculations;

- the assessment of valuation correctness and legitimacy of the write-offs by comparing the unit selling price to the current selling prices possible to obtain;

- the assessment of disclosures' correctness and

into account the character of the stocks.

completeness within this scope.

The Company presented disclosures related to stocks in the note no. 15 of information and explanations to the consolidated financial statements.

Detailed tests carried out and described above provided us with sufficient and appropriate audit evidence necessary to address the described risk linked with the stocks valuation.

Revenue recognition

The net revenues from sales recorded in the consolidated profit and loss account for period from 1 January 2018 to 31 December 2018 amounted to PLN 805,674 thousand.

The correctness of the revenue recognition is an inherent sector risk. This is due to the complexity of terms and conditions included in the sales agreements. These terms and conditions are frequently modified and require an adequate reflection in the sales system, which increases the risk of error.

The Company presented disclosures related to revenues in the note no. 2 of information and explanations to the consolidated financial statements.

Our audit procedures included in particular:

- the review of accounting principles concerning the revenue recognition and related material judgements and assessments;

- the understanding and assessment of the internal control environment, including arrangements and presentations of sales revenues;

- the analysis of the Relevant terms and conditions of the contracts and their reflection in the sales system;

- the assessment of information/IT systems used to recognize revenues;

- the analysis of balance confirmations from clients and comparing with received payments for the sale realized;

- the assessment of disclosures' correctness and completeness within this scope.

Detailed tests carried out, together with the assessment of the internal control described above provided us with sufficient and appropriate audit evidence necessary to address the described risk linked with the revenue recognition.

Responsibility of the Management Board and Supervisory Board for consolidated financial statements

The Parent Company's Management Board is responsible for preparing the consolidated financial statements that give a true and fair view of the Group's property and financial position and its financial result in accordance with the International Financial Reporting Standards approved by the EU and adopted accounting principles (policy), as well as with the relevant legislation applicable to the Group and with the provisions of the Parent Company's Statutes. The Parent Company's Management Board is also responsible for

internal control that is deemed necessary to enable the preparation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

When preparing the consolidated financial statements, the Parent Company's Management Board is responsible for the assessment of the ability of the Group to continue as a going concern, as well as for disclosing, if applicable, matters related to continuing as going concern and for the going concern assumption as an accounting basis, unless Management Board either intends to liquidate the Group or to cease trading, or has no realistic alternative but to do so.

The Parent Company's Management Board and members of its Supervisory Board are obliged to ensure that the consolidated financial statements meet the requirements set out in the Accounting Act of 29 September 1994 (Journal of Laws of 2019, item 351) ("Accounting Act"). Members of the Parent Company's Supervisory Board are responsible for supervising the financial reporting process.

Statutory Auditor's responsibility for audit of the consolidated financial statements

Our aim is to obtain reasonable assurance that the consolidated financial statements as a whole are free of material misstatement whether due to fraud or error and to issue an auditor's report containing our opinion. The reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the National Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

The scope of audit does not include assurance as to the future profitability of the Group and effectiveness or efficiency of running the Group's affairs by the Parent Company's Management Board, at present or in the future.

According to principles of the National Standards on Auditing, we base on professional judgement and maintain professional scepticism throughout the audit, as well as:

- we identify and assess the risk of material misstatement of the consolidated financial statements, whether due to fraud or error, we design and perform audit procedures in response to this risk and we obtain audit evidence which is sufficient and appropriate to provide a basis for our audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we obtain understanding of internal control applied for the purposes of audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control in the Group;

- we evaluate the appropriateness of the accounting principles (policy) used, the reasonableness of the accounting estimates and related disclosures, provided by the Management Board of the Parent Company;
- we conclude on the appropriateness of the Parent Company management's use of the going concern principle as a basis of accounting and, based on the audit evidence obtained, whether a significant uncertainty related to events or conditions exists and if that may cast significant doubt on the Group's ability to continue as a going concern. If we come to the conclusion that a material uncertainty exists, we are required to draw attention in our auditor's report on related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- we obtain sufficient and appropriate audit evidence related to the financial information of entities and to the economic activities within the Group, in order to express the opinion on the consolidated financial statements. We are responsible for directing, supervising and conducting the Group's audit and we remain exclusively responsible for our audit opinion.

We communicate with the Parent entity's Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control identified by the auditor during the audit.

We declare to the Supervisory Board of the Parent entity that we met appropriate ethical requirements regarding independence and that we will inform them about all relationships and other matters that could represent a threat to our independence and where relevant, we inform about the safeguards applied.

From all the matters communicated to the Supervisory Board of the Parent entity, we have chosen those being of most significance in the audit of the consolidated financial statements of the current reporting period and therefore we judged them to be the Key Audit Matters. We describe those matters in our auditor's report, unless laws or regulations prohibit such a public disclosure or if in exceptional circumstances we determined that a given question should not be presented in our report because we can reasonably expect that negative consequences would prevail on benefits of such information for public interest.

Other information, including the Management report

Other information includes the Group's Management report for the financial year ended 31 December 2018 ("the Group's Management report") with the corporate governance statement which is a separate part of this Group's Management report, as well as the separate report on a non-financial information, referred to in art. 55.2.c. of the Accounting Act and the Annual Report for the financial year ended 31 December 2018 (the "Annual Report") (together named "Other information").

Responsibility of the Management Board and Supervisory Board of the Parent Company

The responsibility for the preparation of the Other Information in accordance with the applicable regulations lies with the Parent Company's Management Board.

The parent entity's Management Board and members of the parent entity's Supervisory Board are obliged to ensure that the Group's Management report together with the separate part meets the requirements set out in the Accounting Act.

Statutory Auditor's responsibility

Our opinion on the audit of the consolidated financial statements does not cover Other information. Our responsibility regarding the audit of consolidated financial statements is to get acquainted with Other information and to consider whether it is not significantly incoherent with the consolidated financial statements or with our knowledge obtained during the audit or if Other information seems to be significantly misstated in other manner. If, based on work performed, we consider that there are material misstatements in Other information, we are obliged to inform about it in our audit report. In accordance with the Act on Statutory Auditors, our responsibility is also to issue an opinion whether the Group's Management report has been prepared in accordance with applicable regulations and whether it complies with information contained in the consolidated financial statements.

Moreover, we are required to inform whether the Group has prepared a separate statement on a non-financial information. We are as well required to issue an opinion whether the Group included the required information in its corporate governance statements.

We have obtained the Group's Management report before the date of the present audit report, while the Annual Report will be made available to us after this date. In case we identify any material misstatement in the Annual Report, we are obliged to communicate it to the Parent Company's Supervisory Board.

Opinion on the Group's Management report

Based on the work performed during the audit, in our opinion, the Group's Management report:

- has been prepared according to the art. 49 of the Accounting Act and the paragraph 71 of the Regulation of the Minister of Finance dated 29 March 2018 on Current and Periodic Information Provided by Issuers of Securities and Conditions of Recognition of Information Required under the Regulations of the non-EU Member State as Equivalent ("Regulation on Current Information" - Journal of Laws of 2018, item 757),
- is in line with information included in consolidated financial statements.

Moreover, according to our knowledge of the Group and its environment obtained during the audit, we do declare that we have not identified any material misstatement in the Group's Management report.

Opinion on corporate governance statement

In our opinion, the Group included in the corporate governance statement information specified in paragraph 70.6.5 of the Regulation on Current and Periodical Information. Moreover, in our opinion information specified in paragraph 70.6.5 c-f and i of this Regulation comprised in the corporate governance statements is compliant with the applicable provisions and information contained in the consolidated financial statements.

Non-financial information statement

In accordance with the Act on Statutory Auditors we would like to confirm that the Group prepared information in its Management report about a separate non-financial information statement specified in Article 55.2.c of the Accounting Act and that the Group prepared such a separate statement.

We have not conducted any assurance activities regarding the separate non-financial information statement and we do not express any assurance about it.

Report on other legal requirements and regulations

Statement about provision of non-audit services

To the best of our knowledge and belief, we declare that the non-audit services we have provided to the Group are lawful and in accordance with provisions applicable in Poland and that we did not provide any services that would not be an audit and that are prohibited as defined in the Article 136 of the Act on Statutory Auditors and the Article 5 (1) of the EU Regulation. Services not being an audit of financial statements that we provided to the Group in the audited period are specified in the note 2 of the Capital Group's Management report.

Appointment of an audit firm

We were appointed for the first time to conduct the audit of the Group's consolidated financial statements based on the resolution of the Parent Company's Supervisory Board of 19 June 2017 and again based on the resolution of 20 February 2018. We audit the Group's consolidated financial statements continuingly from the financial year ended 31 December 2017, which means over the last 2 years.

The key statutory auditor responsible for the audit that was the base of the present independent statutory auditor's report is Jarosław BOCHENEK.

Acting on behalf of Mazars Audyt Sp. z o.o. with its registered office in Warsaw, ul. Piękna 18, entered on the list of audit firms under the no. 186, on behalf of which the key statutory auditor audited the consolidated financial statements.

Jarosław BOCHENEK

Michel KIVIATKOWSKI

Signed on the Polish original

Signed on the Polish original

Key Statutory Auditor

Partner

No. 90086

Warsaw, 18 March 2019

Annex to Resolution No. 2 of the Supervisory Board of VRG S.A. with its registered office in Cracow of March 18, 2019 regarding the adoption of an assessment regarding the report on the operations of the VRG S.A. Capital Group and consolidated financial statements of the VRG S.A. Capital Group. for 2018 in terms of their compliance with accounting books, documents and the actual state.

Assessment regarding the report on the operations of the Capital Group of the VRG S.A. and consolidated financial statements of the VRG SA Capital Group. for 2018 in terms of their compliance with the books, documents and the actual state

Assessment regarding the report on the operations of the VRG S.A. Capital Group with its registered office in Cracow (the "**Company**") and the consolidated financial statements of the Capital Group of the Company for 2018 in terms of their compliance with accounting books, documents and the actual state of affairs was prepared on the basis of art. 395 § 5 of the Code of Commercial Companies, art. 63c para. 4 of the Accounting Act of September 29, 1994 and § 71 para. 1 point 12) Ordinance of the Minister of Finance of March 29, 2018 regarding current and periodic information provided by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state ("**Ordinance**").

The subject of this assessment is:

1. the Management Board's report on operations of the Company's Capital Group for 2018;
2. consolidated financial statement of the Company's Capital Group for 2018.

Assessment of the Management Board's report on operations of the Company's Capital Group for 2018:

The Supervisory Board assessed the Management Board's report on the operations of the Company's Capital Group for 2018 and became acquainted with the presented by the auditor Mazars Audyt Sp. z o.o. based in Warsaw results of the audit carried out concluded in the independent auditor's statement on the audit of the annual consolidated financial statements of the Company's Capital Group for Shareholders and the Supervisory Board of the parent company VRG S.A. for the fiscal year from January 1 to December 31, 2018, including the auditor's opinion on the Management Board's report on the operations of the Capital Group for 2018, and became acquainted with the recommendation of the Audit Committee regarding the Management Board's report on operations of the Capital Group for 2018 and therefore states that the Management Board's report on operations of the Capital Group for 2018:

1. has been prepared in accordance with § 71 of the Ordinance;
2. is consistent with the information contained in the consolidated financial statements of the Capital Group of the Company for 2018.

The Supervisory Board states that the report on operations of the Capital Group of the Company in 2018 a true and fair manner presents the economic and financial standing and assets of the Capital Group of the Company and is consistent with the accounting books and documents as well as with the actual state.

In relation to the above, the Supervisory Board positively assesses the Management Board's report on operations of the Capital Group of the Company for 2018.

Assessment of the consolidated financial statements of the Company's Capital Group for 2018:

The Supervisory Board assessed the consolidated financial statements of the Capital Group for 2018 comprising:

- a) consolidated statement of financial position prepared as at 31 December 2018,
- b) consolidated statement of profit or loss for the fiscal year from January 1, 2018 to December 31, 2018;
- c) consolidated statement of comprehensive income for the fiscal year from January 1, 2018 to December 31, 2018;
- d) consolidated statement of cash flows for the fiscal year from January 1, 2018 to December 31, 2018;
- e) consolidated statement of changes in equity for the fiscal year from January 1, 2018 to December 31, 2018,
- f) information and explanations to the consolidated financial statements,

it became acquainted with the presented by the auditor Mazars Audyt Sp. z o.o. based in Warsaw results of the audit carried out concluded in the independent auditor's statement on the audit of the annual consolidated financial statements of the Company's Capital Group for Shareholders and the Supervisory Board of the parent company VRG S.A. for the fiscal year from January 1 to December 31, 2018, and became acquainted with the recommendation of the Audit Committee regarding the consolidated financial statements of the Capital Group for 2018 and states that the consolidated financial statements of the Capital Group for 2018 have been prepared in all material aspects in accordance with International Financial Reporting Standards and are consistent with the accounting books and documents as well as with the actual state.

In relation to the above, the Supervisory Board positively assesses the consolidated financial statements of the Capital Group of the Company for 2018.

Taking into account the above assessment regarding the report on operations of the Capital Group in 2018 and the consolidated financial statements of the Capital Group for 2018 in terms of their compliance with accounting books, documents and facts, the Supervisory Board of the Company recommends their approval to the Ordinary General Shareholder Meeting.

The Supervisory Board of VRG S.A.

Letter of the President of the Management Board of VRG S.A. to Shareholders

Ladies and Gentlemen,

The most important event of 2018 for VRG S.A. Capital Group was undoubtedly the successfully executed merger with Bytom S.A. It is worth recalling that the first steps towards the merger were taken in the first half of 2017, while after obtaining the long-awaited consent from the President of the Office of Competition and Consumer for this transaction on October 31, 2018 Shareholders of both merging companies agreed to the merger. The court registration of the merger took place on November 30, 2018. Along with the merger registration, the name of the Company changed as well, which currently reads VRG S.A. The main goals behind the merger include obtaining by the Capital Group a position of the undisputed leader on the market of men's formalwear and achieving revenue and cost synergies.

Involvement in the acquisition process and, consequently, significant purchase on the fashion market did not prevent the Capital Group from obtaining the best financial results from its operations in its history. Revenues of the Capital Group amounted to PLN 805.7 million in 2018 and were 17%, i.e. PLN 117.2 million higher than revenues earned in the same period of the previous year, despite introduction of a trade ban on selected Sundays from March 2018. In both core business segments, the Capital Group recorded revenue increase. This success was also due to the Capital Group's skilful use of the tendency of a gradual shift in demand for clothes and jewellery to the Internet channel. Favourable trends in connection with previous investments in improving the functioning of the Capital Group brands' own on-line stores resulted in over 70% increase in on-line sales (exceeding the target of 50% YoY growth). The share of on-line sales in 2018 amounted to 12% of the Capital Group's revenues. Faster-than-expected growth in on-line revenues along with changes in the sales structure (increase in share of watches) translated into achievement of 51.2% gross margin, which was 1 percentage point lower than in 2017. Consolidated EBITDA amounted to PLN 89.3 million in 2018 and was higher by 14% compared to the previous year. The net profit achieved by the Capital Group amounted to PLN 53.6 million in 2018, which gave 24% dynamics compared to 2017, exceeding the dynamics of Capital Group revenue growth, and thus fulfilling the promises made to the Shareholders.

In 2018, there was a further increase in floorspace of the apparel and jewellery segment. Over half of all new brick and mortar stores opened last year were launched in the franchise model. At the end of 2018, the retail network of all brands of the Capital Group reached 568 stores with a total floorspace of 51.6 thousand m² (including 122 stores of Bytom brand). This resulted in an increase in the net floorspace on the Capital Group by 8% (excluding the Bytom brand) and by 55% (taking into account Bytom brand's floorspace). Floorspace development coupled with other investments mainly in the IT area, translated into over PLN 20 million of capital expenditures in 2018.

The aim of the combined Capital Group in 2019 is to continue organic growth. In the current year, we plan to maintain a double-digit revenue growth rate and obtain over PLN 1 billion in revenue at the level of the Capital Group, with an 8% YoY net increase in floorspace. At the end of 2019 floorspace of the combined Capital Group should reach PLN 55.7 thousand m². In the apparel section, floorspace will increase by about 6% YoY, and in the jewellery part by about 15%. This year's capital expenditures will amount to approximately PLN 25 million. We expect the continuation of high double-digit dynamics of on-line sales in 2019. We assume that Internet share in Capital Group revenues will

be close to 14%. The priority for the current year will also be an effective integration of combined companies within the apparel segment. We intend to fulfill our obligations towards Shareholders submitted before the merger and achieve goals set in the form of both revenue and cost synergy. Fulfilling these assumptions will allow for a margin increase at the level of the Capital Group by 1 percentage point and will contribute to further improvement of the Group's efficiency.

In order to provide the Capital Group with long-term growth opportunities, we will also continue activities related to the strategic goal of building a House of Brands through acquisitions on the Polish market and on foreign markets within proximity in both jewellery and apparel segments. As acquisitions provide a chance for a significant acceleration of development, our activities will focus on gathering under the auspices of the Capital Group many recognizable brands, which are significant retail operators on their local markets and offer potential for further growth. This will allow the Capital Group to build value through the use of acquisition opportunities that appear on the market, transfer of managerial and optimization experience to other countries as well as further rapid and effective development, without the need to incur marketing outlays to promote own brands in new markets. The first practical example of such activities is the letter of intent to purchase a company from the jewellery sector operating in the Czech Republic signed last year by W.KRUK S.A subsidiary. In the case of positive operational and legal due diligence outcomes and favourable results of price negotiations, finalization of this transaction would be possible this year.

Achieving the position of the third largest non-food retailer among companies listed on the WSE as a result of merger with Bytom S.A., increases interest in the Company's shares on the side of long-term financial investors, including foreign funds. Our ambitious goal for VRG S.A. to enter the mWIG40 market index has been realized starting from the end of the trading session on March 15 this year. We believe that in the long-term it will contribute to a significant increase in the Company's market capitalization. This is another step on the way to build long-term value of our Capital Group, which as the Management Board together with all employees we will intensively strive to achieve while pursuing our strategic and business goals.

*Grzegorz Pilch
President of the Management Board*

Cracow, March 18, 2019

W. KRUK
1 8 4 0

DENICLER
MILANO

BYTOM
SZTUKA KRAWIECTWA OD 1945

WÓLCZANKA

VISTULA

VRG
VISTULA RETAIL GROUP

NON-FINANCIAL STATEMENT

VRG S.A. and VRG S.A.
Capital Group for 2018

Cracow, March 18, 2019

2018



1. Introduction

Corporate social responsibility and sustainable growth are issues that are important for VRG S.A., VRG S.A. Capital Group and their stakeholders. As a result, in their actions the Company and the Capital Group take into account the interests of employees, society and the environment, engaging in activities that deepen the understanding of expectations not only of their shareholders but all stakeholders and meet these expectations. Coming across these expectations, the Management of VRG S.A. presents the second Non-financial Statement of VRG S.A. and VRG S.A. Capital Group which comprises the period between January 1, 2018 and December 31, 2018 as well as comparable data.

The Statement has been prepared in line with the guidelines of Accounting Act, especially article 49b and article 55. Both in 2018 and 2017 VRG S.A. Capital Group employed more than 500 people on average and exceeded PLN 102m in assets at the end of fiscal year and PLN 204m of revenues in each of these years (before consolidation exclusions). Both in 2018 and 2017, VRG S.A. employed more than 500 people on average and exceeded PLN 85m in assets at the end of fiscal year and PLN 170m in revenues for these periods.

2018 was an important year for VRG S.A. Capital Group, as November 30, 2018 the Register Court in Cracow recorded the merger between Vistula Group S.A. and Bytom S.A. and changed the name of the merged entity for VRG S.A. The merger affected both the separate and consolidated financial statements. The Statement includes data of Bytom S.A. in the same way as in the financial statements, i.e. from December 1, 2018 to December 31, 2018, i.e. the moment control has passed. However, to allow readers to make more insightful YoY comparison, in selected areas we also present data on a stand-alone basis, i.e. without the impact of Bytom S.A.

Similarly to last year, the basis for creation of this Non-financial Statement were practices and policies of the parent company VRG S.A. (for which descriptions are presented under the apparel segment) and its subsidiaries with which it creates a Capital Group. Despite intensive works related to merger with Bytom S.A., VRG S.A. Capital Group managed to introduce new policies (e.g. Code of Conduct, Anti-bribery Policy and Diversity Policy) with the aim to increase the transparency of the Group in the eyes of its stakeholders. Merger with Bytom S.A. and consolidation of its data for December 2018 have not impacted the materiality assessments and have not added new stakeholder groups. Still, the Group conducted a survey among Bytom S.A. stakeholders and both their opinions and expectations supplemented the earlier-created stakeholder materiality matrix. This Non-financial Statement presents an expanded set of non-financial indicators to help recipients better understand the Company and the Group and their impact on employees, society and environment.

The Company and the Group have produced this Non-financial Statement based on own methodology created a year ago. Though neither the Company nor the Group have used international or local standards, inspirations for this material have been taken from GRI Standards and SIN. Similarly as last year, the Statement has not been audited by any external party. This Non-financial Statement constitutes an integral part of the separate and consolidated Report on operations for 2018 and should be read in conjunction with these documents. This Statement includes information on all companies consolidated by VRG S.A. which for VRG S.A. Capital Group.

KEY NON-FINANCIAL INDICATORS OF VRG S.A. CAPITAL GROUP



2. Business model

2.1. Capital Group business model overview

VRG S.A. Capital Group specialises in designing and selling of high quality clothes for men and women and in jewellery. The Group owns five strongly recognised brands such as Vistula, Wólczanka, Bytom, W.KRUK and Deni Cler Milano. The Group concentrates on brand management, designing clothes and jewellery as well as development of own retail network in two key segments: apparel and jewellery.

VRG S.A. and VRG.S.A. Capital Group



Companies that form the consolidated financial and non-financial statements

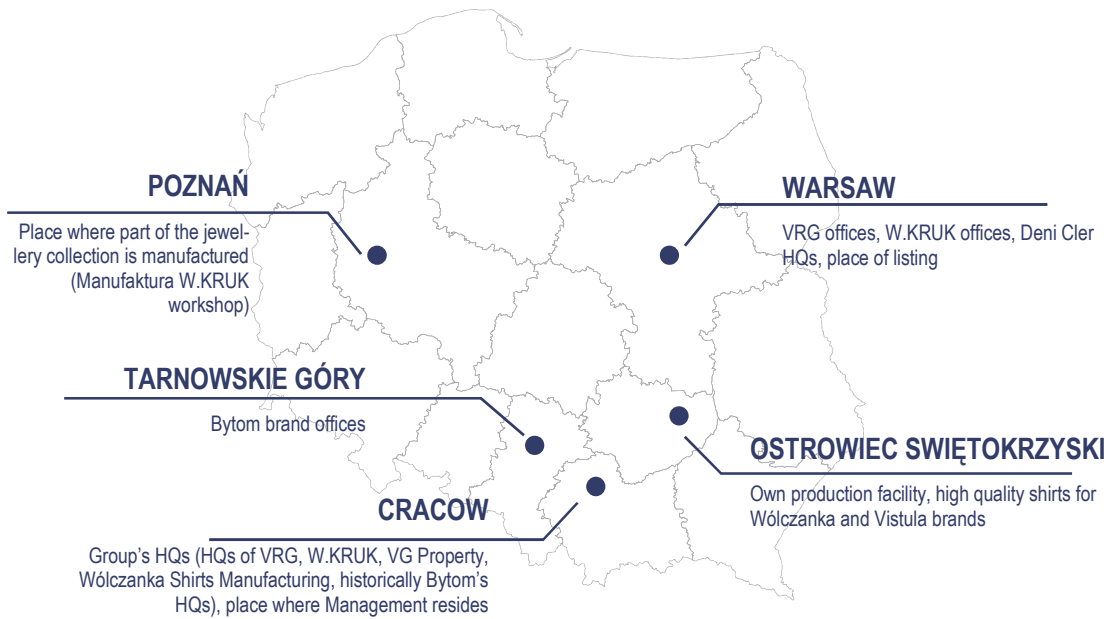
APPAREL SEGMENT	JEWELLERY SEGMENT	OTHER BUSINESS
 VRG S.A. parent company Brand: Vistula, Wólczanka, Bytom (1 month in 2018)	 W.KRUK S.A. Jewellery, watches, accessories	 Wólczanka Shirts Manufacturing sp. z o.o. Production
DCG S.A. Deni Cler brand		VG Property sp. z o.o. Real estate
		BTM 2 sp. z o.o. Trademark

Apart from the above mentioned entities, the Capital Group also consists of 100% stake in Vistula Market Sp. z o.o., a related party based in Cracow, over which the parent company has no control due to liquidation motion filled and lack of management.

The Company's origins date back to October 10, 1948 when VRG S.A. legal predecessor was created via Minister of Industry and Trade ordinance on the creation a state-owned enterprise named "Krakowskie Zakłady Przemysłu Odzieżowego" (Cracow Clothing Production Industry). On April 30, 1991, the District Court for Cracow Śródmieście in Cracow, registered the transformation from a state-owned enterprise into a sole-shareholder company of the State Treasury. The Company was one of the first firms that were listed on the Warsaw Stock Exchange. VRG S.A. had its debut on September 30, 1993. In 2008, W.Kruk was taken over and merged into the Capital Group. In 2018 the Group expanded by taking over Bytom S.A. VRG S.A. shares are listed on the main market and belong, among others, to three indices: mWIG40, WIG and WIG-ODZIEŻ.






The Capital Group's position in the apparel segment is based on designing and selling elegant formal men and women clothing as well as smart casual and casual garments. Following merger with Bytom S.A. Group's competences within the apparel segment have been expanded by a long-lasting tradition of design, tailoring and selling of classical men formalwear reaching pre-WWII tailoring stores in Cracow and Bytom (especially Tarnowskie Góry, where suit tailoring plants are located, currently outside the Group). The success of the jewellery segment is based on the oldest Polish jewellery company, whose origins date back to a family workshop established in 1840 in Poznań. Currently, the Group manages 5 key brands: Vistula, Wólczanka, Bytom and Deni Cler (apparel segment) and W.KRUK brand (jewellery segment). On top, there are lines and sub-lines within those brands. The Group's offer is targeted at both women and men.

VRG S.A. and VRG.S.A. Capital Group



Both the Company and the Capital Group operate mostly within Poland. At Pilotów 10 Street in Cracow there are headquarters of not only VRG S.A. (the parent company) but also its subsidiaries, like W.KRUK S.A., VG Property Sp. z o.o. and Wólczanka Shirts Manufacturing Sp. z o.o. It is the place where the Management resides, where the managements of the subsidiaries reside as well as where designers, the development and investment division, the purchasing department, HR and IT departments are located. Additionally, the Group also has offices in Warsaw, where among others, the marking department is located. The capital city is also home to Deni Cler (subsidiary) registered officer and W.KRUK offices. Apart from offices, the Capital Group also has production facilities. A shirt manufacturing facility in Ostrowiec Świętokrzyski produces women and men shirts for Wólczanka and Vistula brands as well as foreign customers, while a manufacturing workshop in Poznań, Manufaktura W.KRUK part of W.KRUK S.A., manufactures selected jewellery collections and conducts repairs. Following merger with Bytom S.A. a fifth key venue was added – Tarnowskie Góry. Though the production facility specialising in suits no longer belongs to the Company and the Group, it hosts offices for Bytom brand purchasing and production divisions.



VRG S.A. and VRG.S.A. Capital Group

APPAREL SEGMENT		VISTULA			WÓLCZANKA	
		on the Polish market since 1967, a life-style brand encompassing also a formal collection: a traditionally tailored Lantier line and a Vistula Red line showing the latest trends, as well as Vesari line targeted at wholesale.			the brand exists since 1948, a boutique with men and women shirts, including an up-market Lambert line.	
						
		The basic line of men formalwear, meeting the needs of everyday classic designs. Vistula brand has a broad offer of suits, jackets, trousers, shirts and accessories, allowing customers to gather a complete wardrobe.	Classic clothing made in a semi-traditional manner, finished by hand. Made from highest quality fabrics from Italian producers. Targeted at the most demanding customers, searching for timeless elegance combined with fashion trends.	A less formal brand, offering current fashion trends, the latest cuts, modern fabrics and less conservative colours coupled with high-quality of finishing.	Shirts for men and women, knitwear and accessories. The brand offers collections dedicated for work, weekends as well as for special occasions.	Brand targeted at the most demanding customers. Exclusive line of shirts and accessories, with the highest quality finishing.
		Number of stores				
		2017: 134 2018: 148			2017: 129 2018: 139	
		Floorspace (m2)				
		2017: 16,719 2018: 18,230			2017: 4,604 2018: 4,979	
		Average store size (m2)				
		2017: 125 2018: 123			2017: 36 2018: 36	

VRG S.A. and VRG.S.A. Capital Group

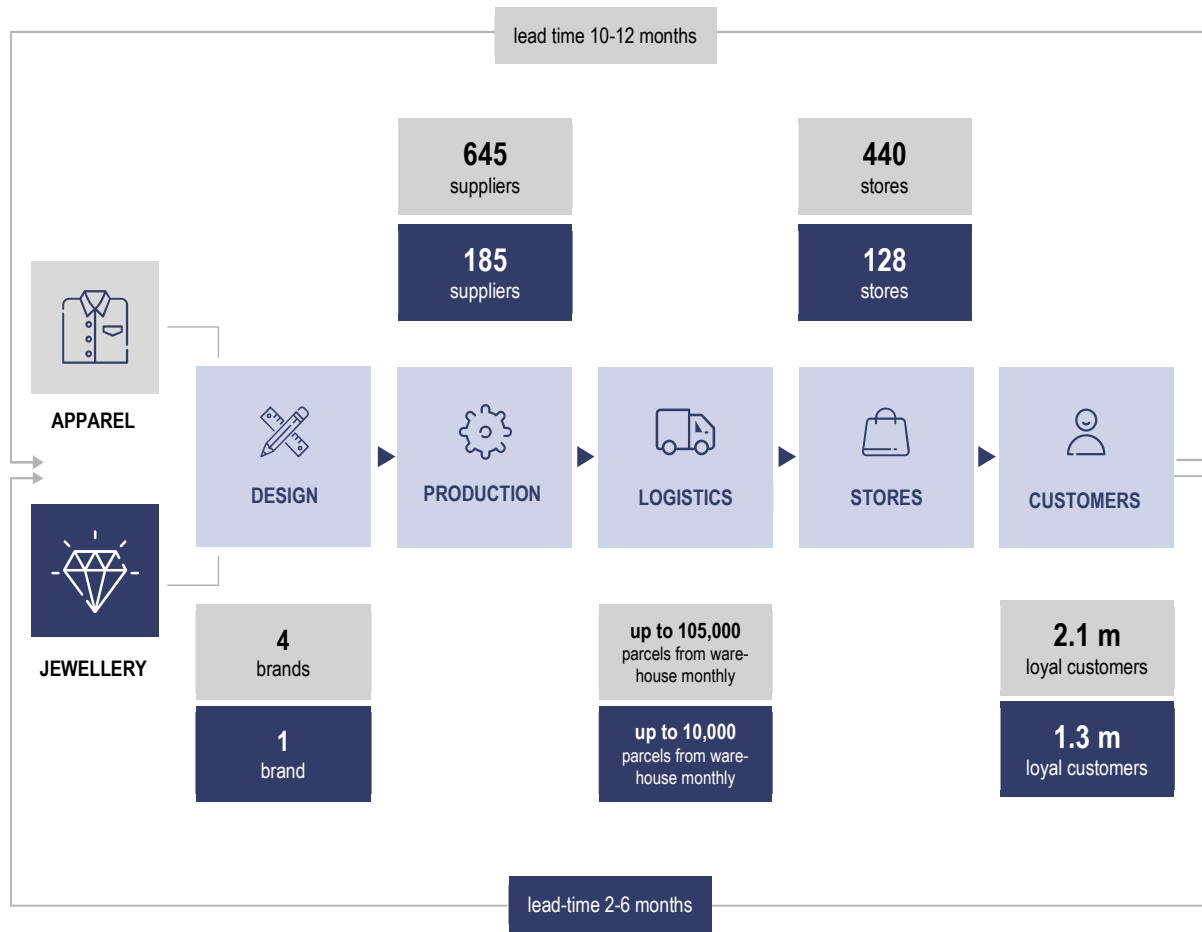
APPAREL SEGMENT	<p>BYTOM</p> <p>Polish brand with a history dating back to 1945, when clothing production facilities were established. Basing on a dozen of years of heritage, the brand offers men formalwear which combine tradition with a modern vision of men tailoring.</p>		<p>DENI CLER</p> <p>brand coming from Milan, offering up-market clothing for women.</p>
	<p>BYTOM</p>	<p>III Intermoda</p>	<p>DENI CLER MILANO</p>
	<p>Menswear collection with a broad range of suits, jackets, trousers, shirts and accessories which allow to complete a men's wardrobe. Suits are Bytom's signature product. They are made of high-quality Italian fabrics in Polish sewing facilities.</p>	<p>Brand created for men with a classic offering: suits, trousers and jackets. Dedicated for wholesale.</p>	<p>The brand is targeted at women who are aware of their femininity and thus their value and strength. It appeared on the Polish market in 1991 and introduced a new quality to the local fashion market. The brand is true to its classic style and highest quality fabrics and finishing.</p>
	Number of stores		
	<p>2017: 116 2018: 122</p>		<p>2017: 32 2018: 31</p>
	Floorspace (m2)		
	<p>2017: 14 370 2018: 15 816</p>		<p>2017: 3 291 2018: 3 047</p>
	Average store size (m2)		
<p>2017: 124 2018: 130</p>		<p>2017: 103 2018: 98</p>	

VRG S.A. and VRG.S.A. Capital Group

W.KRUK the oldest jewellery brand in Poland with origins dating back to 1840. Expert in diamonds, gems and jewellery production, offering also watches of the best Swiss manufacturers.			
JEWELLERY SEGMENT			ZEGARKI
<p>W.KRUK offers the highest quality gold and silver jewellery, diamonds, gems and unique collections inspired by the latest trends. W.KRUK's jewellery is recognised for its top-quality design and manufacturing. The brand has limited collection of accessories with W.KRUK logo.</p>	<p>KRUK FASHION collections comprise of jewellery with the latest trends in fashion and with unique design. The aim of KRUK FASHION is to strengthen the image of W.KRUK as a brand offering diverse and unique jewellery collections.</p>	<p>W.KRUK also has a broad offering of luxury Swiss watches of such brands like Rolex (sole distributor for Poland), Hublot, Girard-Perraguax, Omega, Tudor, Tag Heuer, Longines, Rado, Frederique Constant, Tissot, Certina, Rotary, Doxa, Ingersoll, Citizen, Epos, Victorinox, Ingresoll, Skagen, Swatch as well as fashion labels like: Calvin Klein, Gucci, Michael Kors, DKNY, Versace, Diesel, Fossil and E.Armani.</p>	
Number of stores			
2017: 115 2018: 128			
Floorspace (m2)			
2017: 8 688 2018: 9 554			
Average store size (m2)			
2017: 76 2018: 75			

2.2. Value chain

The Company's and Group's value chain encompasses five key elements: (1) ideas for apparel and jewellery created by designers and employees, (2) production of goods, (3) logistics, i.e. delivery of products from producers to stores, (4) display of these products and their sale in stores as well as (5) customers. The value chain differs between the apparel and jewellery segment. The lead time i.e. time from the idea generation to the moment the product hits the stores reaches 10-12 months for the apparel segment and 2-6 months for the jewellery segment. Customer is in the centre of attention, he/she starts the value chain (we create products for our customers) and finishes the circle by purchasing our clothes and jewellery.



Design

Companies from the Capital Group employ a diligently chosen team of specialists, whose aim is to create clothing and jewellery collections which will be eagerly worn by conscious and demanding customers and to care for the Group's image and its brands.

Apparel segment

Both in women and menswear the design process starts with the customer, identification of his/ her lifestyle, needs and aesthetics. Works on the apparel collection start in the design department usually 12 months before the season begins. Designers are responsible for creation and documentation of designs, preparation of key trends and colours proposals for the season as well as assortment analysis and tracking changes in consumer behaviour. Designers look for inspiration on fabrics and fashion trends. Emphasis is put on selection of fabrics, not only based on their colour and print but also their innovativeness and finishing. To deliver our customers the best possible product,

fabric and knitwear manufacturers prepare special materials for the Group, e.g. with a designated weave and colour. Quality and customer satisfaction are our priority. Designers and supported by clothing constructors, who are responsible for preparation of the right designs, which is especially important in case of suits, shirts, jackets, coats and trousers. The design department uses proven models, introduces upgrades to existing models, and creates new solutions. When all designs are ready and sewn, the best proposals are chosen and additional colour versions are created. In case of complementary clothing, i.e. smart-casual and casual the Group cooperates with producers on design of these products. The design department prepares two main collections: Spring/Summer and Autumn/Winter, which are split into sub-collections and special lines. The final element is work with a ready design – every product chosen to be part of the collection is tested for its quality.

Jewellery segment

The jewellery designing process starts with the customer, his/her needs and demands. The process encompasses both main collections as well as star and occasional collections. Introduction of new collections starts with analysis of the design strategy, trends, customer behaviour and assortment sold. Based on these, designers prepare jewellery designs. Designers are supported by managers of selected product categories and experts in jewellery production. Since 2016 W.KRUK offers also accessories designed by its creative department and manufactured in renowned Italian and Polish manufacturing facilities. Twice a year, W.KRUK S.A. presents new arrivals within accessories, meeting the latest trends. In case of watches, W.KRUK brand experts choose the most interesting and desirable models proposed by the best and most popular brands, with which W.KRUK S.A. cooperates.

Production

Production is an important element of the Company's and the Capital Group's value chain. Thus, the Management emphasises its quality and transparency. Both in the apparel and jewellery segment the Group has own production facilities as well as proven external suppliers.

The Capital Group focuses on long-term relations with its suppliers and long-term cooperation based on mutual trust. The Group focuses on suppliers that possess not only the necessary know-how in production but also focus on quality of products' finishing and have potential for long-term cooperation. There are many suppliers with which the Group has been cooperating for a couple and even a couple of dozen years. While choosing suppliers, apart from quality the Group takes into account: competitive pricing, acceptable delivery terms and confidentiality in the design and production phase.

Start of cooperation with a new producer needs a sizeable engagement from both parties. New sourcing partners are found mainly on dedicated fairs, which take place in Europe and the Far East as well as via business relations with trading partners. Potential new business partners are verified based on their production possibilities, experience, quality and technological standards as well as pricing. Verification takes place during meetings with suppliers, sample production as well as site visits in factories which are considered as a possible place of sourcing. The Group cooperates with a diverse range of suppliers in terms of size. These are large international corporations as well as small family companies. It is dependent on the sourcing country, assortment and its specifics. The majority of the production facilities are located in Poland and the Group mostly cooperates with small and medium sized enterprises. Foreign producers are represented by medium- and larger size enterprises, which employ between hundreds to thousands of people.

Apparel segment

Companies from our apparel segment source their collections from trusted domestic and international entities that guarantee sewing and confectionary services on the highest level. Selection and purchasing of fabrics (mostly Italian), tailoring accessories and creation of technical design documentation of selected garments is on the side of VRG S.A. The Company purchases supplementary assortment like shoes, ties, knitwear, trousers, jackets and leather accessories from proven third parties, manufacturing from own fabrics, partially from the Company's designs. Clothing and accessories purchased by VRG S.A. are produced in many countries in Europe, Asia and North America, depending on the assortment and specifics of the product. The majority of goods sold by the Company are produced in Poland and other European countries such as Italy, Portugal, Lithuania, Ukraine and Turkey. In Asia, the Company sources mainly from China, Cambodia, Bangladesh, India, but also develops sourcing from Myanmar and Mauritius. Part of the clothing is produced in Egypt and Tunisia. Similarly to finished products, fabrics are sourced from various countries depending on their expected qualities, final use, quality and cost criteria. The

majority of fabrics come from Europe – mainly Italy – from renowned Italian weaving facilities which offer highest quality wool and cotton as well as from Austria, Portugal, Czech Republic, Spain, UK and France. Part of fabrics is sourced from China, India and Egypt. To a lower extent we rely on Turkish, Thai, Brazilian, Pakistan, Korean (South Korea) and Japanese producers. The remaining raw materials (mainly accessories) are mostly purchased in Poland, Italy and Germany. Part of Polish business partners are offices of international corporations, whose production facilities are located in various European and Asian countries. In 2018, some 15% of the Company's production-related suppliers of Vistula and Wólczanka brands had cooperation history of more than 10 years. Some 35% of suppliers have a cooperation history of between 5 to 10 years, while the remaining 50% is constituted by suppliers with whom cooperation lasted less than 5 years. Looking at the value of turnover, the majority of it comes from suppliers with a cooperation history of more than 5 years. At Deni Cler the production and sourcing process is similar. The main countries in which clothing and shoes are sourced are: Poland, Italy, China, Portugal, while jewellery is purchased in Poland, France, China, South Korea and the UK.

Within the apparel segment, the Group has own production facilities, located in Ostrowiec Świętokrzyski, managed by a subsidiary Wólczanka Shirts Manufacturing sp. z o.o. The facility specialises in men's shirts manufacturing but its offer encompasses also shirts and blouses for women. Its production capacity reaches some 500 thousand shirts annually. The facility conducts orders both for Wólczanka and Vistula brands as well as for foreign customers. In 2018 13.5% of the plant production was manufactured for VRG S.A. versus 9.9% in 2017.

Jewellery segment

Jewellery is manufactured by proven domestic and foreign producers, while a sizeable part of the jewellery and the majority of star collections are produced in W.KRUK's Poznan manufacturing facilities called Manufaktura W.KRUK. W.KRUK cooperates with proven jewellery suppliers. Main suppliers, out of which none crosses the materiality hurdle, are jewellers from Poland, Italy and other European countries (among others Spain, France, Belgium, Czech Republic, Germany and Ireland) as well as Far East (among others China, India, Thailand, South Korea and Turkey). Within the watches sub-segment suppliers consists of brand owners, operators and Polish units of selected brands. Choosing of the supplier depends on goods sold. Suppliers specialise in certain type of jewellery, mostly either gold or silver. On top, W.KRUK suppliers specialise based on what type of gems are used for production. Suppliers split is however different than in the apparel segment. Some 52% of suppliers have less than 5 years of cooperation history, some 28% of suppliers cooperate with W.KRUK between 5 to 10 years, while some 20% of suppliers have more a than 10-year-long cooperation history. A high portion of suppliers with less than 5 year cooperation history results from a strategy to modify the supplier portfolio and choose those that focus on most modern technological solutions. Since 2017 W.KRUK gathers statements from its gold and gold with gems jewellery suppliers that gold, platinum and gems used in the jewellery manufacturing come from legal sources.

Logistics

Capital Group's logistics encompasses delivery of products from producers to distribution centres and through them to stores or to on-line customers. The Group invests in development of faster and more economically effective deliveries. Sending the products to and from the distribution centre takes place via third party operators and couriers.

Apparel segment

Goods are sent by suppliers via marine, air and road transportation. Goods are accepted to the distribution centre by a logistics operator. For off-line, goods are packed and sent to own and franchise stores via the operator's transportation means. In on-line division, goods are shipped to customers via couriers. Goods can be returned to the warehouse from stores and they can be shifted between stores only via a logistics operator or courier companies. In 2017 logistics of the apparel segment was improved by moving away from own logistics and introduction of off-line and on-line order completion by an external logistics operator. An automated off-line order completion system was introduced in the central warehouse in 2018. At Deni Cler deliveries are conducted with own vehicles.

Jewellery segment

Within the jewellery segment jewellery and watches are accepted to own warehouse post verification. Then required goods are sent to Assay Office (gold and platinum above 1g and silver above 5g) to obtain acceptance for trade. These return to warehouse post marking and a detailed quality control is conducted. Next step is attachment of a

VRG S.A. and VRG.S.A. Capital Group

tag which finishes the goods acceptance process and signals that goods can be sent to stores or directly to the customer. Warehouse operations within jewellery and watches are conducted by W.KRUK while transport of goods to stores and between stores is conducted with the use of convoy and courier companies. In terms of on-line, goods are sent from an on-line warehouse and delivered to customer post the order completion.

Stores

The Capital Group's stores are the place of contact with the customer, where we can display our offer, both for off-line and on-line customers (monobrand e-stores of our brands). The Group has a network of company-owned and franchise stores. Our stores are located mostly in modern shopping malls, but also on high-streets of the largest cities and Warsaw's international Chopin Airport. The Group also has outlets where unsold garments and jewellery are sent post season sell-offs.

The Capital Group dynamically expands its network of franchise stores (in Vistula, Wólczanka and W.KRUK brands), which allow it expand the number of cities in which stores are present. The Capital Group focuses on long-term relations with its proven business partners, who are gained at franchise fairs, by using own contact networks and applications obtained from the webpage. Franchisees run stores under the names of Capital Group's brands for which they obtain a commission. As a result of dynamic expansion, the number of cities in which Group's stores are located increased from 78 in 2017 to 98 in 2018 (out of which 4 were added by Bytom). At the end of 2018 the Capital Group had 568 stores (compared to 410 at the end of 2017), out of which 122 stores were added by Bytom brand. Capital Group floorspace reached 51,626 m² (compared to 33,301 m² at the end of 2017, up 55% YoY). Bytom brand taken over as of November 30, 2018 added 15,816 m² – organic floorspace growth reached 8% YoY.

Rental agreements are negotiated by the development and investment division, which possesses long-term relations with the largest shopping mall operators in Poland. Locations are chosen after a careful analysis of: the city, district, and in case of existing shopping malls also based on traffic and floor level. Rental agreements are negotiated based on the Capital Group's development plans. Length of rental agreements varies, the shortest agreement equals to one year while the longest 15 years, while a small portion is signed for an indefinite period. Typically rental agreements are signed for 5 years. Average length of rental agreement in 2018 reached 5.1 years (5.3 excluding Bytom) compared to 5.3 in 2017 (for own stores) at the Capital Group level. For VRG S.A. analogical values reached 5.0 for 2018 (5.2 excluding Bytom) and 5.2 for 2017.

Internet stores are an increasingly important distribution channel for the Capital Group. The Capital Group operates e-stores of all its five retail brands. Percentage of internet sales in total revenues of the brands vary due to their characteristics – it is the highest in Wólczanka and the lowest in W.KRUK.

% of franchise network in floorspace	Without Bytom S.A.	Bytom S.A. for Dec. 2018
VRG S.A. Capital Group	2017: 19% 2018: 23%	2017: 19% 2018: 17%
Apparel segment	2017: 24% 2018: 30%	2017: 24% 2018: 20%
Jewellery segment	2017: 2% 2018: 7%	2017: 2% 2018: 7%
VRG S.A.	2017: 25% 2018: 30%	2017: 25% 2018: 20%

% of internet in sales	Without Bytom S.A.	Bytom S.A. for Dec. 2018
VRG S.A. Capital Group	2017: 8.1% 2018: 12.1%	2017: 8.1% 2018: 12.0%
Apparel segment	2017: 10.3% 2018: 15.9%	2017: 10.3% 2018: 15.6%
Jewellery segment	2017: 4.8% 2018: 6.7%	2017: 4.8% 2018: 6.7%
VRG S.A.	2017: 10.8% 2018: 16.9%	2017: 10.8% 2018: 16.5%

Customers

Customers are the most important part of our value chain. These are people who identify themselves with the brands possessed by the Capital Group, people who visit our stores and on-line stores and purchase and use products offered those brands. Due to favourable positioning of the brands and good marketing, the Capital Group records growth in number of customers interested with their brands. In 2018 some 16.9m people visited the Capital Group's stores (excluding Bytom stores), up 3% YoY.

The brands' attractiveness is also increased by well-tailored loyalty programmes. Vistula and Wólczanka brands possess a combined loyalty programme The Men's World Club. While entering the programme, the customer registers via a mobile application of either Vistula or Wólczanka brand, thanks to which he/ she can collect points and exchange them for discounts at stores of both brands. Loyal customers have priority in benefitting from discounts, special promotions and obtain current information about collections. At the end of 2018 The Men's World Club had 1.5m users, up 15% YoY. Bytom brand has a dedicated loyalty programme called Bytom Klub, which gathered 0.6m of loyal customers at the end of 2018 (up 16% YoY). Deni Cler also has a separate loyalty programme. It offers discounts and gifts as well as access to a unique offer of products and services, solely for its members. The programme has gathered over 40 ths of members at the end of 2018 (up 7% YoY). W.KRUK's loyalty programme Klub Dla Przyjaciół W.KRUK is also a popular one. At the end of 2018 there were 1.3m people registered in it, up 18% YoY. While joining the programme, one can obtain points which can be redeemed for discounts for jewellery purchase or repair it. Overall at the Capital Group level the number of loyal customers reached 3.4m people, up 40% YoY (up 16% YoY excluding Bytom).

2.3. Group's Mission, Vision and Strategy

The Group operates according to its mission, vision and strategy. Mission is the universal aim of our actions, defining the meaning of the Capital Group's existence and actions. Vision is the visualisation of our actions and motivates us to act towards its fulfilment.

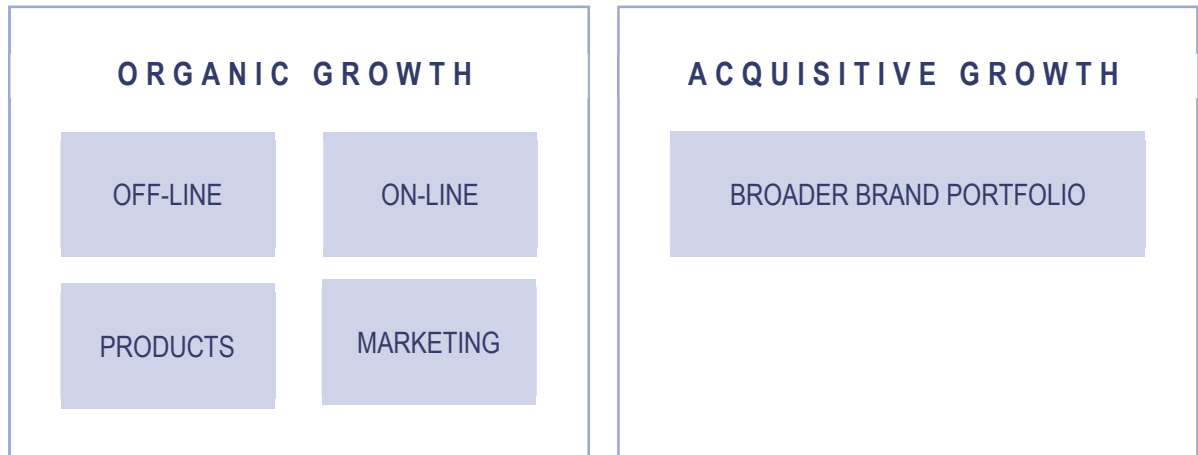


Strategy is the plan that brings us closer to our vision. The key aim is to increase the value of the Company and the Capital Group. The priority for the Management is sustainable organic growth, both in the apparel and the jewellery division. Organic growth is built on four pillars: (1) consistent Capital Group's floorspace growth, (2) development of internet sales, (3) continued products improvements and following the customers' preferences as well as (4) effective marketing increasing brand awareness.



GROUP STRATEGY

VALUE CREATION



The Capital Group plans to continue a consistent network development domestically by adding new locations for own stores of key brands as well as development of franchise floorspace. The Capital Group's aim is to continue to benefit from internet sales popularisation. After amendments introduced in logistics, the Group expects continuation of dynamic growths in internet sales. Cost discipline in both segments also remains a target of the Capital Group.

<p>OUR AIM IS TO CREATE A</p> <h2 style="margin: 0;">HOUSE OF BRANDS</h2>	<p style="text-align: center;">STRATEGIC AIM:</p> <p style="text-align: center;">-----</p> <p style="text-align: center;">gathering under the Group's auspices several related retail brands, which are strong on their local markets.</p>
	<p style="text-align: center;">KEY ADVANTAGE OF THIS STRATEGY:</p> <p style="text-align: center;">-----</p> <p style="text-align: center;">transfer of strategy successfully conducted in Poland on foreign markets, usage of local brands' strength and combined synergies.</p>



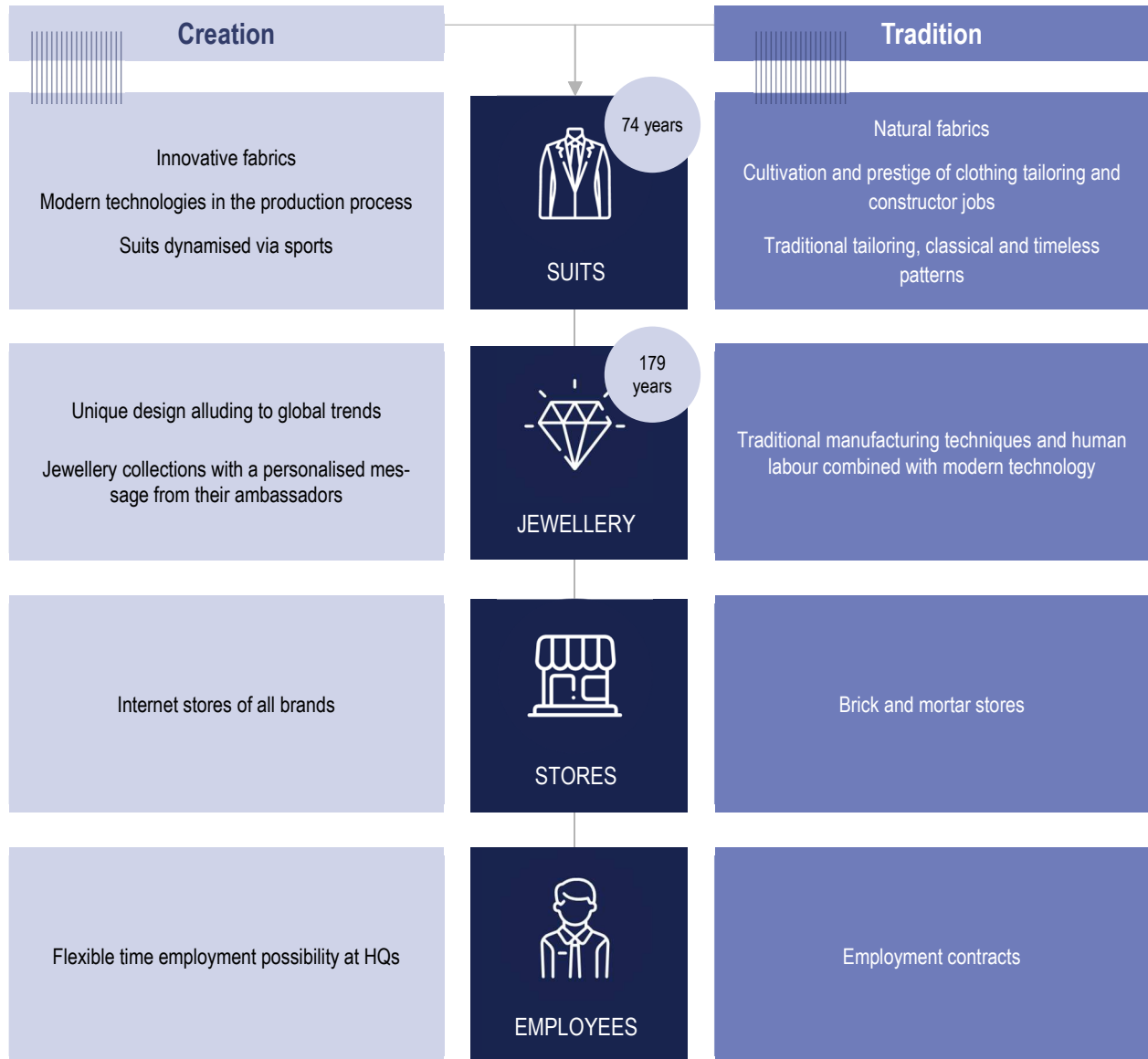
At the same time, along with the Group's vision, the Management conducts the House of Brands strategy. The aim is to obtain, also via M&A, a portfolio of brands that would be strong on their local markets. The strategy allows to

VRG S.A. and VRG.S.A. Capital Group

accelerate the Capital Group's growth, allows for diversification by entry outside of Poland and obtaining of synergies with new entities. We are interested in retail projects with recognisable brands and strong market position, which could strengthen the Capital Group's third place among retailers listed on the WSE.

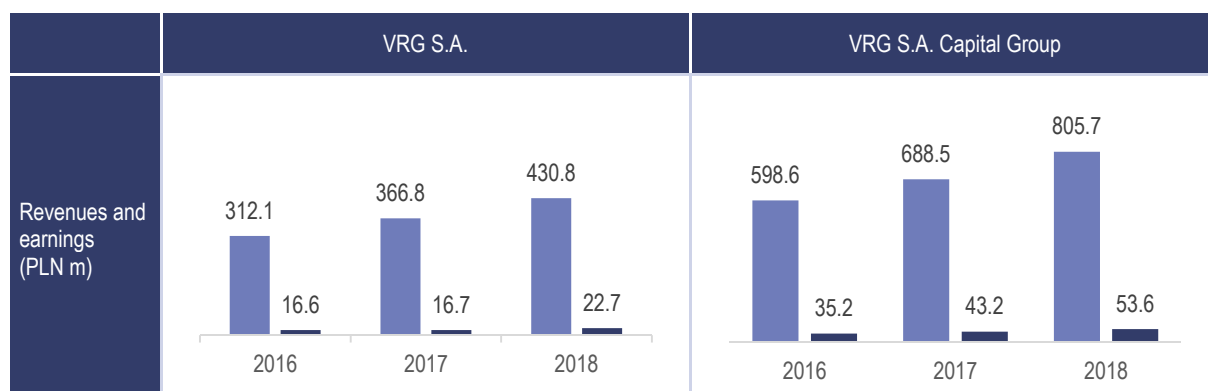
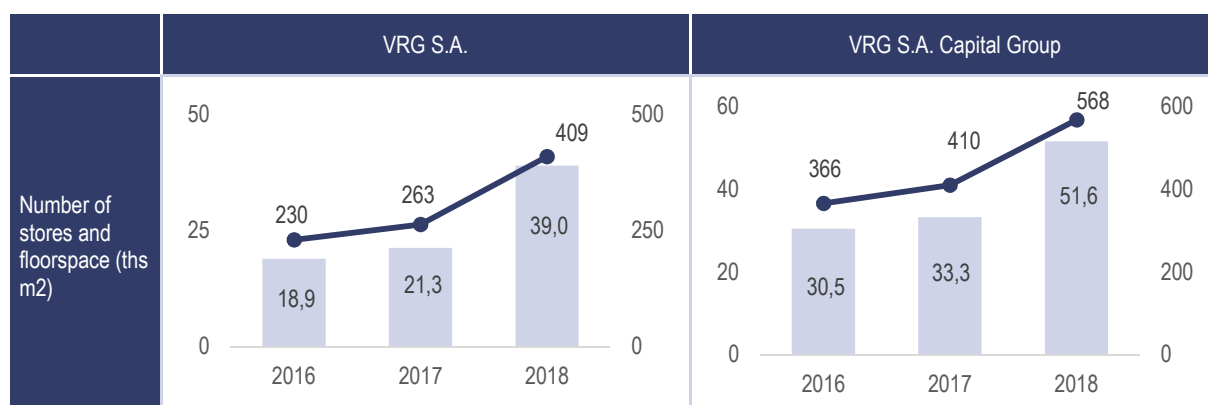
One of the examples of this strategy application was successful conduct of merger with Bytom S.A., which was finalised November 30, 2018. As a result VRG S.A. Capital Group owning five retail brands with a strong local foothold was created. The Management's 2019 target is to deliver on the promised synergies, which should increase efficiency and the Capital Group's financial situation.

The Capital Group's actions are characterised by a combination of tradition and novelty in all its brands. In menswear that means a modern vision of men's tailoring, in women clothing is stands for a combination of classical elegance with a modern chic, while in jewellery maintaining manufacturing tradition in modern designs.



Financial results of the last couple of year show that the strategy pursued by the Management of the Company and the Capital Group has been a proper one. Both the Company and the Capital Group consistently develop organically, increasing the number of stores, floorspace as well as revenues and profits.

VRG S.A. and VRG.S.A. Capital Group



2.4. Awards and achievements

The Group's brands have obtained several awards and designations from their customers. Below are selected ones achieved in 2017 and 2018:

- In 2019 Vistula brand obtained a Twój Styl editorial award of Fashion Perfection for „Vistula with passion” project initiated in 2018.
- In 2018 Vistula brand obtained a Twój Styl editorial award of Fashion Perfection for Robert Lewandowski Collection 2017.
- In 2018 Wólczanka brand ranked third in clothing category in Top Avanti contest organised by AVANTI.
- In 2017 Wólczanka brand ranked first in clothing category in Top Avanti contest organised by AVANTI.
- In 2017 Wólczanka brand ranked third in brand power ranking in clothing and shoes category run by Rzeczpospolita newswire in frames of Polish Success Brand contest (XIII edition).
- Bytom Concept Store in CH Forum Gdańsk was awarded Best Shop Concept 2018 title.
- In 2019 W.KRUK brand obtained a Twój Styl editorial award of Fashion Perfection for „FRIENDSHIP” marketing campaign of the brands ambassadors – Magda Cielecka and Maja Ostaszewska – conducted in 2018 in Top marketing campaign category.
- In 2018 W.KRUK obtained Silver Effie Award 2018 in frames of SAR Effie Awards Poland for Freedom by Martyna collection for W.KRUK. A year earlier the brand was awarded Bronze Effie Award 2017 in SAR Effie Awards contest for performance marketing campaign/e-commerce.
- W.KRUK obtained an award in Performance Marketing Diamonds CEE contest in „The most effective sales campaign” category for campaign conducted in 2018.

- W.KRUK brand was awarded in Watches of 2018 ranking by Esquire editorial in watches for flying category for Rolex brand and Rolex GMT-Master II model.
- W.KRUK brand obtained a Twój Styl editorial award of Fashion Perfection for ultra-exclusive watches for Rolex brand in 2017.

2.5. Organisations and societies

VRG S.A. Capital Group via its parent company is a member and supports actions of two important organisations:

- SEG – Polish Association of Listed Companies – organisation established in 1993 supporting the development of Polish capital market and representing the interests of companies listed on the WSE. Being an expert organization, SEG aims to spread and exchange knowledge enabling the development of the capital market and modern market economy in Poland.
- PIOT – Association of Employers from the Clothing and Textile Industry is an organisation with over 70 years of tradition in work for development of the clothing and textile industry, gathering several companies from the industry. PIOT actively acts on the international and local level, creating a positive image of Polish sector and creating opportunities to increase competitiveness both locally and abroad. The Association represents Polish producers versus public and government institutions domestically and versus international agencies such as EURATEX (The European Apparel and Textile Confederation) in Brussels, and European Technology Platform. PIOT also cooperates with scientific institutes related to apparel-textile industry among others in frames of R&D projects. It also supports many other international undertakings as a leader or partner.

3. Corporate governance

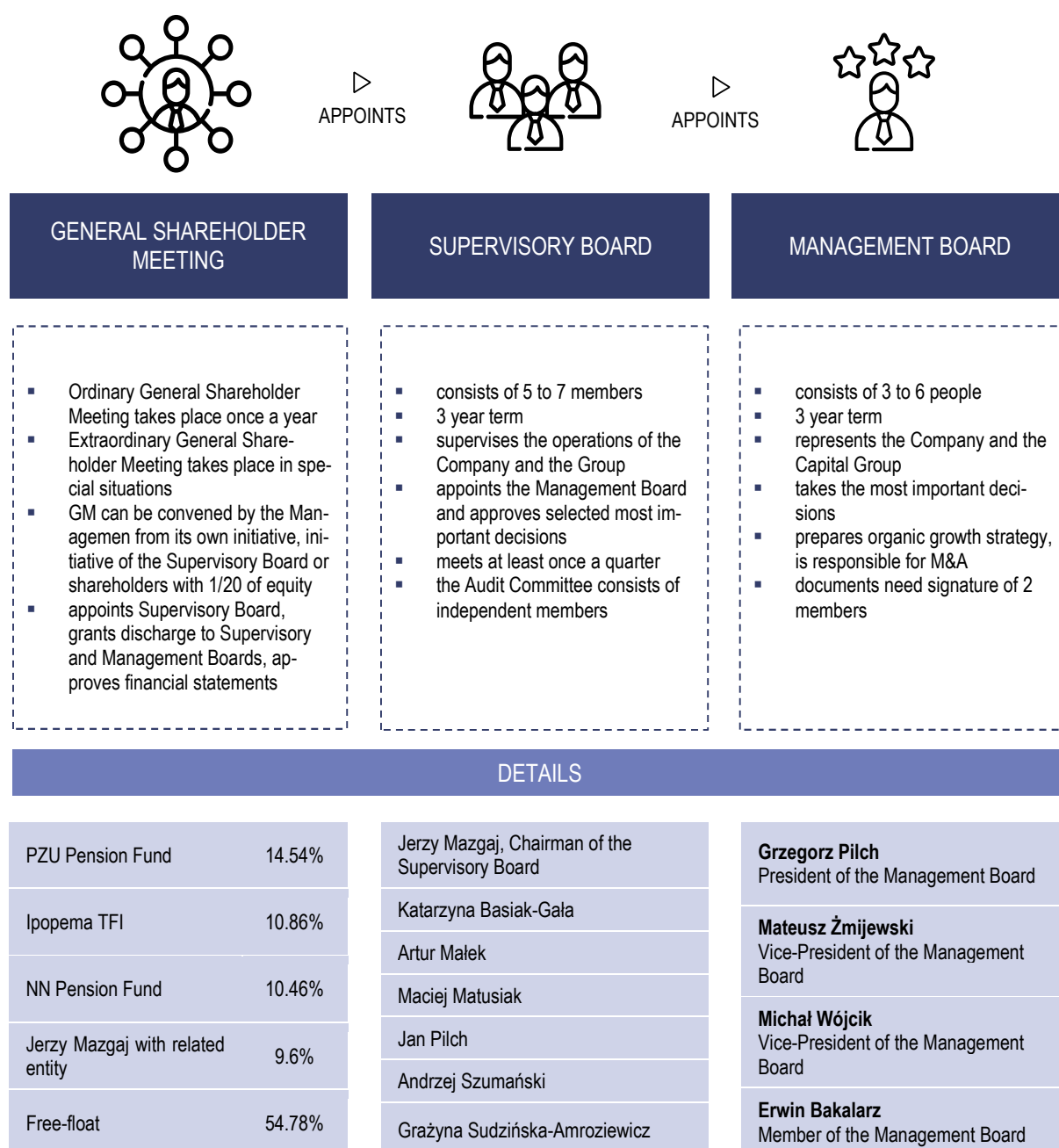
VRG S.A. and VRG S.A. Capital Group place great emphasis on corporate governance. As an entity listed on the Warsaw Stock Exchange, the Group runs an open communication with capital market participants. It also applies the *Best Practice for WSE Listed Companies 2016* rules.

Shareholders i.e. owners of the Company exert control over the Company and the Capital Group via General Shareholder Meetings. An Ordinary General Shareholder Meeting takes place up to 6 months after the end of fiscal year, while an Extraordinary General Shareholder Meeting takes place in special situations. An Ordinary General Shareholder Meeting approves financial statements for the prior year as well as the Management's report on operations of the Company and the Capital Group, decides on profit distribution or covering of a loss, appoints or changes Supervisory Board as well as grants discharge to Management Board and Supervisory Board members for their actions in the past year. General Shareholder Meeting can also alter the scope of the Company's operations, change the Articles of Association, increase or decrease statutory equity, decide on a merger, division or transformation of the Company. An Extraordinary General Shareholder Meeting can be convened by the Management based on own initiative or based on initiative of shareholders representing at least 1/20 (one twentieth) of the Company's equity. An Extraordinary General Shareholder Meeting should be convened within 2 weeks since filling of the motion by authorised parties. The Company's and Group's shareholder structure is a dispersed one – the largest shareholder does not exceed 20% of votes on the General Shareholder Meeting while the four largest shareholders possess a combined 45.2% stake in votes. The majority of shareholders have been with the Company for at least a couple of years and they participate in shaping of the Company's and Capital Group's actions via their representatives in the Supervisory Board. The Company has a sizeable free-float, with majority of shareholders being financial institutions.

The General Shareholder Meeting appoints Supervisory Board which oversees the Company and the Management Board's actions in the name of shareholders. According to the Company's Articles of Association, the Supervisory Board consists of between 5 to 7 persons with a 3-year term. The current Supervisory Board consists of 7 people based on the decision of the Extraordinary General Shareholder Meeting on October 31, 2018, which enlarged the composition of the Supervisory Board due to merger with Bytom S.A. Due to a sizeable presence of financial investors, 5 out of 7 Supervisory Board members are independent. The Supervisory Board is a diverse one, both in

VRG S.A. and VRG.S.A. Capital Group

terms of business experiences of its representatives as well as gender. Supervisory Board meetings take place at least once per quarter. Supervisory Board competences include, among others, examination and analysis of the financial statements and Management Discussion and Analysis of the Company and the Group as well as choosing the auditor. There is an Audit Committee within the Supervisory Board, operating on a permanent basis, which consists of three persons. The Supervisory Board also appoints the Management, whose role is to run the Company and the Capital Group. Additionally, the Supervisory Board approves the Management Board operations and sets the Management Board remuneration. The Management Board consists of between 3 to 6 persons while its term last 3 years (just like the Supervisory Board). The Management's remuneration consists of two elements: monetary one (base salary plus potential bonuses based on the results of the Capital Group and fulfilment of its development targets) and non-monetary one in the form of subscription warrants entitling the members to exchange these for VRG S.A. shares in frames of a stock option plan (based on the results of the Capital Group and share price performance), which aligns the goals of the Management with these of shareholders, i.e. with value creation.

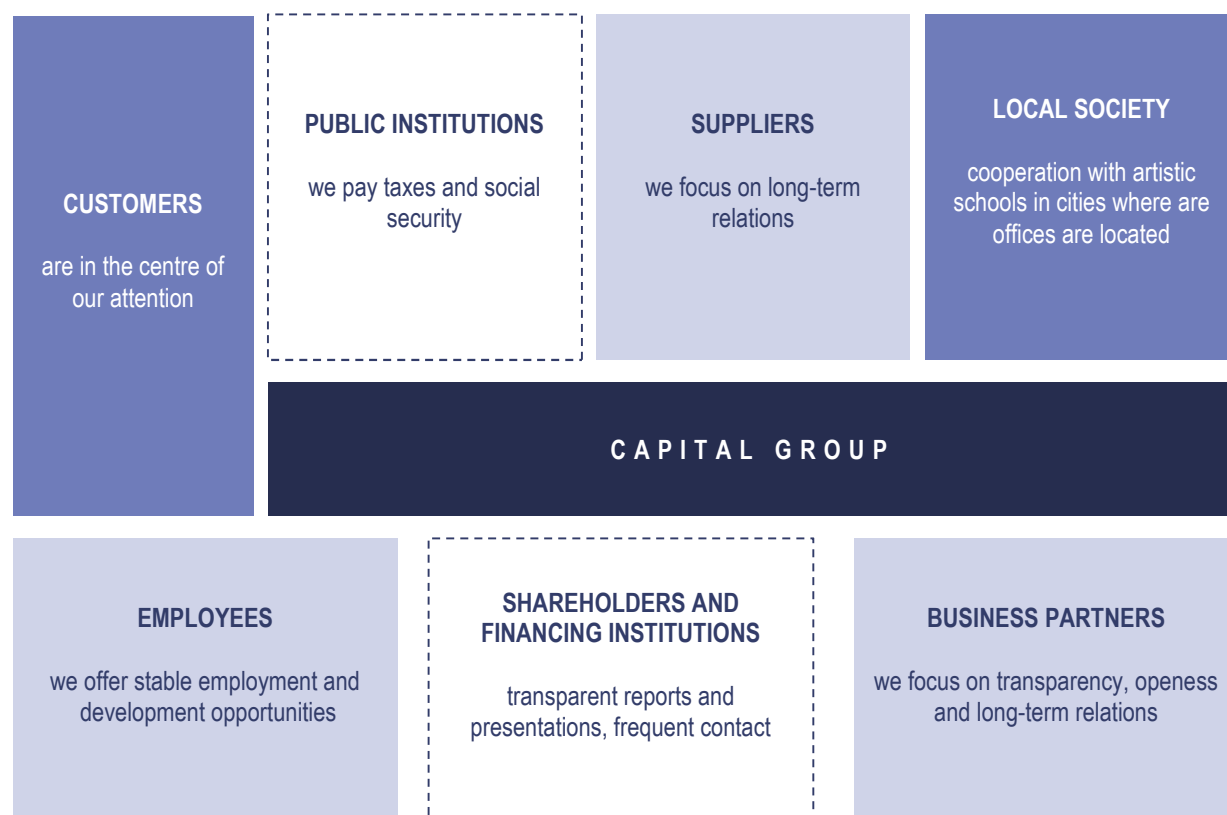


4. Stakeholders

Stakeholder analysis conducted post merger with Bytom S.A. for the purpose of this Non-financial Statement showed that stakeholder groups have not been altered. For the purpose of the Non-financial Statement for 2017 the Management conducted a stakeholder survey based on the ways stakeholders: (1) impact the Company and the Company impacts them and selected elements of the value chain, (2) the Company's and the Capital Group's impact on selected stakeholder groups, (3) interest shown in the actions of the Company and the Capital Group as well as (4) frequency of the contact. Based on this analysis seven stakeholder groups have been identified. These are: (1) shareholders and financing institutions, (2) suppliers, (3) customers, (4) business partners, (5) employees, (6) public institutions and (7) local society. Except for the Company's and Capital Group's employees, remaining stakeholders are external ones.

For each stakeholder group the Management analysed and confirmed that the year earlier identified key issues, engagement ways and actions for those groups remain valid. Due to merger with Bytom S.A. the Capital Group decided to expand the stakeholder survey conducted year earlier for the answers of Bytom S.A.'s stakeholders, though the entity stopped existing along with the merger. Stakeholders participating in the merger could give a priority ranking to a certain issue of between zero (not important) to five (material). 32 Bytom's stakeholders took part in the survey. Their answers were added to the answers of Vistuli Group S.A. survey (VRG S.A. legal predecessor) from a year ago, in which 321 stakeholders took place.

Answers of Bytom's stakeholders were similar to those of pre-merger Group stakeholders' answers. These were oriented on ethical issues, social and employee matters. These to a lower extent related to environment-oriented and anti-corruption practices, which corresponds to the Company's and Group's business model. The results of the survey together with the stakeholder materiality matrix are being used by the Management to improve policies with the aim of meeting the most of stakeholders' expectations.



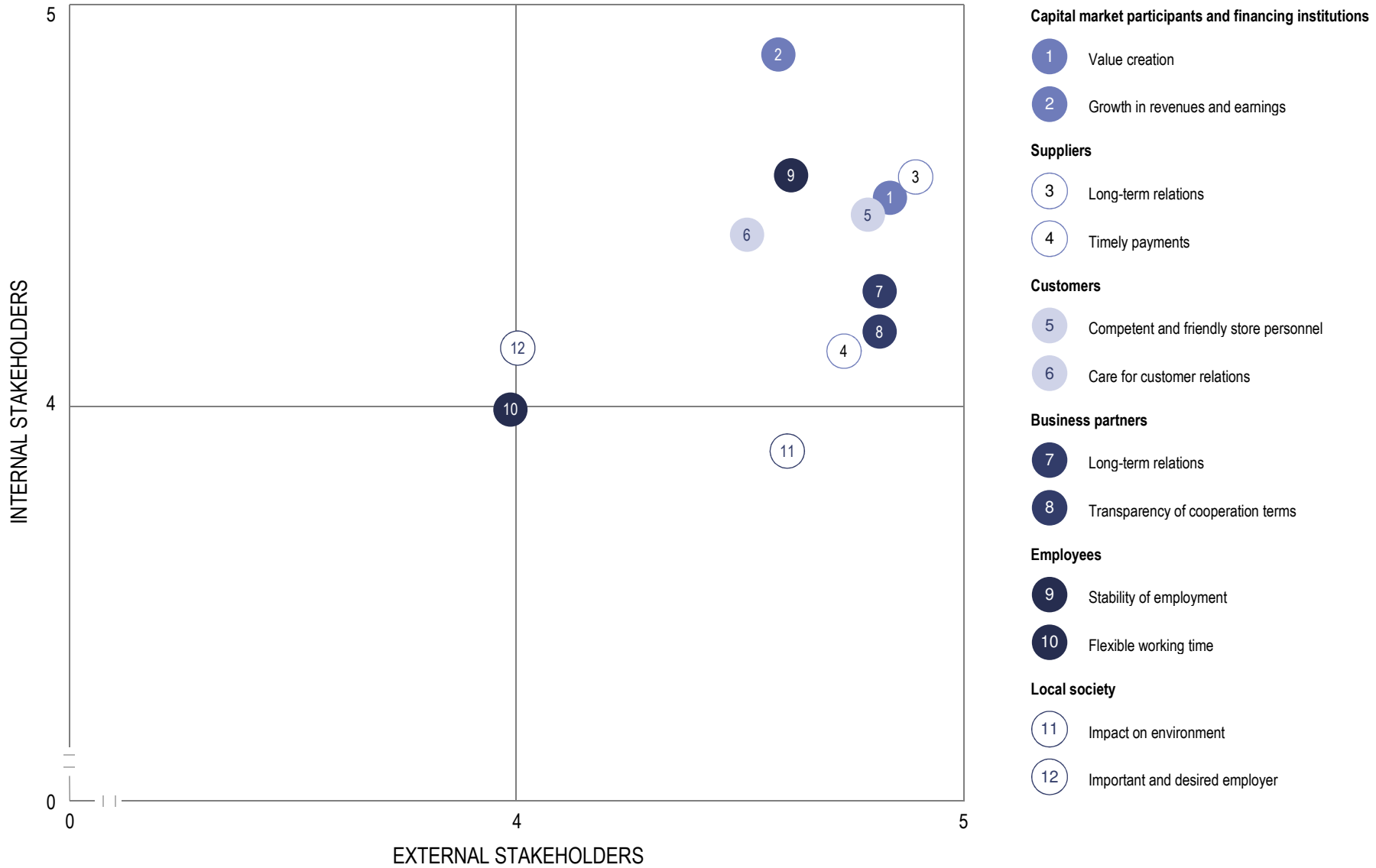
VRG S.A. and VRG.S.A. Capital Group

VRG S.A. and VRG S.A. Capital Group stakeholders

	Shareholders and financing institutions	Suppliers	Customers	Business partners	Employees	Public institutions	Local society
Who are they?	Our shareholders are a diverse group encompassing private individuals, institutional investors (mutual and pension funds), research analysts and other listed companies. Financing institutions include banks.	Suppliers are entities that: (1) deliver us fabric and accessories for clothing production, (2) produce clothes that we order, and (3) from which we purchase jewellery or finished products. These encompass domestic and foreign players.	People who identify themselves with our brands, visit their stores and e-stores as well as purchase and use products sold by Group's brands.	Business partners other than suppliers, e.g.: (1) shopping mall operators, where Group's stores are located, (2) franchisees, who run stores of all Group's brands, as well as (3) logistics operators.	Our employees are a diverse group. These include not only employees of stores but also HQs and production. Internal stakeholders also encompass Bytom's managers and their employees though these are not employees according to Labour Law..	Central and local administration is also an important Group's stakeholder. The Group cooperates with public institutions on various levels, ranging from tax offices to customs offices. Polish SEC (KNF) is also an important public stakeholder.	Local societies are located in cities, in which Group conducts its operations. These are: Cracow (HQs of the Company and subsidiaries), Ostrowiec Świętokrzyski (production facility) but also Poznań (manufacturing), Warsaw (offices) and Tarnowskie Góry (offices).
Why are they important to us?	Shareholders are the owners of the Company, while thanks to financing institutions we have means for development. Analysts value our shares, issue reports and recommendations, which help in decision making.	Suppliers are an important part of our value chain. They deliver goods and products that we resell in our stores.	Understanding and meeting the needs of our customers is Group's priority. Customers are the most important part of the value chain, we create our products and open our stores for them. We strive to keep them satisfied.	Thanks to its business partners the Group can reach its customers and offer them products in brick-and-mortar and e-stores.	Employees are our most important internal stakeholders. They are the driving force of the Group – they manage and develop it as well as communicate with customers.	We are a Polish company that pays taxes in Poland. We want to be perceived as a transparent entity whose taxes are used to benefit the country's development.	People living and working in those regions and cities, in which the Group conducts or develops its operations, as well as families of Group's employees.
How we engage?	Value generation is our priority both in terms of organic growth (concentration on growing revenues and earnings) as well as with M&As (broadening the brand portfolio on favourable terms). The Management emphasises the quality and transparency of published operational and financial data. Apart from current and periodical reports the Group prepares presentations and excel files, supplementing the quarterly numbers. Those materials are available on our webpage. The Management focuses on dialog, regular meetings with shareholders (institutional and individual) on quarterly conferences and other conferences for listed companies. The Management runs and open dialogue also with financing institutions.	The Group emphasises long-term relations with suppliers based on mutual respect and trust. To meet the needs of our partners, we try to plan the production process in advance (especially in the apparel segment), allowing our suppliers to plan production calendars. Additionally, the Group takes also payments into account while managing relations. Average payment term of invoices obtained by the Group increased from 37 to 45 days, due to changes in the sourcing structure and reverse factoring used by Bytom.	The Group's aim is to deliver high quality customer experience. Vista, Wólczanka and Bytom brands focus on modern design, good tailoring and matching their changing lifestyles. Deni Cler emphasises high quality fabrics, collections combining classical elements and modernity as well as, modern-looking stores. W.KRUK brand emphasises variety in its jewellery, occasional collections and a broad offer of watches. On top, Group invests in improvements of on-line stores. The managers listen to the clients' needs by monitoring satisfaction indicators, gathering feedback in stores, communicating via newsletters, social media and brand's webpages.	The Group keeps long-term relations with all key shopping mall operators. Due to individual meetings and engagement, the Group obtains new locations on terms favourable for both sides. The brands' strong recognitions allows us to obtain new franchisees, thanks to which we can develop our network and open stores in new smaller towns. The Group also cultivates relations with logistics operators, which support the Group in off-line and on-line operations.	Managers runs an open dialogue with the employees e.g. by organising cyclical meetings between Management, managers and employees. Store employees have regular meetings with regional managers. The Group offers stable employment with the possibility to develop. Managers monitor the level of remuneration versus the competition, while the Group offers employees non-financial support in the form of trainings, supplementation to Multisport card and private healthcare system.	The Group delivers financial statements and tax filings in a timely manner, pays social security and tax liabilities. Group's representatives participate in a dialogue with public institutions on various levels.	The Group assures stable and favourable employment terms to its employees and thus positively affects their families and local societies. The Group is an important employer in Cracow and Ostrowiec Świętokrzyski. The Group also cooperates with local schools (e.g. Cracow Art School in a major of Artistic Clothing Design), supports students in preparation of their masters' thesis and offers trainings. At the same time, the Group endeavours so that its production facilities affect the environment to the lowest possible extent.
Which matters are important for them?	Value creation, growth of revenues and earnings, transparent periodical reports, detailed quarterly presentations, regular meetings with the Management.	Long-term relations, possibility to plan production ahead, transparency of the ordering process, as well as timely payments.	Competent and friendly store personnel, products' quality and a corresponding price, care for customer relations, safety of personal data processing and convenient locations of stores.	Long-term relations, transparency and favourable cooperation terms, timely payments and stores replenishment and stocking (franchisees).	Stability of employment, flexible working hours, favourable working conditions, competitive remuneration, transparent career path and training opportunities.	Obeying the law, taxes maximisation, increase in employment, paying social and tax charges on time, antibribery policy, securing a safety workplace for employees.	Environment impact, being an important and desired employer in the region, engagement in local societies, support for local initiatives and foundations, investments in the region.

VRG S.A. and VRG.S.A. Capital Group

Materiality matrix of VRG S.A. and VRG S.A. Capital Group stakeholders



5. Social and employee policies

Social and employee policies are important for the Company and the Group. These impact not only internal stakeholders i.e. our employees but also external stakeholders like the families of our employees, local societies and customers. While managing relations with its employees, the Group focuses on diversity, development possibilities, trainings, transparent career path and market remuneration. While managing social relations, the Group promotes sports and important social projects.

At the end of 2018 the Capital Group employed 2,549 persons, up c.4% YoY. Excluding Bytom S.A. employees, the number would reach 2,513, up c.3% YoY. Employment contracts were the primary form of employment. In 2018 these constituted 90% of all contracts at the Capital Group level (95% excluding Bytom S.A.) compared to 96% in 2017. Other contract forms include contracts of mandate and contracts based on civil law. The most important employer within the Capital Group was VRG S.A. (the Company), which employed 1,189 people, up c. 4% YoY at the end of 2018 (up 1% YoY excluding Bytom S.A.). In 2018 the Capital Group took 997 new people on board (indicated in FTEs, full-time equivalent), up 12% YoY, while 960 FTEs, up 8% YoY, excluding the impact of Bytom S.A. 890 FTEs left the Capital Group in 2018 (889 excluding Bytom S.A.), up 17% YoY. The highest attrition was recorded among employees in stores and below 30 years old. 452 FTEs left the Company in 2018 (451 excluding Bytom S.A.), up 29% YoY.

EOP employment (people)	2017	2018 (excl. Bytom)	2018 (Bytom for XII 2018)
VRG S.A. Capital Group	2,447	2,513	2,549
Apparel segment	1,549	1,560	1,596
Jewellery segment	898	953	953
VRG S.A.	1,144	1,153	1,189

The reason behind a small difference in numbers including and excluding Bytom S.A. at the year-end is a different way of store management. In Vistula, Wólczanka, Deni Cler and W.KRUK store personnel has employment contracts. Bytom stores were run by store managers who were employed based on civil law type of agreements. It was their duty to employ personnel based on employment contracts. Data presented for Bytom (both end of period 2018 and December 2018 used for average employment level calculation) only encompass headquarter employees i.e. administrative personnel with employment contracts. These do not include store managers and store employees hired by those managers. On top, the number of employees at the year-end does not include persons on maternity leaves. The number of employed and departing employees is shown in FTEs. It does not include persons starting and departing for their maternity leaves. Additionally, the numbers of onboarded and leaving employees do not include changes within their working hours, which took place in 2018.

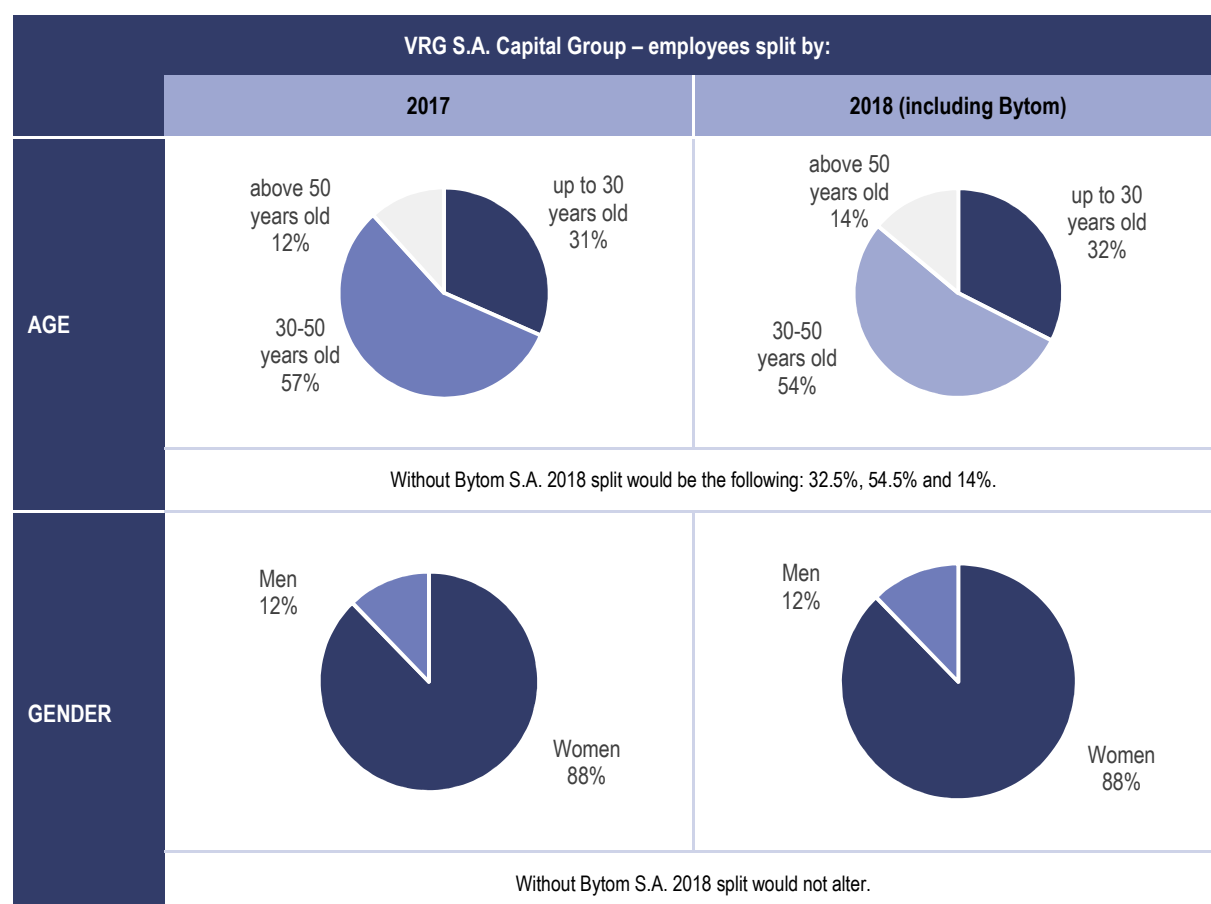
The HR management policy is based on a structure of directors, top- and middle-level managers. The structures differ depending on the area of employment (HQs/administration, stores and production). Employee as well as health and safety issues are regulated on the Capital Group level based on Polish law. The most important law regulating the employee relations is Labour Law. Both the Company and the Capital Group possess a series of regulations relating to employee matters, e.g. work regulations, remuneration regulations, regulations related to Social Benefit Funds. Within the Company and the Capital Group the regulations govern the organisation and order of work (including working hours), and related employee's rights and obligations, taking holidays, information about sick leaves, manner and time of remuneration payment, as well as guidance related to protection of employees' lives and health. Both the Company and the Capital Group allow employees to associate in trade unions. There was 1 trade union in the Company in 2018 and in 2017, while there were 3 in the Group. In 2018 the trade union

VRG S.A. and VRG.S.A. Capital Group

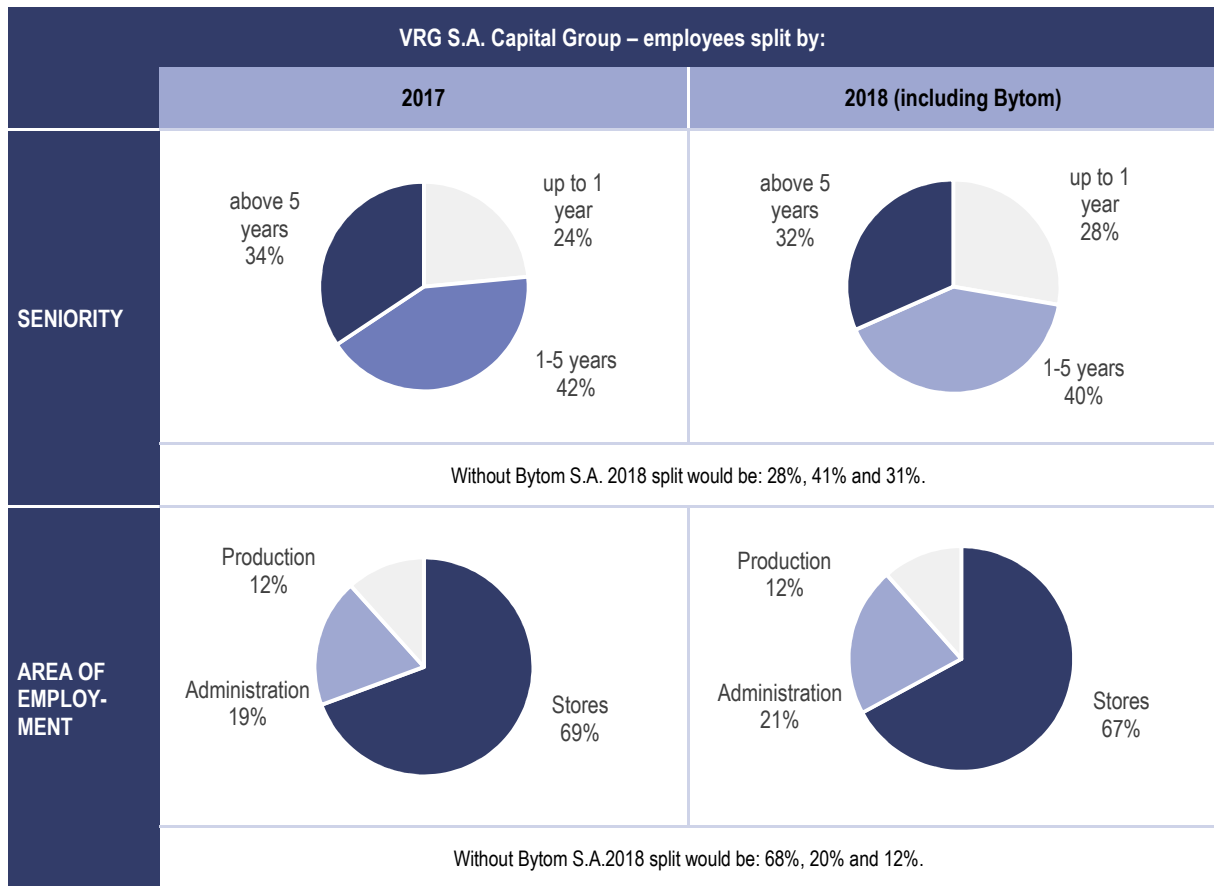
within the Company gathered 28 employees (26 a year earlier) while trade unions within the Capital Group summoned 211 persons (215 persons a year earlier). There were no collective disputes with employees either in 2017 or in 2018 on the level of Company and the Capital Group.

We value diversity and give equal chances

The Capital Group believes that access to a diverse pool of talents helps the organisation as a whole to develop. As a result, differentiation and diversity are valued among employees. It is the effect of accumulation and cooperation of varied experiences and competences that allows the organisation for a continuous development. The Management believes that the Company's and the Capital Group's development and fulfilment of business targets will be more effective if different experiences and needs are noticed and used within the organisation and its surroundings. The Group respects its employees regardless of their age, gender, religion, different beliefs, cultural differences sexual orientation. The Group pays attention so that no internal document contradicts gender equality and diversity. Within our internal regulations there is no mentioning of any gender or group having a hindered or preferential access to know-how, benefits, privileges or would have a disproportional burden of work. This approach is promoted by our Diversity Policy and reflected in non-financial indicators. At the Capital Group level: (1) we have employees in different age (54% of employees are between 30 to 50 years old), (2) we take actions to balance employment by gender (women constitute 88% of employees), (3) we have employees with different seniority (40% of employees have been with the Group between 1 to 5 years). The capital Group also employs disabled persons. In 2018 there were 84 disabled employees, up 9% YoY, while 4 at the Company level, down by half YoY.



VRG S.A. and VRG.S.A. Capital Group



The aim behind creation and implementation of our Group Diversity Policy is creation of such a place and working environment where each employee feels respected, accepted and appreciated in which he/she can realise his/her full potential, develop and as a result contribute to the success of the organisation as a whole. Diversity Policy also aims to build trust and favourable working environment and counteract in case of potential discrimination. Actions undertaken and promoted by the Capital Group include among others: (1) building of teams diverse in terms of gender and age; lack of preferences in these areas allows to obtain a broader perspective in problem solving, allows for a better work atmosphere, inspires creativity and essential knowledge transfer, (2) support in combining professional and private roles via: possibility to work from home, possibility to leave work in emergency family situations, granting holidays in urgent cases, conduct of professional task in a flexible way taking family obligations into account, flexible working hours; and (3) creation of culture which promotes dialogue, openness, tolerance and teamwork, as well as an approach minimising risks related to losing key personnel, assuring equal access to benefits offered.

We offer development possibilities

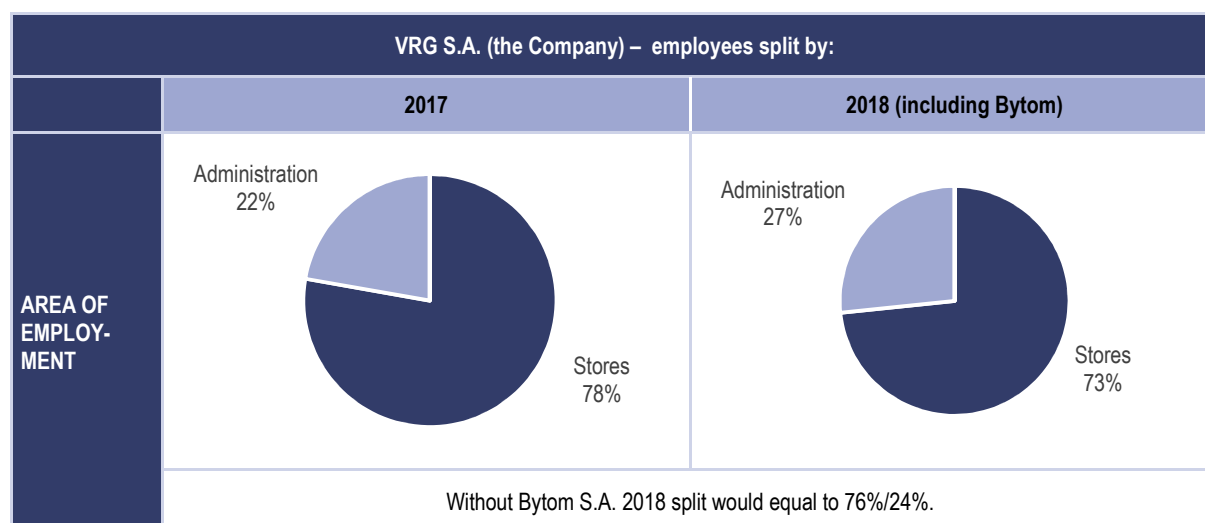
Career paths within the Company and the Capital Group are related directly to the division, in which a career is started. Due to high numbers, the longest career paths are offered in the trading division i.e. Group stores. One can become a store manager, a regional manager or a visual merchandiser. HQs and administrative personnel can develop within expert fields which offer more development opportunities than vertical promotions (due to a low number of such openings). Every employee has equal chances for promotion. The Capital Group maximise the number of internal promotions, especially in stores. This allows to grow people and guarantees continuation of

VRG S.A. and VRG.S.A. Capital Group

knowledge of store sales standards as well as increases the engagement of employees and brand awareness. Only if internal recruitment does not bear the expected fruit do we engage in external hiring. In case of positions in headquarters, typically internal recruitment (publication on corporate webpage, available for everyone) is launched on par with external one (publication of offering on job portals) as these posts require specialists knowledge confined to a small group of experts. If the employee is interested in the published vacancy, he/she participates in the recruitment process on an equal basis as the external candidates after having received the consent of his/her manager for such a step.

VRG S.A. (the Company) – employees split by:		
	2017	2018 (including Bytom)
AGE	<p>above 50 years old 8%</p> <p>up to 30 years old 39%</p> <p>30-50 years old 53%</p>	<p>above 50 years old 9%</p> <p>up to 30 years old 39%</p> <p>30-50 years old 52%</p>
	Without Bytom S.A. 2018 split would not alter.	
GENDER	<p>Men 14%</p> <p>Women 86%</p>	<p>Men 14%</p> <p>Women 86%</p>
	Without Bytom S.A. 2018 split would equal to: 85%/15%.	
SENIORITY	<p>above 5 years 41%</p> <p>up to 1 year 23%</p> <p>1-5 years 36%</p>	<p>above 5 years 41%</p> <p>up to 1 year 24%</p> <p>1-5 years 35%</p>
	Without Bytom S.A. 2018 split would not alter.	

VRG S.A. and VRG.S.A. Capital Group



The employees' development possibilities are not confined to promotions. The Company and the Capital Group also provide their employees access to trainings. The Group offers trainings related to the employees' functions and development trainings (e.g. languages, currently: English, Italian, Czech) as well as managerial trainings. The employees are delegated to certain trainings in teams or individually or an employee comes forward with a training initiative for which he/she can obtain consent after proving its usefulness to his/her competences' development. For sales personnel the Group organises cyclical and regular product and sales trainings which help to obtain competences of a real customer advisor. Persons starting work at the Capital Group take part in a specially prepared process adapting them to work at stores and in retail overall. The Group also offers dedicated trainings to head-quarter personnel. These are related to improving competences on certain positions (e.g. in complaints, purchases, production preparation, internet store customer support or product division) as well as trainings for the finance and reporting divisions. The trainings are part of a loyalty system for employees. Although the Capital Group offers development opportunities, it does not forget about assessment of employees, feedback and market remuneration, which levels are monitored through access to pay reports. Below we present data relating to employees trainings (excluding work safety trainings). The number of trainings and employees that participated in those trainings fell YoY in 2018 due to changes in the training system conducted during the year.

Number of employees who participated in trainings	2017	2018
VRG S.A. Capital Group	1,673	1,359
Apparel segment	1,388	1,203
Jewellery segment	285	156
VRG S.A.	1,355	1,154
Number of training days	2017	2018
VRG S.A. Capital Group	831	744
Apparel segment	325	432
Jewellery segment	506	312
VRG S.A.	303	319

Data for 2018 do not include Bytom as there were no trainings in December 2018.

We promote sports and healthy lifestyle

The Company and the Capital Group engage in campaigns and initiatives that they believe are valuable for their stakeholders and consistent with the brands' images and values of the Capital Group. VRG S.A. especially engages in sports promotion, while being a partner of well-known and valued Polish sportsmen from various sport fields. On one hand, the marketing communication related to sports refreshes and dynamises the image of the brand by linking it to sport disciplines that match the profile and interests of the brand's customers. On the other hand, it promotes positive attitudes like perseverance and success.

In 2018 the Company continued cooperation with Robert Lewandowski (agreement signed in 2016 and expired along with Autumn/Winter 2018/19 collection). Within this timeframe the soccer player was the ambassador and the face of Vistula brand. Within this cooperation a limited collection signed by Robert Lewandowski was prepared. Additionally, in 2017 the Company signed a six month contract with Kamil Stoch, Piotr Żyła and Dawid Kubacki, the core of Polish ski jumping team. In frames of the agreement, they became the ambassadors of Vistula brand wearing its formal and casual clothes. Kamil Stoch on his own prepared a mini-collection of caps. Apart from individual cooperation with sportsmen, Vistula brand also collaborates with Polish sports organisations. Since 2016 Vistula is an Official Partners of Polish Football Team dressing the Polish National Football Team in formalwear for World and European Football Championships. Since 2017 the brand is also an official partners of Polish sailing club Ocean Challenge Club and takes care of the looks of the club participants during the most important regatta in the world. The aim is support for Polish sport and popularisation of sport as a healthy lifestyle.



Taking not only physical activity but also personal development and fulfilment, Vistula brand has also chosen other men, who also represent the brand's values for its ambassadors. In 2018 Vistula launched an ambassadors' programme „Vistula with Passion”. It was created to portrait inspiring men who follow their passions in life. The project's aim is to show the profiles of heroes, who speak about themselves, their passions and interest while taking part in video shoots and filming. These men represent different areas of life, ranging from sportsmen through musicians to cuisine lovers. So far the following men have taken part in the project: Jakub Przygoński (a valued rally and drift driver, who ranked 4th in Dakar rally in 2019), Robert Karaś (world champion in triple Ironman), Paweł Tarnacki (Poland and world champion in sailing), Paweł Kaczmarczyk (jazz musician), David Gaboriaud (cook and culinary

trainer), Bartłomiej Mirecki (rally driver) and Robert Tarnowski (windsurfer). Vistula brand aims to emphasise that it is worth following one's passions and interests in life and this strongly affects other spheres of life.

Initiatives related with Polish sportsmen are not the only way of supporting active lifestyle. In 2017 the Company decided to support a charity run initiative Poland Business Run. The Company financed participation in this project of two teams and at the same time helped to financially support people post amputations and with leg disabilities. The initiative was aimed not only at support for the disabled but also at promoting an active lifestyle and integration and integration of local society with the business. It helped the Company's employees to show their sport talents and encouraged them to start similar activities on their own. Due to positive feedback among employees, two teams from VRG participated in this action also in 2018, ranking high in classification.

Apart from the Company's engagement, the Capital Group also offers pro-health trainings for its employees. Their subjects are varied, ranging from topics related to activities supporting a healthy backbone at work through information on healthy nutrition and its impact on health up to instructions on how to deal with burnout at work. The trainings are free and accessible for all employees. In 2018, the HQs employees also participated in a prevention programme related to cardiological and diet issues. The "Heart under control" programme was run in cooperation with PZU. In frames of this programme, employees could sign for screening tests at cardiologist and dietitian, make an ECG, blood test, measure the body (including tissue split) and obtain dedicated dietician support targeted at their lifestyle. The Group co-finances its employees' Multisport cards on three levels of intensity of use, while part of employees participates in a private healthcare system (all VRG S.A. HQs employees and all store employees with employment contract post the trial period) and life insurance.

At Group HQs there is a possibility to have more flexible working hours. An employee can start work between 7 to 9 a.m. The employees in stores work in a so called equivalent working time system. Store managers who construct timetables take into account the needs of the employees regarding the amount of work, number of days off, so as to have staff in store and fulfil legal requirements. Among others, due to these reasons, overtime is rare both at the Company and the Capital Group. Overall in 2018 the Company's employees recorded 3,056 of overtime, up 23% YoY due to merger with Bytom, yet fall versus 4,791 overtime hours in 2016. In 2018 Group employees worked 9,734 overtime, down 24% YoY (there was no overtime recorded in divisions related to Bytom in December 2018). Due to differences in types of work, flexible working time application is not unified across the Group. In 2018 employees used home office possibility more frequently.

We cultivate crafts and traditional professions

Tradition, attachment to high-quality workmanship and handcraft remain important values for the Capital Group. Using modern materials, techniques and design, the Capital Group cultivates traditional trades such as tailoring and jewellery. In the apparel segment VRG S.A. conducts activities supporting the process of building the perception of the Vistula brand as the "National Tailor", a brand that continues the tradition of Polish tailoring, taking care of the elegant appearance of Poles in official and causal situations. The Capital Group and the Company regularly dress leading Polish actors and artists for the most important cultural events. In 2018, as the Partner of the 43. Festival of Polish Feature Films in Gdynia and the Polish Film Academy Awards of the Eagles awarded by the Polish Film Academy, Vistula took care of the dress of the leading Polish actors who showed up at the red carpet during the festival. As part of the partnership, Vistula dressed, among others, Borys Szyc, Wojciech Meczaldowski, Robert Więckiewicz, Maciej Stuhr or Janusz Gajos. This mission also includes cooperation with state institutions of culture and art. VRG S.A. she sponsors costumes for selected theatrical plays, dressed employees of the National Museum in Cracow, and as part of the cooperation the brand dressed the staff of the Royal Łazienki Park in Warsaw.

In addition, the Company promotes Polish culture and vision of modern tailoring through its Bytom brand, reminiscent of outstanding Polish culture and art in its collections and marketing message (Zbigniew Rogalski, Tomasz Musiał), actors (Jakub Gierszał, Andrzej Chyra, faces of the Bytom campaign in the season Autumn/Winter 2018/19), photographers, musicians (campaign Spring/Summer 2018 with Wojciech Waglewski and his sons). VRG S.A. cooperates with career offices of selected universities, and some employees engage with professional universities sharing their knowledge of the art of tailoring and design with students. In addition, various departments in

the Group's organizational structure help students to create selected master's theses, providing data and explanations as well as offering internships. At the level of the Capital Group, this activity is enriched by the jewellery segment, which uses precise techniques of artistic craft.



The Sector Council for Competences Fashion and Innovative Textiles was established in October 2016 as an initiative stemming from the needs of the industry consisting in adapting knowledge, skills and competences to the requirements of the changing market. It is a project financed from the Operational Program Knowledge Education Development Priority axis II - Effective public policies for the labour market, economy and education. The leader of the project is the Union of Entrepreneurs of the LEWIATAN Fashion Industry and PIOT is the partner of the project, which is to last in the years 2016-2023. In 2018, among others the following activities were conducted with participation of VRG SA: development of a Decalogue - 10 main reasons why it is worth getting a profession in the fashion industry and innovative textiles, preparation of a report on existing and educated professions in the sector, research on the staffing needs and expected competencies of future employees, development of a recommendation - strategic priorities for the sector up to 2027, key and recommended competences for the sector were compiled and new sectoral qualifications for the Sectoral Qualifications Framework, a joint program for the schooling systems and lifelong learning system was created containing recommendations regarding the equipment of the Center for Practical Training, 6 educational and information films were produced for dedicated internet channels and a virtual game for middle school students promoting the industry was developed.

The EDTEX project partner (International Strategic Partnership in Textile Education) is a project whose basic assumption is cooperation in the field of innovation and exchange of best practices in the field of vocational education. Through membership in PIOT (project partner) VRG S.A. together with a group of 10 sector enterprises, actively participated in the project activities. The project compared the National Sectoral Qualifications Framework of partner countries and teaching programs in the field of clothing and textiles. On this basis, it was possible to revise the programs by interesting activities carried out in other EU countries in the field of formal education at the level of industry and technical school with active participation of enterprises that indicated significant competences desirable when hiring new employees and improving the qualifications of current staff. A formal and non-formal training program was also offered by the participating countries in the project for improving the qualifications of sectoral employees. In subsequent years, based on EU assistance programs, enterprises will be able to send employees to training dedicated to the countries of the project participants. The project partners signed the International Multilateral Agreement, under which a strategic partnership will be established between companies, project partners and schools with a clothing and textile profile within which joint ventures building competencies of pupils and sectoral employees will be organized.

We care for a safety work environment

Safety of employees and co-workers is a priority for the Management Board of the Company and the Capital Group. The Group has implemented health and safety regulations (so called Health and Safety Service) as well as guidelines regarding fire safety. Dedicated personnel (health and safety service employees) are also employed whose task is to make sure that all regulations are applied in practice. VRG S.A. and together with companies from the Capital Group, have a Work Safety Policy that defines the long-term goals and principles that the Management Board follows while implementing tasks in the field of occupational health and safety and fire safety. The goal is to provide the safest working conditions possible, followed by the minimization of occupational risk and creation of habits among employees aiming at maximum risk reduction in performed tasks. Effectiveness of work safety management results from a precise specification of who is responsible for what tasks and how to cooperate while conducting tasks. Thus, the system includes the Management Board (which is responsible for all issues related to health and safety and fire protection), directors and managers (responsible, inter alia, for development and implementation of instructions, organization of workplaces, enforcement of compliance with rules by employees) and

VRG S.A. and VRG.S.A. Capital Group

employees (whose duty is, among others, to know health and safety rules and take part in trainings, inform supervisors about dangers and risks, perform work in a manner consistent with safety regulations and rules).

The Health and Safety Service fulfils the provisions of the Council of Ministers Ordinance of September 2, 1997 regarding health and safety at work, as amended. Our policy specifies the tasks and responsibilities of employees and managers. It puts emphasis on appropriate identification of occupational risk (i.e. the probability of occurrence of undesirable events related to work performed causing losses, in particular occurrence of adverse health effects among employees as a result of occupational hazards occurring in the work environment or the way work is performed). Analysis of occupational risk is carried out by appointed teams in cooperation with the health and safety service. It is updated: obligatory once every two years, due to changes in technology, in case of detecting excess of harmful and dangerous factors in the work environment or at the request of authorized external institutions. All this contributes to a low number of accidents both in the Company as well as in the Capital Group. Both in VRG S.A. as in the Capital Group there were no serious and fatal accidents at work in the analysed years. Basic statistics are presented below. Data is shown with the impact of Bytom for December 2018, although this impact is insignificant (no accidents occurred in December 2018).

Number of accidents at work	2017	2018
VRG S.A. Capital Group	11	10
Apparel segment	11	9
Jewellery segment	0	1
VRG S.A.	6	6
Accident frequency indicator	2017	2018
VRG S.A. Capital Group	4.5	3.9
Apparel segment	7.1	5.6
Jewellery segment	0.0	1.0
VRG S.A.	5.2	5.0
Number of days with inability to work	2017	2018
VRG S.A. Capital Group	184	679
Apparel segment	184	679
Jewellery segment	0	0
VRG S.A.	51	325
Accidents severity indicator	2017	2018
VRG S.A. Capital Group	16.7	67.9
Apparel segment	16.7	75.4
Jewellery segment	0	0
VRG S.A.	8.5	54.2

VRG S.A. and VRG.S.A. Capital Group

Low accident rate and loss ratio is also the result of regular and scrupulously conducted health and safety trainings. The increase in number of days with inability to work and as a result of the severity of accidents in 2018 resulted from the period of incapacity to work coming from the treatment / rehabilitation after accidents. Trainings in the scope of occupational health and safety are also regulated by VRG S.A. and Capital Group's policy. Internal guidelines in this respect provide training participants with: (1) familiarization with those factors of the work environment that may pose a threat to employees' health and safety at work as well as with appropriate preventive measures and actions, (2) learning about regulations and principles of safety and work hygiene, fire protection, to the extent necessary to perform tasks in the workplace overall and at a specific posts, as well as work-related duties and responsibilities in the field of occupational health and safety, fire protection and (3) acquiring the ability to perform work in a manner that is safe for them and other people, dealing with emergencies and helping someone who has been injured. In order to properly transfer knowledge and skills to employees, the programs are developed for specific job groups. Initial and periodical training programs, specifying in detail the subject, forms of implementation and duration of training, are prepared by the Health and Safety Service for individual groups of positions. In 2018, VRG S.A. trained a total of 773 people in the area of occupational health and safety (up 7% YoY), and the Capital Group 1,540 (up 5% YoY). Bytom did not affect the Company's and Capital Group data, as trainings were not carried out in December 2018.

Number of trained employees in the initial work health and safety trainings	2017	2018
VRG S.A. Capital Group	935	998
Apparel segment	504	566
Jewellery segment	431	432
VRG S.A.	460	482
Number of trained employees in periodical work health and safety trainings	2017	2018
VRG S.A. Capital Group	528	542
Apparel segment	320	332
Jewellery segment	208	210
VRG S.A.	264	291
Overall number of trained employees in work health and safety trainings	2017	2018
VRG S.A. Capital Group	1,463	1,540
Apparel segment	824	898
Jewellery segment	639	642
VRG S.A.	724	773

A separate ordinance regulates the activities of the Health and Safety at Work Commission, which includes persons selected from employees. The Commission's task is to review working conditions, assess occupational safety and health, provide opinions on measures taken by the Company's Management Board to prevent accidents at work and occupational diseases, formulate proposals for improving working conditions and cooperate with the Management Board on implementation of safety responsibilities and hygiene at work.

We support important social actions

The Capital Group and the Company engage in a number of socially important activities for employees, local communities and their clients. In 2018, the Capital Group and the Company continued their cooperation with WOŚP (Great Orchestra of Christmas Charity), established in 2017. In 2018, support encompass a possibility of designing a unique shirt, and in 2017, the a one-day experience at work as a designer of the Wólczanka brand was auctioned. In 2018, the Company and thus the Capital Group financially supported the SIEMACHA Association. Bytom brand, through its projects, spread the knowledge of art and reminded the works of eminent Polish painters. An example of such projects are: collection of T-shirts with pictures by Jacek Malczewski, collection with a print of Zbigniew Rogalski's paintings or Spring/Summer 2018 collection promoted by Polish musicians: Wojciech Waglewski and his sons, Bartosz (Fisz) and Piotr (Emade). In addition, the Company and the Capital Group, via the Bytom brand, also created collections on the occasion of November 11 (Polish Independence Day), underlining the Polish origin of the brand.

Pro-environmental activities were the second area of involvement in social actions. Via Bytom brand, the Capital Group and the Company cooperate with WWF Polska. The cooperation between Bytom brand and WWF dates back to 2016, the period before the merger with VRG S.A. and includes creation of a collection of clothing for men made of certified environmentally friendly fabrics bearing the WWF logo. Cooperation promotes more responsible shopping choices and encourages Bytom customers to buy organic cotton clothing. 10% of the collection's sales value is intended for nature conservation programs run by WWF. The latest example of the Bytom & WWF collection is Król Mokradel (Autumn/Winter 2018/19), in production of which certified GOTS fabrics were used. Bytom brand also carried out a project in Warsaw (at Galeria Mokotów) entitled "Upklinowy-gowy Łoś", as part of which it was shown how to use scraps of materials from Bytom suits.

W.KRUK, on the other hand, is a partner of a number of events in which the brand is involved as an expert in the field of the highest quality design and production of jewellery and accessories. Among other things, the brand designs and produces unique statuettes and awards in projects that are consistent with the brand's values. W.KRUK S.A. is a long-time partner of the Silver Apples Plebiscite magazine PANI, distinguishing well-known couples who in a given year in the magazine PANI told stories about their love. W.KRUK S.A. was also a partner of the White Ribbon Distinction contest of the Jolanta Kwaśniewska Foundation *Agreement without barriers*, in frames of which W.KRUK funded silver ribbons in the form of badges, which honoured the winners.

6. Human rights policy

Human rights and related issues are important for Capital Group. These materialise in the value chain, starting from employees, through suppliers and business partners and ending on customers.



Respect for employees' rights

The Company and the Capital Group have a labour code that respects the Conventions of the International Labour Organization. The Code applies to all employees, regardless of their position, function, gender and age, and the Management Board and the management team strive to ensure that it operates in practice. The Group pays special attention to the issue of gender equality. The vast majority of job advertisements are insensitive to the gender issue of the candidate, and the employment decisions of the candidate rely solely on the assessment of their competences. An exception is the recruitment for the position of a technical model responsible for fitting clothes from the Vistula brand collection, where only men are admitted. The business profile of the Capital Group also reflects the public's interest in the retail industry. Therefore, recruitment process is dominated by ladies (about 70% of applications to VRG SA headquarters in 2018 came from women, at W.KRUK S.A. this indicator is about 80%). Virtually at every level in the Capital Group there are men and women, this applies to stores, production and management team (currently the only exceptions to this rule are the management boards of VRG S.A. and W.KRUK S.A., nominated by the supervisory boards). The Group focuses on the competences and skills of employees, employing employees of different ages, regardless of their gender, religion or nationality. The franchise agreement signed with franchisees contains a clause referring to the mandatory employment of employees under a contract of employment and the need to approve bonus systems. In the event of violation of any of these points, penalties may be imposed on the franchisee. In Bytom S.A. (which was taken over November 30, 2018) persons working in stores are employed based on a contract of employment by store managers and not by the Company.

The Capital Group has implemented the Code of Ethics on the basis of established practices and long-term habits existing in the parent company and subsidiaries. Details of the Code are presented in the table below. It addresses key topics for the Group and presents four values of the Capital Group: cooperation, professionalism, respect, transparency.

Respect for our business partners employees' rights

The Company and the Capital Group bear in mind not only the good of their employees, but also employees of their business partners, suppliers or subcontractors. The Capital Group maintains long-term relationships with suppliers based on respect and trust. After introducing the Code of Ethics within its structures, the Group's Management Board plans to start work on implementation of a code of ethics also for its suppliers.

Code of Ethics of VRG S.A. Capital Group

The Code includes 4 key values of the Capital Group

The purpose of the Code is to promote preferred attitudes of all employees of the Capital Group and to spread the norms and values of the Capital Group. The Code is publicly available, posted on the website of VRG S.A. It covers not only the parent company but also all subsidiaries. Anonymity is offered to anyone reporting violations of the Code together with legal advice.

COOPERATION

Cooperation on the basis of balance, mutual respect and taking into account the needs of the other party, as well as striving for a compromise, shapes not only the relations of the Capital Group with external entities, but above all within itself, at the level of relations between colleagues.

PROFESSIONALISM

Continuous improvement of qualifications combined with a reliable approach to tasks entrusted allows effective implementation of tasks, for the benefit of the Group and its business partners, positively affecting the Group's image and reputation in the eyes of third parties, especially customers.

RESPECT

Respect for both co-workers and third parties, respect for their dignity and taking into account their needs is one of the basic principles defining the direction of the Group's activities. The Group emphasizes that equality is associated with diversity of its employees. All forms of discrimination, regardless of nationality, age, sex, race, fitness, sexual orientation, religion or political beliefs, deserve only condemnation.

TRANSPARENCY

The Group cannot function without a bright and clear definition of requirements and rights. Informing employees about their statuses, responsibilities and decisions taken in relation to them is done in a manner understandable to employees. The same idea guides the Group in its relations with third parties, where transparency is necessary to avoid misunderstandings and disputes.

The Code addresses such important issues as avoiding a conflict of interest, indicates the desired actions of employees and shapes relations with third parties (business partners, clients, competitive environment). The Code also addresses the importance of local communities for the Group, involvement in local initiatives, as well as environmental awareness and promoting active attitudes to achieve sustainable growth.

The Capital Group participates in activities aimed at respecting human rights. In August 2017, VRG S.A. joined the partnership for translation of the OECD Guidelines on due diligence in the supply chain's responsibility in the textile, clothing and leather sectors. The initiative was initiated by the Ministry of Development. The Capital Group, in cooperation with other partners, has translated and developed expert opinions that will help Polish enterprises create responsible supply chains. The OECD guidelines for multinational enterprises regarding due diligence in the area of supply chain liability in the textile, clothing and footwear sector are intended to help companies implement due diligence recommendations throughout the supply chain of the clothing and footwear industry. The aim is to prevent and counteract the potential negative effects of businesses and their supply chains, as well as to strengthen mutual trust between enterprises and societies in which they operate. The Company and the Capital Group intend to use these guidelines in the construction of their own suppliers' guidelines, in particular in the apparel segment.

As part of the responsibility for the supply chain, employees of VRG S.A. aim to visit the main producers' factories at least once a year. Most European and Far Eastern suppliers are large companies that have been operating in an international environment for many years and produce products for many well-known European and global brands. In many of them, audits are carried out by their clients as well as independent institutions. Reports from these audits are made available to the Company. The vast majority of suppliers in the apparel segment, both Polish

and foreign, has been certified with OekoTex Standard 100 for production textiles (fabrics and accessories) and meets the existing REACH norms for manufacturers from the European Union. The relevant certificates are verified by the Company. Certificates are collected on an ongoing basis, with an emphasis on the beginning of the calendar year. Usually they are sent by suppliers electronically or made available on their websites. In addition, some materials, in particular fabrics are randomly checked by the Company for chemical and other hazardous compounds in certified laboratories research. Until now, the test results have been out of the admissible standards.

In addition to visits to long-term suppliers, the employees of the Company also visit factories of potential suppliers. The conclusions from the analysis and inspection of the machine park, technical capabilities and working conditions are one of the criteria for assessment and selection of suppliers. Although the Company does not include in its purchasing contracts from the apparel segment obligations relating to the observance of human rights and non-employment and non-abuse of children, it requires its suppliers to respect these rights in their manufacturing facilities and to have appropriate certificates (e.g. BSCI) and be able to provide them at the request of VRG SA. All major suppliers for the Vistula and Wólczanka brands have appropriate certificates. They are required for all new suppliers. Because the Company focuses primarily on the quality of products, and not only on their price, it uses more specialized producers, not those focused mainly on large volumes and low costs. In addition, a significant share of production of basic products sold by VRG S.A. takes place in Polish production facilities where the national labour code is observed. In addition, the domestic production takes place in Poland on the basis of entrusted own fabrics and accessories, under the supervision of technologists. Within the Capital Group there is a clothing production facility and VRG S.A. also cooperates with factories that have historically been part of it.

In the jewellery segment, the jewellery suppliers of W.KRUK care for the rights of employees and document their actions by certifications. Many suppliers belongs to the RJC (Responsible Jewellery Council), an international non-profit organization founded in order to strengthen consumer confidence in the jewellery industry by offering gold and precious stones coming from "ethical" suppliers. Organization cares primarily for introduction to trade of those precious metals and stones, which have a certificate confirming obtaining of raw materials in an environmentally friendly manner and with respect for working conditions. Other standards met by our suppliers are regulated by Codes of Conduct for Manufacturers signed by them, specifying requirements for jewellery manufacturers in the field of standards and working conditions. In addition, suppliers of W.KRUK are often audited by Smet, as a result of Smet procedures a company receives a certificate of social responsibility, many of them meets the standard PN-EN ISO 9001 specifying requirements to be fulfilled by the quality management system of an organization or rules of UNGC (United Nations Global Compact).

Respect for customers' rights

The entire value chain of the Capital Group is based on the client for whom ideas and projects are created. For this reason, the Group strives to ensure that products are created under fair ethical conditions, so that communication with the client is based on mutual respect, that the entity whose products are bought operates on the principle of fair competition as well as that the acquired personal data of customers are duly and safely processed.

While maintaining the image of its brands, the Capital Group places particular emphasis on the ethics of its activities in marketing communication. Each marketing message is subject to substantive and visual verification. In the first stage, the idea and concept is created, in the second detailed proposals are created, and in the next step final decisions are taken. After completing and during each stage, ideas and proposals are consulted and evaluated at many levels of the Company's organizational structure. All opinions, comments and doubts are taken into account in order to minimize the risk of inadequate marketing message. Overall, the message goes through a multi-stage acceptance process, namely the sales department, the marketing department, then the product department and finally the Management. In this way, the Group makes sure marketing messages are understandable to clients and will not affect their dignity and beliefs. Despite this multistage verification, there are situations in which the Group resigns from previously undertaken marketing activities.

The Capital Group respects free and fair competition as a basic element of the customer's right to a wide selection of goods in each of the segments in which it operates. For this reason, the Capital Group disagrees with the decision of the President of the Office of Competition and Consumer Protection (UOKiK), which in December 2015 imposed

VRG S.A. and VRG.S.A. Capital Group

a fine of 0.86 million zlotys on the Group, for a practice restricting competition and conclusion of an agreement limiting competition on the domestic market retail of on-line sales of watches, involving setting minimum retail selling prices of watches and ordering discontinuation of the above-mentioned practices. The Capital Group does not agree with the decision of the President of UOKiK, in the opinion of which the manufacturer and distributors of SWATCH watches have set price terms for retail sales of watches (setting the maximum discount). The standpoint of the Capital Group remains unchanged. VRG S.A., in which at the time the W.KRUK brand was located, has not concluded and is not a party to any agreement restricting competition, and prices of watches on offer are determined independently. The only contract linking VRG S.A. and currently W.KRUK S.A. as a separate company with Swatch Group (Polska) Sp. z o.o. is a distribution agreement that it is not within the powers of Swatch Group (Polska) Sp. z o.o. to interfere in the pricing policy of VRG S.A./W.KRUK S.A. VRG S.A. appealed to the Court of Competition and Consumer Protection in Warsaw, 17th Division, Court of Consumer Protection and Consumer Protection. As a result of the appeal, the Regional Court in Warsaw, 17th Division, the Court of Competition and Consumer Protection on October 19, 2018, issued a verdict changing the appealed decision in relation to VRG S.A. stating the cessation of VRG S.A. to apply this practice as of March 31, 2015, in addition reduced the fine imposed on VRG S.A. to PLN 0.7 million. VRG S.A. does not agree with the above decision and filed an appeal against the above judgment on December 31, 2018, requesting its change in the part relating to VRG S.A. so that it states VRG S.A. was not part of practices restricting competition on the domestic market of watch sales, involving setting minimum retail selling prices for watches, or declaring discontinuation of using it no later than July 11, 2013 and repealing the fine imposed on VRG S.A., or reducing it. Currently VRG S.A. is waiting for consideration of the appeal lodged.

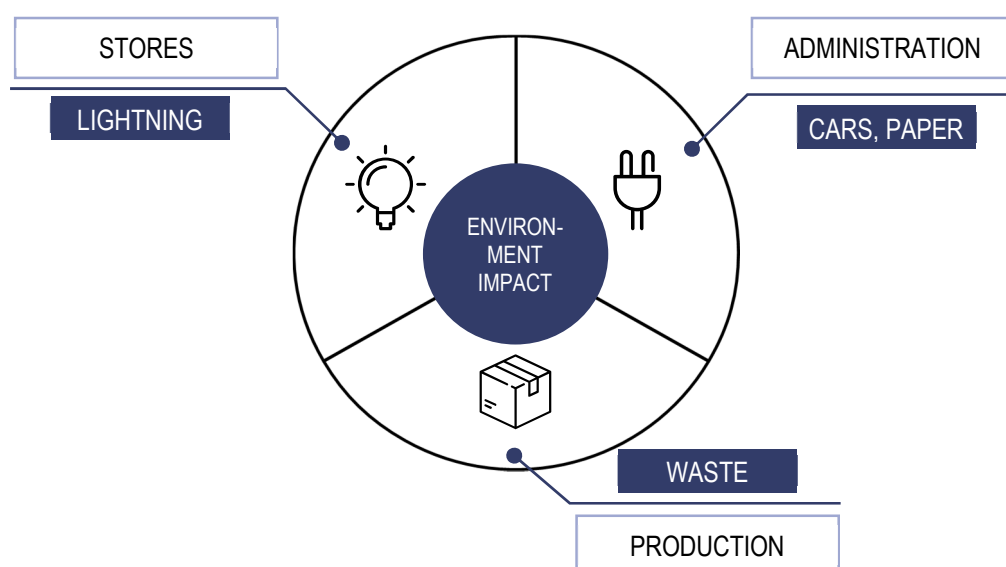
In addition, in December 2018 in relation to one of the brands owned by W.KRUK S.A. allegations of infringement of intellectual property rights have been raised. W.KRUK S.A. approached the charges with due attention. Meetings with complainants were held and the position was discussed. W.KRUK S.A. presented its stance on this dispute to clients and public opinion in the form of a statement published on social media and on websites.

The Company and the Capital Group also take due care in storing and processing their clients' data. In the segment stores of Vistula and Wólczanka brands, the process of collecting data on paper has been closed as at the end of 2017. Data transfer is encrypted, and servers on which data is stored are located in the Capital Group or its proven suppliers. Currently, store customers can enter and edit their data in a mobile mode. In 2019, similar implementation is planned in Bytom stores. In DCG stores, the paper form is still in force. The presently functioning paper form of the Bytom loyalty program is set on a platform that allows a person to fully view, control and correct his/her data. The model similar to that of the Vistula and Wólczanka brands was also implemented in jewellery stores, taking into account the preferences of clients. In 2018, the Capital Group implemented new procedures regarding the policy of personal data protection in connection with Regulation of the European Parliament and of the Council (EU) 2016/679 of April 27, 2016 on the protection of individuals in connection with processing of personal data and regarding the free flow of such data; and repealing Directive 95/46 / EC (general data protection regulation) which entered into force on May 25, 2018. The Group analysed IT locations and systems in which its clients' and employees' data are processed, as well as places and situations in which customer data is entrusted to processing to other entities. In 2019, further training of employees and audits related to the EU GDPR Directive and review of procedures at Bytom stores are planned. In 2018, several incidents related to data protection were reported. In 2018, the Company and the Group reported 2 breaches of personal data protection to the Office for Personal Data Protection. The infringements were incidental and the Company tried to explain them quickly.

The Company and the Capital Group also care about ethical contact with clients. In stores customers are supported in their decision making by store personnel whose job is to take care of customers' feelings and provide professional insight on products and support in selection. Store personnel is obliged to familiarize themselves with regulations and internal procedures, so-called store standards. They also participate in trainings. A test for the relations between customers and the Group are customer complaints that each of the Capital Group's brands handles in accordance with Polish law, providing customers with the widest possible access to submitting complaints and to contact.

7. Environment protection policy

Environmental policy is an important topic for the Company and the Capital Group, which strive for sustainable development. The objective of both the Company and the Capital Group is organic and acquisitive growth coupled with a gradual reduction of the environmental impact. The Group started works on reducing its environmental impact from a thorough analysis of the current status. In September 2017, the Capital Group carried out a comprehensive energy audit at Vistula Group S.A., W.KRUK S.A. and Wólczanka Shirts Manufacturing. The purpose of this external audit was to obtain appropriate knowledge about the profile of existing energy consumption (electricity, heat) in the Capital Group and to determine how and in what quantity it is possible to obtain cost-effective energy savings. The application of audit recommendations will help reduce energy consumption and thus reduce the indirect impact of the Capital Group on the environment. In addition to the recommendations, as part of the audit, a list of possible investments was prepared together with their cost and the return period. The Capital Group began to comply with the audit recommendations, and additionally, intends to make selected investments within the scope of its financial capabilities. The goal of the Capital Group is to obtain better results of environmental impact in the next comprehensive audit, planned for 2021. Due to the profile of its activity and its impact on the environment, the Capital Group distinguishes three places of exposure of the environment impact: stores, administration and production, with different characteristics of energy consumption and usage. Bytom, like Deni Cler, was not obliged to conduct an energy audit due to the low number of employees.



Capital Group stores

The Group's stores are located mainly in shopping centres. Their greatest impact on the environment is the electricity they consume, due to the need to properly illuminate stores during business hours. The Capital Group is systematically undertaking new activities regarding electricity consumption in order to rationalize the impact of the growing number of stores on the environment. First of all, from mid-2013, the Group uses led lighting in stores. This applies to both new and upgraded/ modernized premises. At the end of 2017, VRG S.A. had 137 Vistula and Wólczanka stores, in which LED lighting was installed, which constituted 75% of its own stores (franchise stores are not obliged to install LED lighting). At the Capital Group level, the number of stores where LED lighting was installed at the end of 2017 reached 242 stores, or 76% of the number of own stores. In 2018, the ratios were further improved. 184 stores of Vistula and Wólczanka had led lighting and 72 stores of Bytom, which translates into 73% of VRG S.A.'s own stores (80% without considering Bytom). At the level of the Capital Group, this number amounted to 319 stores or 75% of the Group's own stores (79% of the Group's own stores without Bytom).

The second area of minimising the stores' impact on the environment are provisions in agreements with shopping centres. Since 2015, in agreements concluded with shopping centres, the Capital Group has incorporated clauses

VRG S.A. and VRG.S.A. Capital Group

concerning respect for the environment. Depending on the agreements, environmental protection is equalled to the list of operating charges that the Group is required to pay and listed as one of the components of fees incurred or is included as part of detailed guidelines. These guidelines relate to: reduction of consumption or more efficient use of consumed energy, selection of alternative energy sources, reduction of the amount or more efficient use of water or sewage, reduction of waste generation and their segregation, as well as increase or improvement the effectiveness of waste recycling. Contractual declarations contain mutual obligations to provide information, take joint initiatives in defining ecological goals or organize meetings aimed at exchanging information between the landlord and the tenant. At the end of 2017 both on the VRG S.A. as well as the Capital Group level, about 34% of company-owned store agreements contained a clause regarding respect for the environment. In 2018 statistics improved, thanks to newly signed contracts. At VRG S.A. the percentage of contracts increased to approx. 43% (40% excluding Bytom stores) of own stores, and at the level of the Capital Group it amounted to 41% (38.5% excluding Bytom).

In addition to the two most important initiatives, the Capital Group also conducts a number of other activities focused on reducing the impact on the environment. There are automatic temperature sensors installed in air conditioning systems in stores, thanks to which energy consumption is minimized. Automatic water saving systems are installed in selected premises. All lighting waste from stores is utilized by specialized waste disposal companies. Current waste (paper and plastic) is segregated and utilized by shopping centres. In addition, some packaging for customers is made of paper, although plastic bags are also used in selected brands. In the pre-merger Capital Group its brands switched to recycling cartons for on-line deliveries, with information about pro-environment actions. After the merger, the carton change process started also for deliveries for the Bytom brand.

Administration

The Capital Group's administration is the second area that has an impact on the natural environment. Activities undertaken in the field of quantification of the environment impact are focused on three areas: business cars, business trips and usage of office materials, particularly paper. Some of the policies are written down, some of them remain a customary issue. As part of their professional duties, employees coordinating operations outside of HQs use mostly business cars. When selecting corporate cars, the Capital Group focuses on leasing as the most cost-effective form.

Although the Group does not have a written policy regarding business trips, rail transport is the preferred means of transport. In addition, the number of trips is minimized by the use of modern tools at various levels and in many fields. First of all, recruitment to locations geographically distant from the headquarters of the Capital Group in Cracow at the first stage are often carried out with the use of modern technologies (skype), thus limiting the need for travel, both on the recruiter and recruited side. Secondly, the IT department in the field of IT support provided to employees of the Capital Group uses software that allows remote access to computers, eliminating the need for business trips related to hardware and software service. Thirdly, as part of the possibilities, the Group also uses skype conversations and videoconferences to communicate with suppliers.

Business cars	Excluding Bytom	With Bytom for XII.2018
VRG S.A. Capital Group	2017: 61 2018: 66	2017: 61 2018: 76
Apparel segment	2017: 40 2018: 45	2017: 40 2018: 55
Jewellery segment	2017: 21 2018: 21	2017: 21 2018: 21
VRG S.A.	2017: 30 2018: 34	2017: 30 2018: 44

VRG S.A. and VRG.S.A. Capital Group

Number of driven km	Excluding Bytom	With Bytom for XII.2018
VRG S.A. Capital Group	2017: 1,906,052 2018: 1,970,834	2017: 1,906,052 2018: 1,998,913
Apparel segment	2017: 1,390,530 2018: 1,405,624	2017: 1,390,530 2018: 1,433,703
Jewellery segment	2017: 515,522 2018: 565,210	2017: 515,522 2018: 565,210
VRG S.A.	2017: 879,091 2018: 831,368	2017: 879,091 2018: 859,447

The Capital Group supervises paper orders, which means that its consumption is monitored. The basic determinant is the cost of purchase. Multifunction devices used by the Company are configured by default for printing in monochrome mode. The Group has introduced guidelines on the principles of selective collection, storage and disposal of waste. In addition, a system for the electronic circulation of documents was implemented in the Capital Group's companies.

Production

Within the Capital Group there are two production facilities, the first of them is WSM (Wólczanka Shirts Manufacturing) and the second one is Manufaktura (a plant belonging to W.KRUK), whose profile of energy and water consumption differs from stores and administration. WSM conducts a number of activities related to reducing its environmental impact. They include the following areas: (1) reduction of electricity consumption (including implementation of LED lighting, energy-saving drives in all new machines), (2) transfer of post-production waste (i.e. waste paper, cartons, cuttings) to a company specialising in recycling, (3) noise and dust measurement in production halls (noise level, dustiness does not exceed NDN, NDS), (4) reduced water consumption by installing aerators in the taps and (5) increasing the flow of information in the form e-mails, and thus reduction in paper amounts used. WSM monitors its impact on the environment by conducting energy audits (in 2017), performing work environment measurements and collecting protocols confirming the collection of waste.

Environmental impact monitoring also takes place at the W.KRUK jewellery factory. The manufacturing facility manages the following activities: (1) examines its energy balance, conducts an internal environmental audit (by commissioning cyclical studies of lighting, dust, noise, concentrations of harmful substances), sewage and emission testing and environmental measurements (by ordering cyclical studies to an external business partner in terms of safety and environmental protection), (2) reduces water consumption through a system of training and procedures (checking of the actual status of valves, lack of excessive water usage, procedures to disable water circulation before the end of work), (3) exploiting of temporary switches to use only their active working time, (4) collecting grinding waste (in winding machine filters and in containers at grinders), which are sent for refining/ recovery/ utilization by third parties (which in an organised manner manage the cleaning of collected materials to the metal fraction that can be reused or disposed as waste) and (5) reduces the use of chemical substances by adjusting the size of work vessels to the volume of production and improving work efficiency (less polluted work environment and more accurately carried out regeneration).

8. Anti-bribery and anti-corruption policy

The Company and the Capital Group oppose corruption and bribery. Such actions are prohibited acts in Polish law. Unlawful activities are not tolerated at any of the levels of management, both within the structures of the Capital Group and in contacts with the outside world. This applies in particular to: taking or giving financial benefits, exercising favours in exchange for cash benefits, using their functions or position or bribery. The Company and the Capital Group implemented an Anticorruption Procedure, details of which are described in the table below. Both the document and the Code of Ethics introduced the Capital Group's values and procedures, aligning the policies of counteracting irregularities at the level of the whole Capital Group. These documents constitute guidelines for all

employees of the Capital Group and increase the transparency of the Group in the eyes of not only internal but also external stakeholders.

In addition, favourable changes have also taken place in the area of internal audit, which will support the Group in its efforts against corruption and bribery. Along with the development of the Capital Group's scale and its complexity and to meet the recommendations of Best Practice of WSE Listed Companies 2016, the Management Board decided to appoint an internal auditor from the beginning of 2019. The person holding this position is an employee of the Company and is responsible for compliance in all companies of the Capital Group. The person in the position of the Internal Audit Director is responsible for verifying the procedures and effectiveness of the Company and companies from the Capital Group, both in business, law and risk. The Director of Internal Audit has an independent position and reports directly to the Management Boards of the companies and the Audit Committee. As a result, employees can report issues related to irregularities to the legal department, their immediate supervisor, a board member responsible for the area or the internal auditor.

Anticorruption Procedure of the Capital Group - the aim of the procedure is to counteract corruption and reduce the risk of its occurrence in the Capital Group by creating rules and procedures for employee liability in areas threatened by corruption, determining the manner of reporting, registering and resolving any corruption problems, as well as building awareness of corruption threats.

The management of the Capital Group undertakes to inform or train employees to increase awareness of corruption activities and eliminate corruption activities; raising employee awareness in the field of corruption; encouraging employees to report corruption actions; notifying law enforcement agencies about violations of criminal law, in particular of a corrupt nature; counteracting corruption and other economic abuses by encouraging and promoting anti-corruption attitudes and behaviours among parties with whom the Group cooperates.

Every employee of the Group, irrespective of the position held, is obliged to: prevent and report incidents of corruption; avoid actions that may lead to suspicion of corruption; participate in anti-corruption training or information campaigns organized by the Group; immediately inform about any noticed behaviour raising justified suspicions of corruption; prevent conflicts of interest by following the guidelines set out in the procedure and the provisions of the VRG S.A. Code of Ethics.

The employees of the Group are required to keep comprehensive documentation covering regarding all relationships maintained with contractors, covering the purpose and details of such transactions. The procedure also formalizes the process of reporting and explaining fraud.

9. Risk management

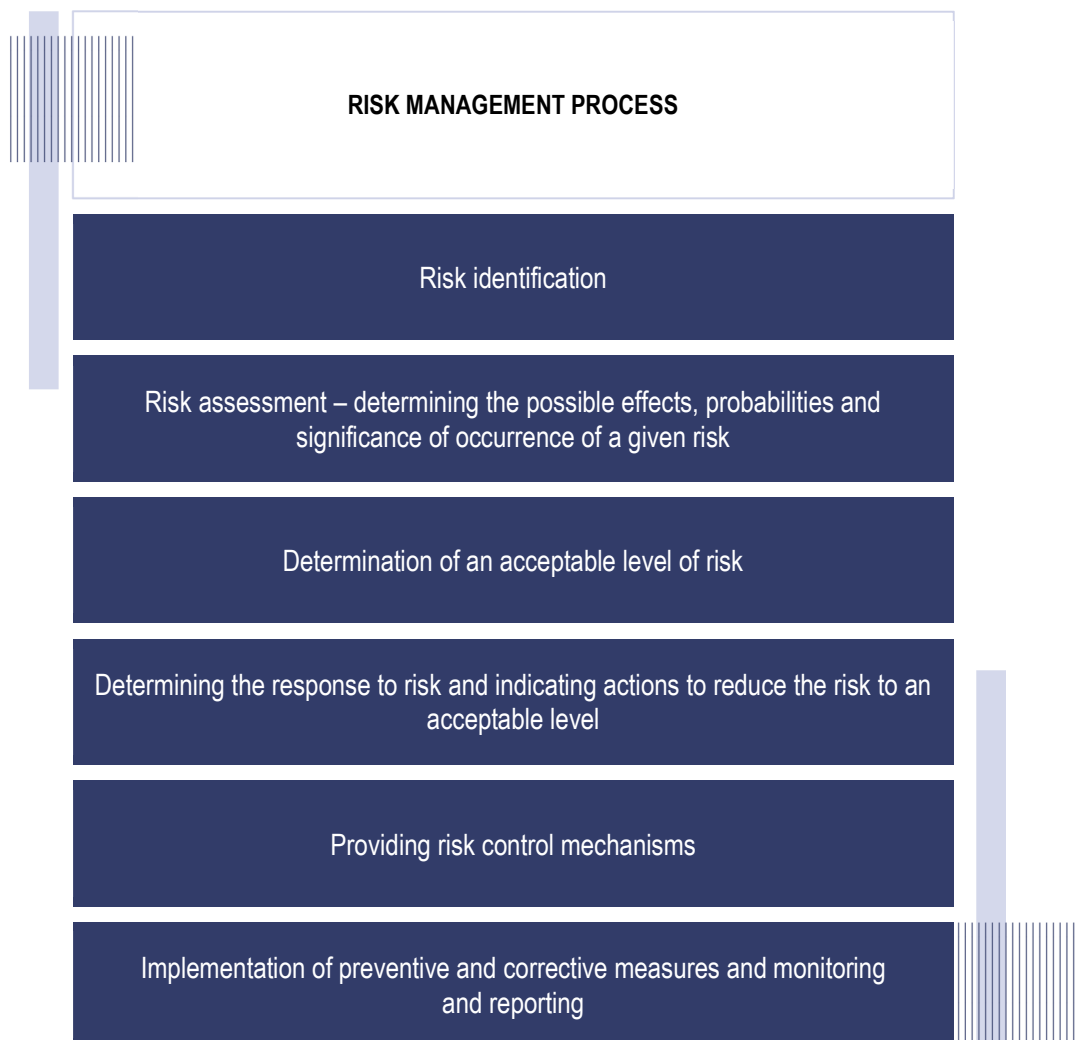
The characteristics of the apparel and jewellery segment in Poland as well as global trends affecting the business environment in the country make risk management one of the Capital Group's priorities. The aim is to minimize the possible adverse impact of external and internal factors, with the simultaneous acceptance of the selected level of risk, which allows the Company and the Capital Group to build value and achieve strategic goals. In addition, risk management is aimed at streamlining planning processes, increasing the likelihood of implemented activities as well as providing mechanisms for management control. All this should contribute to the Management Board receiving information on possible threats to achieve the goal in order to be able to respond appropriately.

The Management Board of the Company and the Capital Group identifies risks, analyses the probability of their occurrence and monitors the challenges in the external and internal environment on a continuous basis. In VRG S.A. and in the VRG S.A. Capital Group the risk management regulations apply, based on which a register of

VRG S.A. and VRG.S.A. Capital Group

identified risks together with the corresponding risk maps is collected. The Capital Group distinguishes three levels of risk: strategic, operational and financial. Strategic risk management is managed by the Board. The Vice-President of the Management Board responsible for Finance oversees financial risk, while operational risks are managed by individual departments. The table below presents the most important non-financial risks related to strategies and operational activities (these risks along with the financial area are also discussed in the Consolidated and Separate Financial Statements of VRG S.A.). The next table presents the most important risks related to the areas discussed in this statement.

Additionally, as part of the Supervisory Board of VRG S.A. from May 2012, there is an internal three-person Audit Committee. The Audit Committee as a permanent collegiate body of the Supervisory Board exercises constant supervision over the actions of the Management Board in the scope of risk management, which aims at identifying and preventing or reducing to the greatest extent adverse effects of risks associated with the Company's operations in three key areas: financial, operational and development strategies. The Audit Committee advises the Supervisory Board on the proper implementation of the budget and financial reporting principles, internal control of the Company and matters related to cooperation with auditing companies and statutory auditors. In particular, the tasks of the Audit Committee include: monitoring the financial reporting process, effectiveness of internal control systems and risk management systems.



VRG S.A. and VRG.S.A. Capital Group

Risk type	Probability	Power of influence	Risk management
Strategic risks			
Undertaking a wrong strategy	● ● ○ ○ ○	● ● ● ○ ○	The Management Board monitors the implementation of the strategy on an ongoing basis in the form of implementation of plans for openings and acquisition of floorspace for future growth, deals with setting targets for e-commerce and brand development. Possible deviations from the plans are analysed on an ongoing basis and the remedial actions undertaken are communicated to the Supervisory Board.
Change in consumer tastes	● ● ○ ○ ○	● ● ● ● ○	The Management focuses on development of brands owned, whose goal is meet the tastes of target groups in the possible way. In formal brands, the casual offer is introduced on a growing scale, and the offer of the jewellery segment is broadened by new occasional collections and watch suppliers.
Potential M&A project	● ● ● ○ ○	● ○ ○ ○ ○	In addition to organic growth, the Management Board's goal is to use the potential of the Capital Group to take over and consolidate the clothing market in Poland. The Management Board strives to meet the expected revenue / margin and cost synergies from the successfully executed merger with Bytom S.A.
Operational risks			
Inventory management	● ● ○ ○ ○	● ● ● ● ○	The goal of the Capital Group is to sell the clothing collections as much as possible in first prices during the season. During the sell-off period, the goal is to sell as many goods as possible before the change of season and sending the remaining goods to outlets. Jewellery is a less seasonally sensitive good than clothing and has a longer rotation. Marketing campaigns are undertaken in the case of slow-moving goods.
The risk of erroneous business decisions of the management boards of subsidiaries forming the Capital Group and included in the consolidated financial statements	● ● ○ ○ ○	● ● ● ● ○	The most important entities in the Capital Group, apart from VRG S.A. are W.KRUK S.A., DCG S.A. and WSM. The Management Board of the Capital Group monitors the operations of subsidiaries on an ongoing basis through analysis of operating results in relation to plans through corporate supervision.
The risk related to disruptions in the functioning of information systems	● ● ● ○ ○	● ● ● ● ○	IT systems register economic events in the form of sales, customer data, purchase of goods and settlements. The Management Board takes care of IT systems employing competent employees, maintaining modern infrastructure and using a backup centre.

● ○ ○ ○ ○ very low
● ● ○ ○ ○ low
● ● ● ○ ○ medium
● ● ● ● ○ high
● ● ● ● ● critical

VRG S.A. and VRG.S.A. Capital Group

Risk type	Key risk factors	Potential impact	Risk mitigation methods
Social and employee area	<ul style="list-style-type: none"> • rotation of employees • inability to attract proper employees • sizeable pressure on salaries 	<p>The risk related to the social and employment area is significant for both the Company and the Capital Group. High employee rotation means higher salary costs and possibility of deterioration in service quality. Inability to attract talent exposes VRG and the Capital Group to the risk that its projects and activities will be less innovative and less effective than competition. Both these risk factors combined with a significant pressure on wages may have a negative impact on financial results of the Company and the Capital Group, which would weaken its competitive position.</p>	<p>Employee and social issues are crucial for VRG S.A. and VRG S.A. Capital Group. Management and management team attach significant importance to the comfort and working conditions of employees at every career level. Employees receive equal opportunities, market remuneration and development opportunities along with a clear career path. Employees are mostly employed on a contract of employment, and overtime work is not promoted. At the same time, the Management Board of the Company and the Capital Group is trying to meet the employees' expectations by offering non-pay-related benefits, i.e. additional payments to Multisport cards, employment in a comfortable office, training opportunities, further development and involvement in important social campaigns.</p>
Human rights	<ul style="list-style-type: none"> • respect for human rights at suppliers and business partners, • respect for the rights of clients and employees, • reputation risk, 	<p>The risk of human rights is a wide-ranging risk for both the Company and the Capital Group, as it affects such key issue as the reputation of the Company and the Capital Group. Although VRG operates mainly in Poland, a country that is a member of the EU, where human rights regulate both national codes and international conventions, sold products and fabrics or raw materials from which they are created are partly sourced from countries where human rights may not be fully respected. In addition, there is a risk that we are violating the right of our clients or employees to ethical treatment or privacy.</p>	<p>VRG and the VRG Capital Group take issues related to the observance of human rights seriously. The Management Board focuses on long-term relationships with its suppliers and business partners, putting quality of work and conditions prevailing at business partners over cost. In addition, the Group is a distributor of products from global brands for whom corporate social responsibility is also important. The Management Board of the Company and the Capital Group also draws attention to the ethics of operation, both in relation to brands' clients and its competitors, putting the reputation of the Group and individual brands in the first place. The Company and the Capital Group implement internal processes aimed at maximizing the safety of customers and employees, their personal data and contact details (e.g. avoiding unethical advertising). An important element is also the Code of Ethics implemented in the Company and in the Capital Group, which contains guidelines and values that guide the actions of all employees.</p>

VRG S.A. and VRG.S.A. Capital Group

Risk type	Key risk factors	Potential impact	Risk mitigation methods
Environment protection	<ul style="list-style-type: none"> • issues related with production, • energy and raw material consumption, • impact of everyday activities on environment 	<p>Environmental risk includes several areas in which the activities of the Company and the Capital Group may affect the environment. Production of both clothing and jewellery, as well as its delivery to stores or directly to the customer, consume raw materials and electric energy. There is also a risk that environmental standards will not be respected in some of the cooperating plants. In addition, with the growing scale of the Company and the Capital Group, everyday activities can burden the environment more.</p>	<p>The Company and the Capital Group manage environmental risk, focusing on: reduction of consumption of raw materials and energy by stores of all brands (energy-saving light bulbs, emphasis on paper and not plastic packaging). In addition, the Company and the Capital Group monitor the use of paper and fuel in administration, focusing on the use of public transportation by employees. The Company and the Capital Group are also focused on implementation of selected efficiency measures ascertained by an energy audit.</p>
Anti-bribery and anti-corruption	<ul style="list-style-type: none"> • obtaining job for an advantage, • unfair wining of tender, • dishonest choice of supplier or business partner. 	<p>Risks seem to be minimized due to the low exposure of the Company and the Capital Group to the B2B segment on the client side. However, they occur on the purchasing side and in relations between employees of the Company and the Capital Group, e.g. when filling new positions, when selecting business partners.</p>	<p>The Management Board is aware of the importance of counteracting corruption and bribery, as both the Company and the Group are operating in an increasingly competitive environment with growing entities, which increases the pressure on the quality and transparency of business relations. On the purchasing side, cooperation with suppliers is based on long-term relationships. The risk is minimized by implementation of the Anticorruption Procedure, which defines undesirable activities and highlights the lack of acceptance by the Management Board of undesired activities.</p>

10. Non-financial indicators

The Management Board of the Company and the Capital Group defined the list of key non-financial indicators that were presented in this statement. The indicators have been selected in terms of their relevance to stakeholders and to present a wide spectrum of non-financial policies. The indicators were presented at the level of the Company, i.e. the parent company VRG S.A. and at the level of the Capital Group. In addition, in order to better visualize the nature of individual segments and to help stakeholders refer non-financial data the financial information contained in the Consolidated Financial Statements and the Report on the Group's operations, selected ratios and non-financial data are presented split between the apparel and jewellery segments. The table below presents the most important non-financial indicators and the methodology used for calculations.

Non-financial indicator	Methodology	Page number
Retail network	Number of stores and floorspace in m2 of all brands (both franchise and own stores)	3,6,7,8,9,12,16
Average store size	Floorspace divided by number of stores end of period	6,7,8
Number of cities	Number of cities in which the brands' stores are located	3,9,12
Number of suppliers	Number of suppliers with annual turnover exceeding PLN 10 ths	3,9
Number of loyal suppliers	Split of suppliers based on length of cooperation	11
Payment terms	Average payment period for suppliers in days	20
Number of shipments	Number of shipments sent on average per month from the central warehouse in the off-line and on-line segments	9
Number of customers	Traffic in stores i.e. total number of people entering stores in a calendar year	13
Number of loyal customers	Customers who participate in one of the loyalty programs offered by Capital Group's brands	3,9,13
Average lease length	Average lease length for own stores	12
Share of franchise in floorspace	Area of franchise stores of a given segment / entity divided by floorspace of the segment / entity	3,13
Share of internet in revenues	Sales of e-stores in proportion to the total sales of the Company / Capital Group	3,13
Number of employees	The number of people employed under a contract of employment, excluding persons on maternity leave	3,22
Number of departing employees/ newcomers	Number of employees who have left or were dismissed / accepted to work in a given calendar year (full-time equivalent, FTE)	22
Number of disabled people	Number of persons employed with a recognized degree of disability	23
Diversity factors	Employees split by gender, age, seniority, place of work	3,23,24,25,26
Overtime	Number of hours worked over the standard working time by employees of the Company and the Capital Group in a given year	28
Trade unions	Number of trade unions and number of people who belong to them	22,23
The number of trained people	Number of employees who underwent training, split for work health and safety (initial and periodic) and development training. Other training than health and safety was also given the number of days they were concerned.	26,31

VRG S.A. and VRG.S.A. Capital Group

Non-financial indicator	Methodology	Page number
Number of accidents	Number of accidents among group employees and employees of subcontractors working on the premises.	30
Accident frequency indicator	Number of accidents at work per 1,000 employees	30
Days of incapacity for work	Total number of days of incapacity for work caused by accidents	30
Accident severity indicator	Number of days of inability to work / number of accidents	30
Percentage of stores with led lighting	Percentage of stores with led lighting	37
Percentage of stores with an environmental clause	Number of stores for which an environmental contract is signed in relation to number of own outlets	38
Business cars	Number of cars rented, leased or owned by the Company / Capital Group	38
Number of kilometres driven	Number of kilometres driven by rented, leased and owned vehicles in a given calendar year	39

Grzegorz Pilch

Mateusz Żmijewski

Michał Wójcik

Erwin Bakalarz

President of the Management Board

Vice-President of the Management Board

Vice-President of the Management Board

Member of the Management Board

Cracow, March 18, 2019

VISTULA

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VRG

VISTULA RETAIL GROUP

www.vrg.pl

**VRG S.A. and VRG S.A.
Capital Group**

Pilotów 10 St., 31-462 Cracow

Information of the Management Board of VRG S.A. in Cracow (the "Company") referred to in § 71 para. 1 point 7 of the Ordinance of the Minister of Finance dated March 29, 2018 regarding current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state as equivalent

The Management Board of the Company informs on the basis of the statement contained in the Resolution No. 2 of the Supervisory Board of the Company of March 5, 2019 regarding the statements of the Supervisory Board referred to in § 71 para. 1 point 7 and point 8 of the Ordinance of the Minister of Finance of March 29, 2018 regarding current and periodic information published by issuers of securities and conditions for recognizing information required by the law of a non-member state as equivalent ("the Ordinance") to the extent applicable to information required in the consolidated annual report of the Company for the fiscal year 2018, that:

- a) the audit company Mazars Audyt Sp. z o.o. with its registered office in Warsaw that audited the annual consolidated financial statements of the Company for the fiscal year 2018, has been selected in accordance with the regulations, including the selection and procedure of selecting an audit firm,
- b) the audit company Mazars Audyt Sp. z o.o. with its registered office in Warsaw and members of the team performing the audit met the conditions for preparing an impartial and independent audit report on the annual consolidated financial statements of the Company for the fiscal year 2018 in accordance with applicable regulations, professional standards and professional ethics,
- c) the Company complies with the applicable regulations related to the rotation of the audit firm and the key statutory auditor and mandatory grace periods,
- d) The Company has a policy regarding the selection of an audit firm and a policy for provision of services for the Company by an auditor, a party related to the audit company or a member of its network of additional non-audit services, including conditionally exempt services to be provided by the audit company.

Grzegorz Pilch

Michał Wójcik

Mateusz Żmijewski

Erwin Bakalarz

President of the
Management
Board

Vice-President of the
Management Board

Vice-President of the
Management Board

Member of the
Management Board

Statement of the Supervisory Board of VRG SA, referred to § 71 para. 1 point 8 of the Ordinance of the Minister of Finance of March 29, 2018 regarding current and periodic information published by issuers of securities and conditions for recognizing information required by the law of a non-member state as equivalent ("the Ordinance") to the extent that information required in consolidated annual report of VRG S.A. for the financial year 2018 (extract from Resolution No. 2 of the Supervisory Board of VRG S.A. in Cracow of March 5, 2019)

The Supervisory Board of VRG S.A. based in Cracow (the "**Company**"), acting pursuant to § 71 para. 1 point 8 of the Ordinance, taking into account the recommendation of the Audit Committee in the following scope, hereby declares that:

- a) the Company complies with the provisions regarding the appointment, composition and functioning of the audit committee, including the fulfilment by its members of independence criteria and requirements regarding knowledge and skills in the industry in which the issuer operates, and in the field of accounting or auditing of financial statements .
- b) the Audit Committee operating at the Company performed tasks provided for in the applicable regulations.

The Supervisory Board of VRG S.A.