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CONSOLIDATED FINANCIAL STATMENTS OF VRG CAPITAL GROUP FOR 2019

Prepared in accordance with IFRS approved by the European Union

Cracow, March 30, 2020

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CONSOLIDATED FINANCIAL STATEMENTS

FOR 12 MONTHS ENDING DECEMBER 31, 2019

SELECTED FINANCIAL DATA TO CONSOLIDATED FINANCIAL STATMENTS

	PLN ths		EUR ths	
	2019 January 1, 2019 to December 31, 2019	2018 January 1, 2018 to December 31, 2018	2019 January 1, 2019 to December 31, 2019	2019 January 1, 2018 to December 31, 2018
Revenues	1,068,266	805,674	248,322	187,289
Profit (loss) from operations	87,492	71,917	20,339	16,718
Pre-tax profit (loss)	79,357	65,728	18,448	15,279
Net profit (loss)	63,993	53,572	14,876	12,454
Net cash flows from operating activities	108,615	53,504	25,249	12,438
Net cash flows from investing activities	- 16,806	- 18,645	- 3,907	- 4,334
Net cash flows from financing activities	- 100,052	- 17,756	- 23,258	- 4,128
Total net cash flows	- 8,243	17,103	- 1,916	3,976
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Total assets	1,431,314	1,112,031	336,108	258,612
Liabilities and provisions	568,028	306,934	133,387	71,380
Long-term liabilities	242,234	74,561	56,882	17,340
Short-term liabilities	313,578	220,440	73,636	51,265
Total equity	863,286	805,097	202,721	187,232
Share capital	49,122	49,122	11,535	11,424
Shares outstanding	234,455,840	234,455,840	234,455,840	234,455,840
Diluted number of shares	241,505,840	241,505,840	241,505,840	241,505,840
Earnings (loss) per ordinary share (in PLN/EUR)	0.27	0.29	0.06	0.07
Diluted earnings (loss) per share (in PLN/EUR)	0.26	0.28	0.06	0.07
Book value per share (in PLN/EUR)	3.68	3.43	0.86	0.80
Diluted book value per share (in PLN/EUR)	3.57	3.33	0.84	0.77
Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR 12 MONTHS ENDING DECEMBER 31, 2019

	Note	PLN ths			
		2019 January 1, 2019 to December 31, 2019	2018 January 1, 2018 to December 31, 2018	4Q19 October 1, 2019 to December 31, 2019	4Q18 October 1, 2018 to December 31, 2018
Revenues	1, 2	**1,068,266**	**805,674**	**332,462**	**272,141**
Cost of sales	3	512,192	393,383	153,968	128,304
Gross profit on sales		556,074	412,291	178,494	143,837
Other operating income	1	5,384	4,663	4,016	3,530
Profit from sale of non-financial non-current assets	1	477	-	-	-
Selling costs	3	383,061	272,828	107,980	82,866
Administrative expenses	3	86,118	67,311	24,083	20,575
Other operating costs	3	5,264	4,610	2,642	2,901
Loss from sale of non-financial non-current assets		-	288	250	260
Profit (loss) from operations		87,492	71,917	47,555	40,765
Financial income	1, 5	3,056	208	9,815	168
incl.: financial income from IFRS16		*2,357*		*7,315*	
Profit from sale of subsidiaries		-	-	-	-
Financial costs	6	11,191	6,397	3,506	2,077
incl.: financial costs from IFRS16		*4,249*		*1,062*	
Loss from sale of subsidiaries		-	-	-	-
Pre-tax profit (loss)		79,357	65,728	53,864	38,856
Income tax	7	15,364	12,156	9,516	6,423
Net profit (loss) for the period		**63,993**	**53,572**	**44,348**	**32,433**
Attributed to dominating entity		63,993	53,572	44,348	32,433
Attributed to non-controlling interest		-	-	-	-
Weighted average number of ordinary shares		234,455,840	185,829,119	234,455,840	183,510,654
Diluted weighted average number of ordinary shares		241,505,840	192,879,119	241,505,840	190,560,654
Earnings (loss) per share:					
- basic		0.27	0.29	0.19	0.18
- diluted		0.26	0.28	0.18	0.17

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR 12 MONTHS ENDING DECEMBER 31, 2019

	Note	PLN ths			
		2019 January 1, 2019 to December 31, 2019	2018 January 1, 2018 to December 31, 2018	4Q19 October 1, 2019 to December 31, 2019	4Q18 October 1, 2018 to December 31, 2018
Net profit for the period		**63,993**	**53,572**	**44,348**	**32,433**
Other comprehensive income, including:		-	-	-	-
Revaluation of financial assets available for sale		-	-	-	-
Income tax related to other comprehensive income		-	-	-	-
Total comprehensive income		**63,993**	**53,572**	**44,348**	**32,433**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2018

	Note	PLN ths		
		31.12.2019	01.01. 2019	31.12.2018
Assets				
Non-current assets		**847,036**	**891,509**	**591,929**
Goodwill	9	302,748	324,033	324,033
Other intangible assets	10	196,956	183,220	183,220
Fixed assets	11	71,623	78,046	78,046
Investment property	12	874	874	874
Assets held for sale		-	-	-
Right-of-use assets (IFRS16)		266,405	299,580	-
Long-term receivables	16	664	586	586
Shares and stakes	13	27	27	27
Other long-term investments	14	4	4	4
Deferred tax assets	22	7,707	5,109	5,109
Other non-current assets	21	28	30	30
Current assets		**584,278**	**520,102**	**520,102**
Inventory	15	535,539	460,781	460,781
Trade and other receivables	17	19,986	23,907	23,907
of which corporate income tax receivables		-	-	-
Short-term loans	17a	-	-	-
Cash and cash equivalents	18	25,280	33,523	33,523
Other short-term assets	21a	-	8	8
Other current assets	21a	3,473	1,883	1,883
Total assets		**1,431,314**	**1,411,611**	**1,112,031**
Equity and liabilities				
Dominating entity's equity		**863,286**	**805,097**	**805,097**
Share capital	26	49,122	49,122	49,122
Capital reserves		-	-	-
Other reserves	27	14,333	13,968	13,968
Foreign entities translation reserve		-	-	-
Retained earnings	28	735,838	688,435	688,435
Net profit (loss) for the current period	28	63,993	53,572	53,572
Non-controlling interest		-	-	-

	Note	PLN ths		
		31.12.2019	01.01. 2019	31.12.2018
Total equity		**863,286**	**805,097**	**805,097**
Long-term liabilities		**242,234**	**296,849**	**74,561**
Liabilities due to purchase of fixed assets		271	176	176
Lease liabilities	23	186,112	225,915	3,627
incl.: IFRS16		*183,915*	*222,288*	-
Loans and borrowings	19	55,851	70,758	70,758
Deferred tax liabilities	22	-	-	-
Long-term provisions	25	1,122	907	907
Total long-term liabilities and provisions		**243,356**	**297,756**	**75,468**
Short-term liabilities		**313,578**	**297,732**	**220,440**
Lease liabilities	23	86,308	79,031	1,739
incl.: IFRS16		*84,424*	*77,292*	-
Trade and other liabilities	24	191,702	192,820	192,820
of which corporate income tax liabilities	*24*	*9,150*	*4,897*	*4,897*
Loans and borrowings	19	21,340	14,627	14,627
Short-term part of long-term loans and borrowings	19	14,228	11,254	11,254
Short-term provisions	25	11,094	11,026	11,026
Total short-term liabilities and provisions		**324,672**	**308,758**	**231,466**
Total liabilities and provisions		**568,028**	**608,514**	**306,934**
Total equity and liabilities		**1,431,314**	**1,411,611**	**1,112,031**
Book value of equity		863,286	805,097	805 097
Shares outstanding		234,455,840	234,455,840	234 455 840
Book value per share		3.68	3.43	3,43
Diluted number of shares		241,505,840	241,505,840	241 505 840
Diluted book value per share		3.57	3.33	3,33

Detailed information on the balance sheet item "Assets due to rights of use (IFRS 16)" is presented in item 2 of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR 12 MONTHS ENDING DECEMBER 31, 2019

	PLN ths			
	Share capital	Capital reserves	Retained earnings	Total equity
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**
Balance at 01.01.2019	**49,122**	**13,968**	**742,007**	**805,097**
Changes in equity in 2019				
Merger of VRG S.A. and Bytom S.A.	-	-	- 6,169	- 6,169
Sale of fixed assets	-	-	-	-
Subscription of shares	-	-	-	-
Distribution of net profit	-	-	-	-
Net profit (loss) for the period	-	-	63,993	63,993
Stock-option program valuation	-	365		365
Share issuance	-	-	-	-
Stock options issued	-	-	-	-
Balance at 31.12.2019	**49,122**	**14,333**	**799,831**	**863,286**

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, 2098

	Note	PLN ths	
		2019 January 1, 2019 to December 31, 2019	2018 January 1, 2018 to December 31, 2018
Cash flows from operating activities			
Pre-tax profit (loss)		79,357	65,728
Adjustments:			
Amortization and depreciation		110,991	17,349
Profit (loss) on investing activities		- 495	288
Income tax paid		- 12,635	- 10,440
Interest costs		9,136	4,714
Change in provisions		278	- 2,916
Change in inventories		- 74,758	- 48,202
Change in receivables		3,027	2,257
Change in short-term liabilities, excluding bank loans and borrowings		- 3,539	24,851
Other adjustments		- 2,747	- 125
Net cash flows from operating activities		**108,615**	**53,504**
Cash flows from investing activities			
Interest received		9	12
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		9,155	1,348
Repayment of loans granted		-	-
Purchase of investments available for sale		-	-
Purchase of subsidiary		-	-
Purchase of intangible assets		- 972	- 1,761
Purchase of fixed assets		- 24,998	- 18,244
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		**- 16,806**	**- 18,645**
Cash flows from financing activities			
Proceeds from issuance of shares and other capital instruments and additional payments to capital		-	3,998
Inflows from loans and borrowings		14,809	8,000
Cash received		-	2,336
Repayment of bank loans and borrowings		- 19,499	- 26,593
Redemption of debt securities		-	-
Finance lease payments		- 2,085	- 783
Interest paid		- 4,887	- 4,714
Interest IFRS16		- 4,249	-
Leases IFRS16		- 84,141	-
Related to other financing liabilities		-	-
Net cash flows from financing activity		**- 100,052**	**- 17,756**
Change in cash and cash equivalents in the balance sheet		**- 8,243**	**17,103**
Opening balance of cash		**33,523**	**16,420**
change in cash due to foreign currency translation		-	-
Closing balance of cash	**18**	**25,280**	**33,523**

The value shown under "Other adjustments" consists of:	PLN ths	PLN ths
- capital reserves increase – valuation of stock options	364	239
- correction of previous years' earnings	-	-
- fixed assets - impairment - liquidation	- 3,102	- 356
- interest received	- 9	- 12
- valuation of shares and stakes	-	4
Total	**- 2,747**	**- 125**

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 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.)

2019 | ▪ **Merger with subsidiary BTM 2 Sp. z o.o**

The lifespan of the Issuer is indefinite.

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

Według stanu na koniec 2019 roku w skład Grupy Kapitałowej VRG S.A. wchodzą następujące podmioty gospodarcze:

As at the end of 2019 VRG S.A. Capital Group consisted of the following entities

1. **VRG S.A.** - Parent Company
2. **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 is 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%
3. **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%
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%

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 2019 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. for 1H19 i.e. January 1, 2019 to June 30, 2019.

Changes in the structure of the Capital Group in 2019:

- merger of VRG S.A. with a subsidiary BTM 2 Limited liability company with its registered office in Cracow, entered into the Register of Entrepreneurs of the National Court Register under the number KRS 0000605215 - "Acquired Company", which previously became part of the Company's capital group as a result of the merger of BYTOM S.A. with the Company.

In accordance with art. 493 § 2 of the Code of Commercial Companies, the merger of companies takes place on the date of entering the merger into the appropriate register according to the registered office of the Acquiring Company, i.e. on July 1, 2019. This entry results in the effective removal from the register of the Acquired Company, i.e. BTM 2 Sp. z o.o.

Pursuant to art. 494 of Code of Commercial Companies the Company is the legal successor of BTM 2 Sp. z o.o., i.e. on the day of the merger he entered into all rights and obligations of BTM 2 Sp. z o.o. as the Acquired Company. The merger took place on the basis of art. 492 § 1 item 1) of the Code of Commercial Companies by transferring all assets of the Merged Company to the Merging Company.

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

The Management Board

As at 31 December 2019, the composition of the Management Board of VRG S.A. was the following:

Management Board				
	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. 31/12/2019 to the date of signing this report, the above composition of the Company's Management Board has not changed.

On December 30, 2019, Mr. Mateusz Żmijewski, the Vice President of the Management Board, resigned from his function on the Company's Management Board with effect as at March 31, 2020.

The Supervisory Board

A 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	**Artur Małek** Member of the Supervisory Board	**Paweł Tymczyszyn** Member of the Supervisory Board	
	Piotr Kaczmarek 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 January 1, 2019 to December 31, 2019, the following changes took place in the composition of the Supervisory Board:

- on April 9, 2019, the parent company received a statement from Katarzyna Basiak-Gała on resignation from the function of a member of the Company's Supervisory Board on the day of the Company’s next General Meeting of Shareholders.

- on June 17, 2019, the General Meeting adopted the following resolutions regarding changes in the composition of the Company's Supervisory Board during the current joint term of office:

a) pursuant to Resolution No. 20/06/2019 of the General Meeting regarding the dismissal of a member of the Company's Supervisory Board, Mr. Maciej Matusiak was dismissed from the Company's Supervisory Board of the current joint term of office.

b) pursuant to Resolution No. 21/06/2019 of the General Meeting regarding the appointment of a member to the Company's Supervisory Board, Mr. Piotr Kaczmarek was appointed to the Company's Supervisory Board for the period of the current joint term of office.

c) on the basis of Resolution No. 22/06/2019 of the General Meeting regarding the appointment of a new member of the Company's Supervisory Board, Mr. Paweł Tymszyszyn was appointed to the Company's Supervisory Board for the current joint term of office.

In the period from the balance sheet date, i.e. 31.12.2019 to the date of signing this report, the above composition of the Company's Supervisory Board has changed as follows.

- on February 19, 2020, Ms Grażyna Sudzińska-Amroziewicz submitted a statement of resignation from the function of a member of the Supervisory Board of VRG S.A. and as a consequence of membership in committees operating within the Supervisory Board of VRG S.A.

- on February 20, 2020; The Extraordinary General Meeting of VRG S.A adopted the following resolutions regarding changes in the composition of the Company's Supervisory Board of the current joint term:

a) Pursuant to Resolution No. 03/02/2020 of the General Meeting regarding changes in the composition of the Company's Supervisory Board, Mr. Artur Małek was dismissed from the Company's Supervisory Board.

b) pursuant to Resolution No. 04/02/2020 of the General Meeting regarding changes in the composition of the Company's Supervisory Board, Jan Pilch was dismissed from the Company's Supervisory Board.

c) Pursuant to Resolution No. 05/02/2020 of the General Meeting regarding changes in the composition of the Company's Supervisory Board, Mr. Piotr Nowjalis was appointed to the Company's Supervisory Board.

d) on the basis of Resolution No. 06/02/2020 of the General Meeting regarding changes in the composition of the Company's Supervisory Board, Mr. Piotr Stępniak was appointed to the Company's Supervisory Board.

e) Pursuant to Resolution No. 07/02/2020 of the General Meeting regarding changes in the composition of the Company's Supervisory Board, Mr. Grzegorz Janas was appointed to the Company's Supervisory Board.

As at the date of signing these financial statements, the composition of the Supervisory Board of VRG S.A. was as follows:

Supervisory Board	**Jerzy Mazgaj** Chairman of the Supervisory Board	**Grzegorz Janas** Member of the Supervisory Board	**Piotr Kaczmarek** Member of the Supervisory Board	
	Piotr Nowjalis Member of the Supervisory Board	**Piotr Stępniak** Member of the Supervisory Board	**Andrzej Szumański** Member of the Supervisory Board	**Paweł Tymczyszyn** Member of the Supervisory Board

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 30, 2020.

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 2019.

However, in the current situation related to the coronavirus pandemic - i.e. with shopping malls closed until further notice and thus with loss of over 80% of the revenues of the Capital Group companies, the Management Board of the Company underlines the existence of significant uncertainty in this matter arising from events occurring after the balance sheet, which in the longer term may threaten the continuation of operations of the Capital Group companies.

This threat, in the event of adverse circumstances, which the Management Board of the Company is not able to assess, may cause a reduction in the scope of conducted operations, which in effect may affect the adopted going concern assumption. The Management Board of the Company has taken measures to limit the impact of the epidemic on the financial situation of the companies of the Capital Group. Detailed information on this subject is included in note 31a 'Events after the balance sheet date' and the description of risks in consolidated financial statements, as well as in the description of risks and in the item 'Planned development activities' in the Management Board's report on operations of the Capital Group.

2. PRINCIPLES FOR PREPARATION OF 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 2019 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, 2019 and December 31, 2018, the results of its operations for the 12 months ended December 31, 2019 and December 31, 2018 and cash flows for the 12 months ended December 31, 2019 and December 31, 2018.

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 2019 have been prepared in Polish zloty, rounded up to full thousands (ths).

The consolidated financial statements are presented for the period from January 1,2019 to December 31, 2019 and as of December 31, 2019. The fiscal year is the calendar year. Comparable financial data are presented for the period from January 1,2018 to December 31, 2018 and as of December 31, 2018.

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, 2019 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, 2018 contained in these financial statements were audited for the purpose of 2018 report.

The entity authorized to audit financial statements in the scope of the separate and consolidated financial statements for 2019 was Mazars Audyt Sp. z o.o., with which on June 19, 2017 a contract was concluded (amended by annex no 1 dated June 19, 2018 and annex no 2 dated August 7, 2019) 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 2018 was also Mazars Audyt Sp. z o.o. The total remuneration resulting from contracts concluded for the review and audit of separate financial statements for 2019 amounted to PLN 105 ths and for 2018 amounted to PLN 80 ths. Total remuneration resulting from contracts concluded for review and audit of subsidiaries for 2019 amounted to PLN 71 ths and for 2018 at PLN 37 ths.

In 2019, Mazars Audyt Sp. z o. o. did not conclude any agreements with the Capital Group other than those covering the audit of the annual financial statements and review of the interim financial statements. In 2018, the total remuneration for contracts for the verification of compliance of the financial ratios indicated in the Parent Company's and

W.KRUK S.A. credit agreements, as well as for the audit of the pro-forma statements attached to the Parent Company's memorandum, amounted to PLN 41 ths.

The consolidated financial statements for 2019 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 2019, i.e. the year in which merger of VRG S.A. and BTM2 Sp. z o.o. occurred. Consolidated financial statements are prepared post the merger of companies. The settlement of the merger was conducted using the acquisition method.

In accordance with art. 493 § 2 of the Code of Commercial Companies, merger of companies takes place on the date of entering the merger into the appropriate register according to the registered office of the Acquiring Company, i.e. on July 1, 2019. This entry results in the effect of removal from the register of the Acquired Company, i.e. BTM 2 Sp. z o.o.

Pursuant to art. 494 of Code of Commercial Companies the Company is the legal successor of BTM 2 Sp. z o.o., i.e. on the day of the merger it entered into all rights and obligations of BTM 2 Sp. z o.o. as the Acquired Company. The merger took place on the basis of art. 492 § 1 item 1) of the Code of Commercial Companies by transferring all assets of the Acquired Company to the Acquiring Company.

Due to the fact that the Company as the Acquiring Company was the sole shareholder of the Acquired Company and had 100% of shares in the Acquired Company's share capital, the merger took place in a simplified mode and pursuant to art. 515 § 1 of the Code of Commercial Companies, the merger was carried out without increasing the Company's share capital as the Acquiring company and without taking up any shares in the share capital of the Acquiring Company by the partners of the Acquired Company. Due to the lack of increase of the Company's share capital and the fact that the merger does not cause new circumstances requiring disclosure in the Company's Articles of Association, no changes have been made to the Issuer's Articles of Association in connection with the merger. Detailed information on the merger is provided 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 implementation of IFRS 16.

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, 2019 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, 2019

- Amendments to IFRS 9 'Right to early repayment with negative remuneration' modify the applicable requirements regarding rights for early termination of the contract for the purpose of enabling measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. The amendments provide that the sign (plus or minus) of the prepayment amount is not significant - i.e. depending on the interest rate in force at the time of termination of the contract, a payment may be made to the party resulting in early repayment. The calculation of this compensation must be the same for both early repayment penalties and for early repayment profit. Date of application - the annual period beginning on or after January 1, 2019.
- IFRS 16 "Leases" - Pursuant to IFRS 16, the lessee recognizes the right to use an asset component and a lease liability. The right to use the asset is treated similarly to other non-financial assets and depreciated accordingly. Lease liabilities are initially measured at the current value of the lease payments payable during the lease period, discounted by the lease rate if it is not difficult to determine, or by the marginal interest rate. IFRS 16 defines the lease term as the total, irrevocable period during which the lessee has the right to use the asset. The leasing period also includes optional periods if the entity is certain to exercise the option to extend (or not exercise the option to terminate) the lease. Date of application - the annual period beginning on or after January 1, 2019.
- IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments" - It may be unclear how tax law applies to a particular transaction or circumstances, or whether the tax authority will accept entity taxation. IAS 12 Income Taxes defines the method of accounting for current and deferred tax, 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 - the annual period beginning on or after January 1, 2019.
- Amendments to IAS 28 'Investments in associates and joint ventures' - long-term interests in associates and joint ventures were introduced to clarify that the entity applies IFRS 9 (including regulations regarding impairment) to long-term interests in associates or joint ventures that are part of a net investment in an associate or joint venture that has not been subject to the equity method. The amendments also remove paragraph 41 because it was considered that that paragraph merely repeated the requirements of IFRS 9 and caused confusion regarding the settlement of long-term interests. Date of application - the annual period beginning on or after January 1, 2019.

- Amendments to IFRS (cycle 2015-2017) - changes made as part of the procedure for introducing annual amendments to IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) aimed mainly at resolving discrepancies and clarifying vocabulary (valid for annual periods starting on or after January 1, 2019).
- Amendments to IAS 19 "Employee Benefits" - a change, limitation or settlement of a plan requires that, after a change in plan, updated valuation assumptions be used to determine the current cost of services and net interest for the remainder of the reporting period. Date of application - the annual period beginning on or after 1 January 2019.

In the Group's opinion, the above-mentioned standards, interpretations and amendments to standards did not have a significant impact on the financial statements in the period of their first application, except for the entry into force of IFRS 16. The impact of IFRS 16 "Leases" on the statement of financial position and the statement of comprehensive income has been described below.

Standards and interpretations issued by the IASB, but not yet in force

When approving these consolidated financial statements, the Group did not apply the following standards, amendments to standards and interpretations, which were 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 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.
- 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.
- Changes to IFRS 9, IAS 39 and IFRS 7 – IBOR reform.

The Group is currently analysing the impact of the above-mentioned standards, interpretations and amendments to standards. According to the current estimates of the Group, they will not have a significant impact on the financial statements in the period of their first application.

IFRS16 Leases 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 requires 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.

IFRS 16 application required the Group to analyse data and make estimates and calculations that have an impact on the measurement of lease liabilities and the measurement of the asset arising from the right of use. These include: assessing whether the contract contains a lease in accordance with IFRS 16 and determining the duration. The Group performs a detailed analysis of the duration of its contracts, in particular in terms of the option to extend it in selected contracts. The described analysis applies to contracts ending in a 12-month perspective. If the Management Board decides to extend such a lease agreement, its duration accepted for valuation is extended by the activated period of extension option resulting from the agreement.

The present value of the lease payment is determined using the marginal interest rate. For each type of contract, the Group estimated the amount of the discount rate that 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 duration of the contract, the currency of the contract and the potential margin it would have to incur in favour of external financial institutions if it wanted to conclude such a transaction on the financial market. The calculation of interest rates took into account the duration of the contract.

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. At the balance sheet date there were no material low-value assets.

Below we present impact of applying IFRS 16 on the Group's financial result in the reporting period of 2019, i.e. from January 1, 2019 to December 31, 2019, regarding contracts for commercial premises and office space, which in the previous financial year were treated as operating leases in accordance with from IAS 17.

Item	PLN ths		
	2019 excl. IFRS 16	Impact of leases under IFRS 16	2019 published data
Gross profit on sales	556,074	0	556,074
Selling and general and administrative costs	469,063	116	469,179
Other operating income	5,311	73	5,384
Operating profit	87,535	- 43	87,492
Financial income	699	2,357	3,056
Financial costs	6,942	4,249	11,191
Net financial result	**65,928**	**- 1,935**	**63,993**

Depreciation for 2019 under IFRS 16 amounted to PLN 87,401 ths.

However, the application of IFRS 16 did not affect the Group's financial result in the reporting period of 2019, i.e. from January 1, 2019 to December 31, 2019 in relation to other contracts (mainly regarding business cars), which in the previous financial year were treated as financial leases in accordance with IAS 17.

Below we present impact of applying IFRS 16 on the Group's financial result in the fourth quarter of 2019, i.e. from October 1, 2019 to December 31, 2019 in respect of contracts for commercial premises and office space, which in the previous financial year were treated as operating leases in accordance with IAS 17.

Items	PLN ths		
	4Q19 excl. IFRS 16	Impact of leases under IFRS 16	4Q19 published data
Gross profit on sales	178,494	0	178,494
Selling and general and administrative costs	132,156	- 93	132,063
Other operating income	4,015	1	4,016
Operating profit	47,461	94	47,555
Financial income	2,500	7,315	9,815
Financial costs	2,444	1,062	3,506
Net financial result	**38,001**	**6,347**	**44,348**

Depreciation in 4Q19 under IFRS 16 amounted to PLN 22,667 ths.

Application of IFRS16, however, did not affect the Group's financial result in the period in the fourth quarter of 2019, i.e. from October 1, 2019 to December 31, 2019 in relation to other contracts (mainly concerning business cars), which in the previous financial year were treated as financial leasing in accordance with IAS 17.

Below we present impact of application of IFRS 16 on the opening balance as at January 1, 2019 and December 31, 2019 of individual items in the Group's financial statements with respect to contracts for commercial premises and office space, which in the previous financial year were treated as operating leases in accordance with IAS 17.

ASSETS	PLN ths		
	Balance at 31.12.2019	Balance of opening at 01.01.2019	Balance at 31.12.2018
Right-of-use *	266,405	299,584	0

EQUITY AND LIABILITIES	w tys. zł		
	Balance at 31.12.2019	Balance of opening at 01.01.2019	Balance at 31.12.2018
IFRS 16 lease liability	268,340	299,584	0

** In this balance sheet item, the Group showed right-of-use assets valued for the first time as at January 1, 2019, which include commercial premises and office space. These assets in the previous financial year were treated as operating leases in accordance with IAS 17.*

The right to use other fixed assets (mainly business cars), which in the previous financial year were treated as financial leasing in accordance with IAS 17, was disclosed in the balance sheet under Property, plant and equipment and amounted to PLN 4,141 ths net.

Below we present impact of applying IFRS 16 on the Group's cash flow statement in the reporting period January 1, 2019 to December 31, 2019.

Cash flow statement items	PLN ths		
	2019 from January 1, 2019 to December 31, 2019 excl. IFRS16	Impact of leases under IFRS 16	2019 from January 1, 2019 to December 31, 2019 published data
Cash flows from operating activities	20,225	88,390	108,615
Cash flows from financing activities	- 11,662	- 88,390	- 100,052

Below is the table of movements for Right-of-use assets for the period from January 1, 2019 to December 31, 2019.

Right-of-use assets relating to commercial premises and office space	PLN ths
Balance at January 1, 2019	299,580
Increases	55,787
- incl. new openings and contracts	*52,638*
- other	*3,149*
Decreases	1,561
Incl. termination/ ending of contracts	*1,561*
Balance at December 31, 2019	353,804
Depreciation for the period	87,401
December 31, 2019	266,405

In the reporting period of 2019, i.e. from January 1, 2019 to December 31, 2019, there were no significant increases (decreases) in the right to use regarding other assets, including mainly business car leases.

Interest costs on lease liabilities (broken down into commercial premises and office space as well as other assets) are presented in note no. 6 Financial expenses.

Costs related to short-term leases recognized in accordance with IFRS 16 par. 6, linearly during the lease period amounted to PLN 1,125 ths.

In the reporting period, there were no costs related to variable lease payments not included in the measurement of lease liabilities.

In the reporting period, the Company did not generate income from sub-leasing of assets under the right-of-use.

The maturity analysis of lease liabilities is presented in note no. 23 Maturity analysis of liabilities.

With respect to the lease agreements described above, there are no:

- Future cash outflows to which the Group would be potentially exposed and which were not included in the value of liabilities arising from lease,
- Restrictions or covenants imposed by leasing,
- Leaseback transactions.

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

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. 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

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. Interest income on investments in debt instruments is recognized in profit or loss. At the time of disposal of investments in debt instruments, accumulated profits / losses are recognized 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.

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 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 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 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 useful life, 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 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

Determination of value of sold 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 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 87.5m EBIT in 2019

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: ▪ 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	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. 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. 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.

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

Debt ratio	PLN ths	
	31.12.2019	31.12.2018
Equity	863,286	805,097
Long-term debt	70,079	82,012
Long-term debt and borrowings	55,851	70,758
Short-term part of long-term debt and borrowings	14,228	11,254
Long-term debt / Equity	**8.1%**	**10.2%**

The lower and therefore safer debt ratio of the Group is consistent with the actions taken by the Group. The ratio is at the level expected by the Management Board of the parent company.

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 contractual) 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

At the beginning of each contract concluded from January 1, 2019, the Group assesses whether the contract is a lease or contains a lease. Leasing was defined as an agreement under which the right to control the use of an identified asset for a given period in return for remuneration is transferred. To identify the lease, contracts are assessed against three criteria:
- whether the contract relates to an identified asset that is clearly specified in the contract or that can be identified implicitly at the time the asset is made available for use,
- whether the entity has the right to obtain substantially all economic benefits from the use of the identified asset over the useful life of the asset under the contract in force,
- whether the entity has the right to direct the use of the identified asset over the entire useful life.

At the commencement date, the Group recognizes an asset under the right-of-use and a lease liability. The right-of-use is valued at the start date at cost including the amount of the initial valuation of the lease liability, all lease payments paid at the commencement date, initial direct costs, estimated costs anticipated in connection with dismantling and removal of the underlying asset and lease payments paid on or before the start date.

The right-of-use assets are depreciated using the straight-line method from the start date to the end of the useful life of the right-of-use asset or until the end of the lease, whichever is earlier. The rights to use are tested for impairment in accordance with IAS 36, if there are any reasons for impairment.

At the start date, the Group measures a lease liability in the amount of the present value of the lease payments remaining to be paid at that date. Lease payments are discounted using the lease interest rate, if this rate can be easily determined. Otherwise, the lessee applies the lessee's marginal interest rate.

At the commencement date, the lease payments included in the valuation of the lease liabilities include fixed lease payments less all due leasing incentives, variable lease payments depending on indices or rates, amounts expected to be paid under the guaranteed residual value and payments for the exercise of call options if it can be assumed with sufficient certainty that the lessee will use this option.

In subsequent periods, the lease liability is increased by accrued interest on the lease liability and reduced by lease payments.

The valuation of the lease liability is updated when there are changes in the lease contracts regarding the lease period, the option to buy the underlying asset, the guaranteed end value, changes in fees arising from changes in indices or rates.

The revaluation of the liability is recognized as an adjustment to the right-of-use assets.

The Group applies acceptable by the standard practical solutions for short-term and low value leases. For such contracts, lease payments are recognized in the financial result on a straight-line basis over the duration of the lease.

Fixed assets used based on financial lease contracts are depreciated according to the rules applicable to own assets. If there is no reliable certainty that after the end of the lease agreement the Group will receive ownership, the assets are depreciated over a shorter period from the period of the lease and the period of economic usefulness.

3.18. Revenues

Principles for recognizing operating income are set out in IFRS 15 "Revenue".

Revenue is measured at the transaction price, i.e. the amount of remuneration which it is expected to be entitled to in exchange for transfer of promised goods or services to the customer, excluding amounts collected on behalf of third parties (for example, certain sales taxes). The remuneration specified in the contract with client may include fixed amounts, variable amounts or both. The amount of the remuneration is usually reflected by the amount received or due, less expected rebates, customer returns and similar reductions, including value added tax and other sales taxes except for excise duty and contractual penalties.

The Group recognizes contract with the customer only if all the following criteria are met: the parties to the contract have concluded a contract (in writing, oral or otherwise) and are required to perform their duties; the Group is able to recognize the rights of each party regarding the goods or services to be transferred; the Group is able to identify the payment terms for the goods or services to be transferred; the contract has economic content and it is likely that the Group will receive remuneration that it will be entitled to in exchange for goods or services that will be transferred to the customer.

At the time of contract conclusion, the Group assesses the promised goods or services in the contract with the client and recognizes as an obligation to perform the service any promise to provide the client with a good or service that can be distinguished.

In order to determine the transaction price, the Group takes into account the terms of the contract and its usual commercial practices.

he Group recognizes revenues in accordance with IFRS 15, i.e. when the obligation to perform the service is met by transferring the promised good or service to the customer. An asset is transferred when the customer gains control over that asset.

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

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.

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.

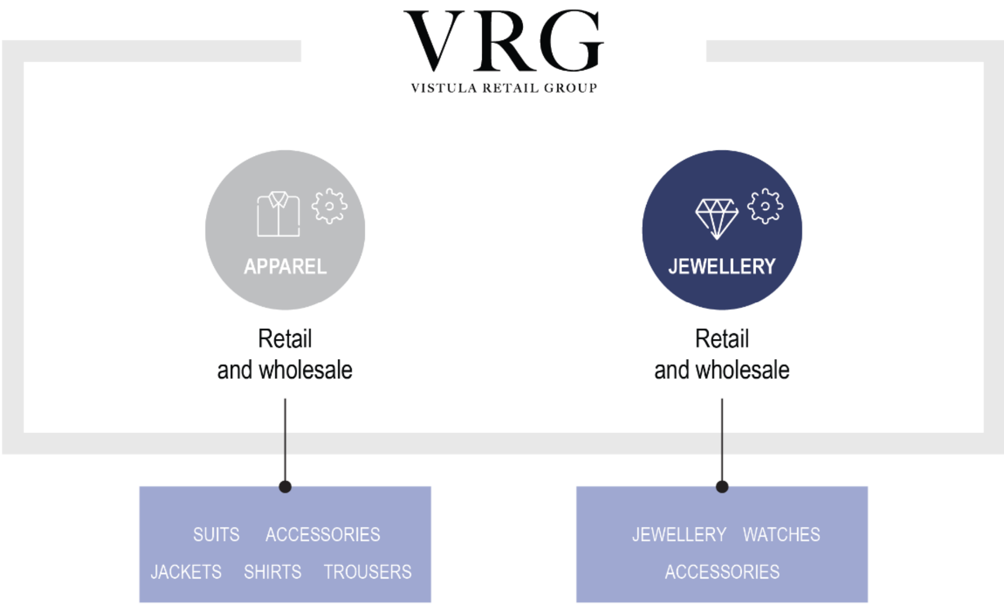
The fair value of the options granted is recognized in the profit or loss statement in correspondence with reserve capital. The options fair value is measured as of the grant date and is recognized in the vesting period. This value is measured based on Monte Carlo valuation model, which is an extension 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). 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.

The diagram below shows the division of the Group's operations by business segments:



Leading brands of the Vistula business line:

Vistula	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 VISTULA FINE TAILORING	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 Bytom business line:

Bytom	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 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.
	Intermoda	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.

Leading brands of the Wólczanka business line:

Wólczanka	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. The complementary assortment of the Wólczanka brand are sweaters, polo shirts and, from Spring/Summer 2019, men's chinos.
	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.

Other own brands in the apparel segment:

Apparel segment	DENI CLER MILANO	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.

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:

Jewellery segment	W.KRUK 1840	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. W.KRUK jako pierwsza sieć salonów jubilerskich na polskim rynku w 2019 roku wprowadziła do oferty sprzedażowej nową kategorię diamentów stworzonych przez człowieka w warunkach laboratoryjnych pod nazwą własną – New Diamond by W.KRUK. Posiadają one parametry identyczne jak diamenty wydobywane metodami tradycyjnymi i klasyfikowane są według tych samych parametrów, z wykorzystaniem tych samych standardów eksperckiej oceny, co diamenty kopalniane. Kolekcja zdobiona New Diamond by W.KRUK obejmuje pierścionki pod nazwą Doskonały®, kolczyki oraz wisiorki ze stworzonymi przez człowieka diamentami w kolorach: białym oraz, po raz pierwszy na rynku polskim, różowym i niebieskim. In 2019, W.KRUK as the first jewellery chain on the Polish market introduced to its sales offer a new category of diamonds – lab-grown ones – under its own name - New Diamond by W.KRUK. They have parameters identical to diamonds mined by traditional methods and are classified according to the same parameters, using the same expert assessment standards as mine diamonds. The collection decorated with New Diamond by W.KRUK includes rings under the name Perfect®, earrings and pendants with lab-grown diamonds in white and, for the first time on the Polish market, also pink and blue ones.
	ZEGARKI	W.KRUK offers watches of luxury Swiss brands like Rolex (as the only distributor of this brand in Poland), Cartier, Jaeger-LeCoultre, Hublot, Panerai, Chopard, Breitling, Girard-Perregaux, Omega, Tudor, Tag Heuer, Longines, Rado, Frédérique Constant, Tissot, Certina, Doxa, Gucci, Swatch and many others. Watches of renowned brands sold in W.KRUK stores occupy a strong position on the Polish market, and their sales value is systematically increasing.

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 cyclicality 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. Exchange rates used to value assets and liabilities

Individual items of assets and liabilities were converted into EURO at the average exchange rate of December 31, 2019 announced by the National Bank of Poland, which was 4.2585 PLN / EUR. Individual items of the profit and loss account were converted into EURO at the exchange rate of 4.3018 PLN / EUR, which is the arithmetic average of average EURO exchange rates set by the National Bank of Poland on the last day of each completed month covered by the report.

To calculate the average exchange rate, the following EURO exchange rates were adopted from: 31.01.19 - 4.2802 PLN / EUR, 28.02.19 - 4.3120 PLN / EUR, 29.03.19 - 4.3013 PLN / EUR, 30.04.19 - 4, 2911 PLN / EUR, 31.05.19 - 4.2916 PLN / EUR, 28.06.19 - 4.2520 PLN / EUR, 31.07.19 - 4.2911 PLN / EUR, 30.08.19 - 4.3844 PLN / EUR, 30.09 .19 - 4.3736 PLN / EUR, 31.10.19 - 4.2617 PLN / EUR, 29.11.19 - 4.3236 PLN / EUR, 31.12.19 - 4.2585 PLN / EUR,

The lowest exchange rate in the reporting period was PLN 4.2406 / EURO.

The highest exchange rate in the reporting period was 4.3891 PLN / EURO.

PLN 64.0m of net income in 2019

4. SUPPLEMENTARY NOTES TO FINANCIAL STATEMENTS

Note 1. Revenues from continuing operations

Analysis of the Group's revenues	PLN ths			
	2019	2018	4Q19	4Q18
Revenues from the sale of products, goods and materials	1,068,048	805,480	332,448	272,141
Revenue from property lease	218	194	14	48
Revenue from lease of other fixed assets	-	-	-	-
Total revenue	**1,068,266**	**805,674**	**332,462**	**272,141**
Result on the sale of fixed assets	477	-	-	-
A one-time negative goodwill write-off	-	2,356	-	2,356
Other operating income, including:	5,384	2,307	4,016	1,174
- reversal of provisions	*145*	*239*	*7*	*5*
Financial income	3,056	208	9,815	168
Profit on sale of a subsidiary	-	-	-	-
Total	**1,077,183**	**810,545**	**346,293**	**275,839**

The increase in sales revenues is related to sales network expansion and e-commerce development. The key factor behind revenue growth in 2019 compared to comparable period i.e. 2018 is inclusion of Bytom's revenues for 12 months versus 1 month in 2018.

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 2019	PLN ths		
	Apparel segment	Jewellery segment	Total
External sales	692,319	375,947	1,068,266
Gross profit on sales	357,978	198,096	556,074
Segmental operating costs	313,798	155,381	469,179
of which depreciation	*74,285*	*36,706*	*110,991*
Other operating income and costs	- 1,148	1,745	597
Financial income and costs	- 4,093	- 4,042	- 8,135

Current year 2019	PLN ths		
	Apparel segment	Jewellery segment	Total
of which interest income and costs	*- 2,238*	*- 2,617*	*- 4,855*
Income tax	7,125	8,239	15,364
Net profit	**31,814**	**32,179**	**63,993**

Previous 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
of which depreciation	*9,351*	*7,998*	*17,349*
Other operating income and costs	- 357	122	- 235
Financial income and costs	- 1,738	- 4,451	- 6,189
of which interest income and costs	*- 2,034*	*- 2,902*	*- 4,936*
Income tax	5,155	7,001	12,156
Net profit	**25,657**	**27,915**	**53,572**

Current year 4Q19	PLN ths		
	Apparel segment	Jewellery segment	Total
External sales	206,834	125,628	332,462
Gross profit on sales	110,915	67,579	178,494
Segmental operating costs	83,945	48,118	132,063
of which depreciation	*18,962*	*9,612*	*28,574*
Other operating income and costs	- 412	1,536	1,124
Financial income and costs	3,371	2,938	6,309
of which interest income and costs	*- 578*	*- 662*	*- 1,240*
Income tax	5,138	4,378	9,516
Net profit	**24,791**	**19,557**	**44,348**

Previous 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
of which depreciation	*2,832*	*1,987*	*4,819*
Other operating income and costs	230	139	369
Financial income and costs	- 362	- 1,547	- 1,909
of which interest income and costs	*- 539*	*- 932*	*- 1,471*
Income tax	2,685	3,738	6,423
Net profit	**17,057**	**15,376**	**32,433**

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 2,096 ths for 2019 (PLN 1,970 ths for 2018),
- for the jewellery segment, PLN 2,565 ths for 2019 (PLN 2,872 ths for 2018).

In 2019, financial income and expenses also include interest and exchange rate differences (surplus of positive to negative) under IFRS 16, which were:

• for the apparel segment, interest amounted to PLN 2,657 ths and exchange rate differences (surplus of positive to negative) amounted to PLN 1,467 ths,

• for the jewellery segment, interest amounted to PLN 1,592 ths and exchange rate differences (surplus of positive to negative) amounted to PLN 891 ths.

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 2019 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			
	2019	2018	4Q19	4Q18
Poland	1,065,949	797,052	331,794	270,779
EURO area	2,215	8,602	585	1,362
USD area	102	20	83	-
GBP area	-	-	-	-
Other	-	-	-	-
Total	**1,068,266**	**805,674**	**332,462**	**272,141**

Segmental assets and liabilities as at December 31, 2019 are as follows:

Current year 2019	PLN ths		
	Apparel segment	Jewellery segment	Total
Assets	793,588	637,726	1,431,314
Liabilities	320,388	247,640	568,028

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

Previous year 2018	PLN ths		
	Apparel segment	Jewellery segment	Total
Assets	615,612	496,419	1,112,031
Liabilities	168,315	138,619	306,934

Note 3 Operating expenses and other operating costs

Costs of continuing operations	PLN ths			
	2019	2018	4Q19	4Q18
Depreciation of fixed assets	110,991	17,349	28,574	4,819
Materials and energy	102,952	103,086	25,628	29,452
Costs of goods sold	485,794	367,229	147,531	122,336
Change in products and work in progress	- 109,670	- 114,395	- 22,918	- 32,594
Inventory write-offs	1,147	2,219	1,064	1,776
Remuneration and employee benefits	146,951	130,974	36,717	34,101
Other costs by type	44,498	40,368	15,807	13,529
Third party costs	199,855	188,911	54,694	60,102
Other operating costs	4,117	2,679	1,828	1,385
Total costs of products sold, goods and materials, distribution, general and administrative expenses and other operating costs	**986,635**	**738,420**	**288,923**	**234,906**

Note 4 Remuneration and employee benefits

The average number of employees in persons (including the management)	In persons			
	2019	2018	4Q19	4Q18
Employees in persons by categories:	**2,539**	**2,450**	**2,545**	**2,493**
White-collar employees	2,155	2,073	2,161	2,135
Blue-collar employees	384	377	384	358

General remuneration divided into wages, insurance and other (value):	PLN ths			
	2019	2018	4Q19	4Q18
Total remuneration, including:	**146,951**	**130,974**	**36,717**	**34,101**
Salaries	122,640	109,393	30,885	28,742
Social security and other benefits	24,311	21,581	5,832	5,359

Note 5 Financial income

Działalność kontynuowana	PLN ths			
	2019	2018	4Q19	4Q18
Interest on bank deposits and loans granted	14	19	1	1
Dividends received	-	-	-	-
Discount valuation	-	-	-	-
Result on forward transactions	-	8	-	-
Profit from foreign exchange rate differences	56	-	1,917	-
Valuation of loans at amortized cost	2,357	-	7,314	-
Other	525	-	525	-
Total	104	181	58	167
Interest on bank deposits and loans granted	**3,056**	**208**	**9,815**	**168**

Note 6 Financial costs

Continuing operations	PLN ths			
	2019	2018	4Q19	4Q18
Interest on overdrafts and bank loans	4,661	4,842	1,193	1,438
Interest on bonds	-	-	-	-
Interest on finance lease liabilities	208	113	48	34
Interest IFRS16	4,249	-	1,062	-
Fees on loans and guarantees	1,748	867	477	265
Loss on foreign exchange rate differences	-	329	-	114
Loss on sale of investments held for sale	-	-	-	20
Revaluation of investment	-	2	-	-
Forward transactions valuation	100	-	642	-
Valuation of loans at amortized cost	-	174	-	174
Other	225	70	84	32
Total	**11,191**	**6,397**	**3,506**	**2,077**

Note 7 Income tax

Continuing operations	PLN ths			
	2019	2018	4Q19	4Q18
Current income tax				
Corporate income tax	15,364	12,156	9,516	6,423
Income tax in in other countries	-	-	-	-
Deferred income tax (note 22)	- 1,438	- 704	64	- 1,461
Current year	16,802	12,860	9,452	7,884

Reconciliation of tax base and pre-tax profit shown in the profit or loss statement	PLN ths			
	2019	2018	4Q19	4Q18
Profit before tax	79,357	65,728	53,864	38,856
According to the statutory rate 19% (since 2008: 19%)	15,078	12,488	10,234	7,383
Non-taxable income	- 11,458	- 5,558	- 8,811	- 3,440
Costs not constituting tax deductible costs	14,111	4,516	6,180	- 898
Research and development relief	- 1,149	- 708	- 1,149	- 708
Tax loss to be settled in future periods	-	-	-	-
Tax loss carryforward	-	-	-	-
Tax base	80,861	63,978	50,084	33,810
Income tax charge	15,364	12,156	9,516	6,424
Effective tax rate	19.36%	18.49%	17.67%	16.53%

The difference between the effective tax rate (19.4%) and the nominal tax rate (19%) in 2019 is mainly due to permanent differences due to PFRON, option valuation, expenses from the representation fund, reversal of write-offs on inventory and settlement of research relief development investment.

The difference between the effective tax rate of 18.4% 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.

Note 8 Earnings per share

Continuing operations	PLN ths			
	2019	2018	4Q19	4Q18
Net profit attributable to the shareholders of the dominating entity	63,993	53,572	44,348	32,433
Profits from continuing operations for the purpose of calculating earnings per share after excluding discontinued operations	63,993	53,572	44,348	32,433
Weighted average number of ordinary shares	234,455,840	185,829,119	234,455,840	183,510,654

Continuing operations	PLN ths			
	2019	2018	4Q19	4Q18
Diluted weighted average number of ordinary shares	241,505,840	192,879,119	241,505,840	190,560,654
Earnings per share				
– basic	0.27	0.29	0.19	0.18
– diluted	0.26	0.28	0.18	0.17

Calculation of the weighted average number of shares	PLN ths	
	2019	2018
Number of shares as at 01.01.2019	234,455,840	179 194 964
Change during the year (issuance)	0	55 260 876
Number of shares as at 31.12.2018	234 455 840	234 455 840
Number of days with increased equity	-	269
Ratio (number of days with increased equity / number of days in the period)	-	0,79
Weighted average number of shares	234 455 840	185 829 119
Scale of potential dilution (ordinary shares)	7 050 000	7 050 000
Diluted weighted average number of ordinary shares	241 505 840	192 879 119

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, 2018	242,590
Adjustment: disclosure at the time of acquisition	81,443
Derecognition at the moment of disposal	-
Balance at December 31, 2018	**324,033**
Balance at January 1, 2019	324,033
Adjustment: acquisition of Bytom	- 21,285
Derecognition at the moment of disposal	-
Balance at December 31, 2019, including:	**302,748**
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.	60,158
ACCUMULATED DEPRECIATION AND IMPAIRMENT	
Balance at January 1, 2018	-
Losses due to impairment in the current year	-

	PLN ths
Derecognition at the moment of disposal	-
Balance at December 31, 2018	-
Balance at January 1, 2019	-
Losses due to impairment in the current year	-
Derecognition at the moment of disposal	-
Balance at December 31, 2019	-
BOOK VALUE	
At December 31, 2018	324,033
At December 31, 2019	302,748

As at December 31, 2019 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 operations of Wólczanka store network (including goodwill)

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

- Bytom brand
- Fixed assets related to the operations of Bytom 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).

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 tests came in at 9.3% for Wólczanka and Bytom and 8.9% for W.KRUK, respectively. An increase in the adopted discount rate by 10 percentage points does not require asset impairments.

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..

The Bytom goodwill adjustment recognized in 2019 in the amount of PLN 21,285 ths was described in note No. 34.

Note 10 Other intangible assets

	PLN ths			
	Costs of development works	Trademarks	Patents and licenses	Total
GROSS VALUE				
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
Balance at January 1, 2019	1,219	114,612	89,370	205,201
Merger of VRG S.A. and Bytom S.A. BTM2 Sp. z o.o. subsidiary		79,504	- 65,503	14,001
Additions			984	984
Decreases				-
Balance at December 31, 2019	1,219	194,116	24,851	220,186
AMORTIZATION				
Balance at January 1, 2018	1,219	23	15,732	16,974
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
Balance at January 1, 2019	1,219	23	17,592	18,834
Merger of VRG S.A. and Bytom S.A.				-
Amortization for the period			1,249	1,249
Disposal				-
Balance at December 31, 2019	1,219	23	18,841	20,083
IMPAIRMENT				
Balance at January 1, 2018	-	-	3,147	3,147
Additions				-
Decreases				-
Balance at December 31, 2018	-	-	3,147	3,147
Balance at January 1, 2019	-	-	3,147	3,147
Additions				-

	PLN ths			
	Costs of development works	Trademarks	Patents and licenses	Total
Decreases				-
Balance at December 31, 2019	-	-	3,147	3,147
BOOK VALUE				
Balance at December 31, 2018	-	114,589	66,631	183,220
Balance at December 31, 2019	-	194,093	2,863	196,956

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.

In 2019, no new write-offs were created and there were no indications to reverse the write-offs created so far.

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, Bytom and Intermoda for the total value of PLN 194,093 ths are the subject of collateral under loan agreements shown in note 19.

In 2019, in connection with the merger of VRG S.A. and the subsidiary BTM2, Bytom trademark was revalued. The valuation amount of PLN 14,001 ths was charged as decrease in the goodwill of Bytom. Detailed settlement is presented in note no. 34.

As at December 31, 2019, 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, 2019, there were no contractual obligations regarding the purchase of intangible assets.

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, 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
Disposal	- 1,086	- 18,261	- 1,900	- 21,247
Balance at December 31, 2018	119,981	6,092	113,154	239,227
Balance at January 1, 2019	119,981	6,092	113,154	239,227
Merger of VRG S.A. and Bytom S.A.	- 93			- 93

	PLN ths			
	Property and plant	Fixed assets under construction	Equipment and other fixed assets	Total
Additions	6,275	23,624	16,879	46,778
Disposal	- 7,178	- 26,116	- 1,675	- 34,969
Balance at December 31, 2018, including:	118,985	3,600	128,358	250,943
– at purchase price/production cost	118,985	3,600	128,358	250,943
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
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
Balance at January 1, 2019	80,744	-	78,606	159,350
Merger of VRG S.A. and Bytom S.A.	- 54		- 39	- 93
Depreciation for the period	8,978		13,363	22,341
Disposal	- 2,899		- 1,210	- 4,109
Balance at December 31, 2019	86,769	-	90,720	177,489
IMPAIRMENT				
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
Balance at January 1, 2019	-	1,636	195	1,831
Merger of VRG S.A. and Bytom S.A.				
Additions				
Decreases				
Balance at December 31, 2019	-	1,636	195	1,831
BOOK VALUE				
At December 31, 2018	39,237	4,456	34,353	78,046
At December 31, 2019	32,216	1,964	37,443	71,623

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

The carrying amount of the Group's fixed assets under finance lease is PLN 4,141 thousand.

In 2019, no new write-offs were created and there were no indications to reverse the write-offs created so far.

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

As at 31 December 2019, 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, 2018	874
Additions	
Disposals	
Balance at December 31, 2018	874
Balance at January 1, 2019	874
Additions	
Disposals	
Balance at December 31, 2019 including:	874
– at purchase price/manufacturing cost	874
– at revalued amount	-
ACCUMULATED DEPRECIATION AND IMPAIRMENT	
Balance at January 1, 2018	-
Depreciation for the period	
Disposals	
Balance at December 31, 2018	-
Balance at January 1, 2019	-
Depreciation for the period	
Disposals	
Balance at December 31, 2019	-
BOOK VALUE	
At December 31, 2018	874
At December 31, 2019	874

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, 2019							
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 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.

Value of shares has not changed compared to last year.

Note 14 Other long-term investments

	PLN ths	
	2019	2018
Other	4	4
Total	**4**	**4**

Note 15 Inventory

	PLN ths	
	2019	2018
Materials (at purchase price)	32,249	37,419
Work in progress (at production cost)	8,523	7,139
Finished products (at production cost)	50,790	44,813
Trade goods (at purchase price)	451,545	379,769
Total inventory, at the lower of two values: purchase price (production cost) and net realizable value	543,107	469,140
Inventory write-offs	- 7,568	- 8,359
Total	**536,130**	**460,781**

Write-offs created in the amount of PLN 2,363 thousand were charged to other operating costs, while reversed write-offs in the amount of PLN 2,074 thousand were charged to cost of goods sold and in the amount of PLN 1,080 thousand were booked as lowering other operating costs due to liquidation of current assets. 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 421,756 thousand.

Note 16 Long-term receivables

	PLN ths	
	2019	2018
- receivables from deposits paid for store leases	664	586
- receivables from sale of fixed assets	-	-
Total	**664**	**586**

Note 17 Trade and other receivables

Trade and other receivables	PLN ths	
	2019	2018
Trade receivables from third parties (gross)	23,024	23,850
minus: write-off of trade receivables from third parties	- 8,323	- 8,070
Trade receivables from third parties (net)	14,701	15,780
Trade receivables from related parties (gross)-(note 42)	2,030	2,030
minus: write-off of trade receivables from related parties	- 2,030	- 2,030
Trade receivables from related parties (net)	-	-
Receivables from taxes, subsidies, customs, social security and other benefits	380	402
Other receivables from third parties (gross)	47,540	49,373
minus: write-off of other trade receivables from third parties	- 42,635	- 41,648
Other receivables from third parties (net)	4,905	7,725
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)	**77,274**	**79,955**
minus: total write-off of receivables	- 57,288	- 56,048
Total short-term receivables (net)	**19,986**	**23,907**

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	
	2019	2018
a) up to 1 month	984	1,884
b) above 1 month up to 3 months	1,192	1,545
c) above 3 months up to 6 months	1,046	1,280
d) above 6 months up to 1 year	900	988
e) above 1 year	12,254	11,926
Total overdue trade receivables (gross)	**16,376**	**17,620**
f) total write-off of overdue receivables	- 10,326	- 10,053

Total overdue trade receivables (net)	**6,050**	**7,567**

Change in short-term receivables write-offs	PLN ths	
	2019	2018
Balance at the beginning of period	56,048	55,517
a) increases (due to)	1,666	1,782
deconsolidation of related parties	-	869
write-offs creation	1,665	618
foreign exchange rate differences	1	295
b) decreases (due to)	426	1,251
receipt of payment	343	256
receivables write-off	-	-
cessation of the reason behind the write-off	-	995
foreign exchange rate differences	83	-
Balance of short-term receivables write-offs at the end of period	**57,288**	**56,048**

Amounts of receivables write-offs (created and reversed) are recognised in selling costs. The value of the write-offs was estimated based on credit risk analysis in accordance with IFRS 9 and based on Group's past experiences.

Short-term receivables gross (currency structure)	PLN ths	
	2019	2018
a) PLN	64,125	66,061
b) in foreign currencies (by currency and after conversion into PLN)	13,149	13,894
b1. in EURO thousands	1,962	1,693
PLN thousands	8,356	7,067
b2. in USD thousands	1,095	1,628
PLN thousands	4,154	6,121
b3. in CHF thousands	66	120
PLN thousands	259	458
Other currencies in PLN thousands	380	248
Total short-term receivables (gross)	**77,274**	**79,955**

Receivables from loans granted	PLN ths	
	2019	2018
Loan receivables from third parties (gross)	1,953	1,952
minus: write-off of loan receivables from third parties	- 1,953	- 1,952
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)	2,180	2,179
minus: total write-off of loan receivables	- 2,180	- 2,179

Total loan receivables (net)	**-**	**-**

Change in short-term loan receivables write-offs	PLN ths	
	2019	2018
Balance at the beginning of period	2,179	2,170
a) increases (due to)	1	9
write-offs created		
foreign exchange rate differences	1	9
b) decreases (due to)		
receipt of payment		
decision of the management board to recognize as a loss		
foreign exchange rate differences		
Balance of short-term receivables write-offs at the end of period	**2,180**	**2,179**

The Group has receivables from loans granted for PLN 2,180 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.

	PLN ths	
	2019	2018
cash and bank accounts	20,233	33,205
short-term deposits	5,047	318
Total	**25,280**	**33,523**

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

	PLN ths	
	2019	2018
cash and bank accounts	20,233	33,205
short-term deposits	5,047	318
Total	**25,280**	**33,523**

Cash flows are prepared using the indirect method.

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

	PLN ths	
	2019	2018
Overdrafts	16,540	6,627
Bank loans	74,879	90,012
Amounts payable according to bank loan agreements		
On demand or up to 1 year	35,568	25,891
From 2 to 5 years	55,851	70,758
Over five years	-	-
Loans	-	-
Amounts payable according to bank loan agreements	-	-
On demand or up to 1 year	-	-
From 2 to 5 years	-	-
Over five years	-	-

Loans currency structure	ths			
	Total	PLN	€	$
December 31, 2019	**91,419**	**91,419**	**-**	**-**
Overdrafts	16,540	16,540	-	-
Bank loans	74,879	74,879	-	-
Loans	-	-	-	-
December 31, 2018	**96,639**	**96,639**	**-**	**-**
Overdrafts	6,627	6,627	-	-
Bank loans	90,012	90,012	-	-
Loans	-	-	-	-

Bank loans

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

	PLN ths	
	2019	2018
Overdrafts	16,540	6,627
Bank loans	74,879	90,012
Total	**91,419**	**96,639**

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	75,000,000	PLN	-	PLN	-	Limit enabling the use of overdraft facility and execution of guarantees and letters of credit	0.00%	July 5, 2020	1. Blank promissory note with declaration 2. Declaration of submission to enforcement 3. Contractual right to deduct receivables 4. Floating charge on inventories of Vistula and Wólczanka brands 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 Manufaturing Sp. z o.o. and VG Property Sp. z o.o. 8. Trilateral agreement on card transactions payments 9. Transfer of rights from insurance policy
		47,600,000	PLN	27,600,000	PLN	27,180,476	Investment loan	3.79%	December 31, 2024	
mBank S.A.	Warsaw	19,000,000	PLN	-	PLN	-	Limit enabling the use of overdraft facility and execution of guarantees and letters of credit	0.00%	April 18, 2022	1. Assignment of receivables, 2. Five blank promissory notes, 3. Fixed charge on selected locations under Bytom brand
ING Bank Śląski S.A.	Katowice	40,000,000	PLN	-	PLN	-	Limit enabling the use of overdraft facility and execution of guarantees and letters of credit	0.00%	April 29, 2021	1. Assignment of receivables, 2. Receipts to a bank account, 3. Fixed charge on Bytom and Intermoda trademarks, 4. Fixed charge on selected locations of Bytom brand, 5. Transfer of rights from insurance policy 6. Declaration of submission to enforcement
Bank Handlowy S.A.	Warsaw	10,000,000	PLN	-	PLN	-	Limit enabling the use of supplier financing - earlier discount of invoices	0.00%	October 23, 2020	1. Declaration of submission to enforcement
Bank PKO BP S.A.	Warsaw	75,000,000	PLN	10,009,016	PLN	10,009,016	Limit enabling the use of overdraft facility and execution of guarantees and letters of credit	8.78%	July 9, 2020	1. Blank promissory note, along with a promissory note declaration 2. Fixed charge on "W.KRUK" trademark 3. Floating charge on Company's inventory 4. Guarantee of VRG S.A.

		71,400,000	PLN	41,400,000	PLN	40,746,925	Investment loan	3.91%	December 31, 2024	5. Trilateral agreement on credit card payments 6. Assignment of rights from the insurance policy 7. A declaration of submission to enforcement 8. Power of attorney given the bank to the bank account as well as other collateral determinable later.
		4,799,940	PLN	4,799,940	PLN	4,799,940	Revolving overdraft	1.95%	January 6, 2020	
Bank PKO BP S.A.	Warsaw	11,500,000	PLN	6,531,332	PLN	6,527,096	Overdraft	3.00%	June 25, 2020	1. Guarantee granted by VRG S.A 2. Floating charge on inventory 3. Mortgage 4. Transfer of rights from insurance policy
		2,000,000	PLN	191,000	PLN	190,732	Overdraft	11.00%	March 7, 2020	
Bank PKO BP S.A.	Warsaw	4,021,500	PLN	1,960,481	PLN	1,960,481	Investment loan	4.21%	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 policy and lease agreements for real estate and equipment lease

The Group has the following bank loans:

- a multi-purpose credit line in the amount of PLN 75,000 thousand authorizing the use of an overdraft facility up to the amount of PLN 27,000 thousand and enforcement of bank guarantees up to PLN 25,000 thousand and letters of credit up to PLN 30,000 thousand. The multi-purpose agreement was signed on 09.03.2015 and amended by annex dated 11.10.2019. The contract expires on 05.07.2020. The contract is secured with a blank promissory note together with a declaration of submission to enforcement, a contractual right of deduction of receivables, a floating charge on inventories of Vistula and Wólczanka brands, 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., assignment of receivables from the contract and transfer of rights under the insurance policy.
- investment loan in the amount of PLN 47,600 thousand. The contract was signed on 09.03.2015. Expiration will take place on 31.12.2024. The agreement is secured with a blank promissory note, 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., declaration of submission to enforcement, assignment of receivables and transfer of rights under the insurance policy.
- a multi-purpose credit line in the amount of PLN 40,000 thousand, within a multi-product agreement with ING Bank Śląski S.A. the Company may use the following products: overdraft up to PLN 13,000,000, line for letters of credit up to PLN 17,000,000, lines for bank guarantees up to PLN 9,000,000, discounting transactions in the form of reverse buy-out of claims in the amount of EUR 4,250,000, yet total indebtedness resulting from usage of the above credit products cannot exceed the limit set at PLN 40,000,000. Collateral in frames of the agreement encompasses: assignment of receivables, receipts to a bank account, fixed charge on Bytom and Intermoda trademarks, fixed charge on selected Bytom's locations, transfer of rights from insurance agreement and declaration of submission to enforcement.
- a multi-purpose credit line at mBank S.A. allowing to use an overdraft and execute letters of credit, while the total amount of indebtedness from the above mentioned products cannot exceed PLN 19,000,000. The multi-purpose agreement was signed from 23.04.2019 to 18.04.2022, was annexed 31.10.2019 increasing the limit and incorporating a factoring limit to EUR 2,200 thousand and USD 300 thousand. The agreement is secured

by: blank promissory note, floating charge on inventory in selected Bytom's locations, assignment of claims and transfer of rights from insurance policy.

- a multi-purpose credit line at mBank S.A. allowing to use an overdraft and execute letters of credit, while the total amount of indebtedness from the above mentioned products cannot exceed PLN 19,000,000. The multi-purpose agreement was signed from 23.04.2019 to 18.04.2022, was annexed 06.11.2019 increasing the limit and incorporating a factoring limit to EUR 2,200 thousand and USD 300 thousand. The agreement is secured by: five blank promissory notes, assignment of claims and fixed charge on selected Bytom's locations.
- contract for a line to finance suppliers up to PLN 10,000 thousand under a program enabling suppliers to discount invoices earlier than their due dates. The agreement was signed on 04.10.2019. The agreement is considered to be extended for further periods of 1 year, if any of the Parties does not terminate it no later than 1 month before the end of a given annual period of its validity. As at December 31, 2019 the line was not used.
- a multi-purpose credit line in the amount of PLN 75,000 thousand entitling to use the overdraft facility up to PLN 40,000 thousand and execution of bank guarantees up to PLN 25,000 thousand and letters of credit up to PLN 10,000 thousand. The multi-purpose agreement was signed on 09.03.2015. The agreement 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 VRG S.A., trilateral agreement on credit card payments, assignment of rights under the insurance policy, declaration on submission to enforcement and contractual set-off right.
- investment loan in the amount of PLN 71,400 thousand. The contract was signed on 09.03.2015. The agreement 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 VRG S.A., trilateral agreement on credit card payments, assignment of rights under the insurance policy, declaration on submission to enforcement as well as power of attorney given the bank to the bank account as well as other collateral determinable later.
- revolving overdraft for financing current liabilities related to operations in the amount of PLN 4,800 thousand initiated in 07.01.2019 in frames of multi-purpose credit line agreement signed 09.03.2015. Expiration will take place on 06.01.2020. 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 the company's inventory, guarantee given by VRG S.A., a trilateral agreement on credit card payments, transfer of rights from insurance policy, declaration on submission to enforcement as well as power of attorney given the bank to the bank account as well as other collateral determinable later.
- 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 25.06.2020. 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 set-off claims and assignment of rights under the insurance policy and lease contracts for real estate and equipment lease.

As at 31.12.2019, 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, 2019 to December 31, 2019, 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 31.12.2019, the balance in nominal value is EUR 1,000 thousand and USD 2,679 thousand once translated at the exchange rate of the transaction the value comes at PLN 14,525 thousand. As at the balance sheet date, the Group measures its transactions at fair value, the difference from the valuation in the amount of PLN 92,000 has been included in financial costs and other short-term liabilities.

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			
	2019		2018	
	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	20,650		24,493	
Cash and cash equivalents	25,280		33,523	
Long-term loan and lease liabilities		241,963		74,385
incl.:IFRS 16		*183,915*		
Short-term loan and lease liabilities		121,876		27,620

Balance sheet items	PLN ths			
	2019		2018	
	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost
incl.:IFRS 16		*84,424*		
Trade and other liabilities		192,973		192,996
Total	**45,930**	**555,812**	**58,016**	**295,001**

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					
	2019					
	Interest income	Interest expense	Profit / loss from valuation at amortized cost	Write-offs	Write-offs reversal	Profits / losses on exchange differences
Loans granted	-	-	-	-	-	1
Trade and other receivables	104	-	-	1,666	412	6
Cash and cash equivalents	8	4				38
Forward transactions			- 100			
Loan and lease liabilities		5,434	202			
IFRS 16 liabilities		4,249				2,357
Trade and other liabilities		224				10
Total	**112**	**9,911**	**102**	**1,666**	**412**	**2,412**

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

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
Total	**200**	**5,025**	**- 166**	**618**	**1,251**	**- 329**

Note 21 Other non-current assets

	PLN ths	
	2019	2018
ISO and Energy Audit	28	30
Total	**28**	**30**

Note 21a Other current assets

	PLN ths	
	2019	2018
Insurance	210	265
Fees and rental payments	623	467
Licenses	29	21
Prepayments for marketing services	1,870	884
ISO and Energy Audit	-	-
Consulting services	695	168
Other	46	78
Total	**3,473**	**1,883**

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:

	PLN ths			
	Balance sheet		Profit or loss statement	
	2019	2018	2019	2018
Deferred tax liabilities	**530**	**1 320**	**- 788**	**536**
Balance sheet valuation - positive exchange rate differences	143	52	93	- 75
Interest accrued on receivables	7	7	-	-
Property valuation	-	295	- 295	- 12
Net advances paid	72	85	- 13	- 120

	PLN ths			
	Balance sheet		Profit or loss statement	
	2019	2018	2019	2018
Valuation of loans at amortized cost	204	104	100	- 32
Valuation of Forward transactions	-	2	- 2	2
Accelerated tax depreciation	-	687	- 687	687
Fixed assets in lease	101	87	14	87
Other	3	1	2	- 1
Allocated to financial result	**530**	**1,320**	**- 788**	**- 258**
Allocated to goodwill	**-**	**-**	**-**	**794**
Deferred tax assets	**8,237**	**6,429**	**1 808**	**600**
Accelerated balance sheet depreciation	2,237	1,440	797	16
Post-employment benefits (severance pay)	24	60	- 36	- 28
Write-offs	1,737	1,090	648	- 165
Provisions, wages and social security	1,866	1,724	141	104
Balance sheet valuation - negative exchange differences	18	56	- 38	2
Losses carryforward	-	-	-	-
Write-off of receivables from customers	608	631	- 23	120
Accrued interest	-	-	-	- 2
Provision for future liabilities	969	819	150	448
Provision for future returns	357		357	
Forward transaction valuation	18		18	
Valuation of the loyalty program	403	609	- 206	105
Allocated to the financial result	**8,237**	**6,429**	**650**	**446**
Allocated directly to equity			**1,158**	**154**

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, 2019.

In the financial statements for 2019, the Group changed the presentation of assets and provisions for deferred income tax, therefore, in the statements for 2019, it adjusted the comparative data for 2018 - the balances of assets and provisions for deferred tax were offset. More explanatory information is included in note 33.

Note 23 Finance lease liabilities

Lease liabilities by maturity	PLN ths	
	2019	2018
Amounts payable in accordance with finance lease agreements relating to commercial premises and office space, including:	268,339	-
Up to 1 year	84,424	-

Lease liabilities by maturity	PLN ths	
	2019	2018
From year 2 to year 5	183,915	-
Above 5 years	-	-
Amounts payable in accordance with finance lease agreements relating to other contracts	4,081	5,366
Up to 1 year	1,884	1,739
From year 2 to year 5	2,197	3,627
Above 5 years	-	-
Discounted value of finance lease liabilities	**272,420**	**5,366**
The amounts due for settlement within 12 months (shown as short-term liabilities)	86,308	1,739
incl.: IFRS 16	*84,424*	-
The value of payments after 12 months (shown under long-term liabilities)	186,112	3,627
incl.: IFRS 16	*183,915*	-

All finance lease liabilities related to business cars are denominated in PLN, while leases related to commercial premises and office space are denominated in EURO and 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	
	2019	2018
Trade liabilities	108,468	121,754
Liabilities to related parties (note 42)	-	-
Tax, subsidies, customs, social security and other benefits liabilities	35,049	26,262
of which income tax liabilities	*9,150*	*4,897*
Financial liabilities (reverse factoring)	21,127	20,868
Deferred income liabilities	10,875	8,107
Other	16,183	15,829
Total short-term liabilities	**191,702**	**192,820**

Short-term liabilities (currency structure)	PLN ths	
	2019	2018
a) PLN	151,393	141,622
b) in foreign currencies (by currency and after conversion into PLN)	40,309	51,198
b1. in EURO thousands	2,277	5,577
PLN thousands	13,959	23,980

Short-term liabilities (currency structure)	PLN ths	
	2019	2018
b2. in USD thousands	5,218	5,355
PLN thousands	19,816	20,130
b3. in CHF thousands	1,544	1,682
PLN thousands	6,055	6,419
Other currencies in PLN thousands	479	669
Total short-term liabilities	**191,702**	**192,820**

Deferred revenue 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 2,122 thousand as at December 31, 2019 (as at December 31, 2018, PLN 3,206 thousand).

Note 24a. Finance liabilities by maturity

Finance liabilities by maturity	PLN ths	
	2019	2018
Amounts payable in accordance with finance lease agreements relating to commercial premises and office space, including:	268,339	-
Up to 1 year	84,424	-
From year 2 to year 5	183,915	-
Above 5 years	-	-
Amounts payable in accordance with finance lease agreements relating to other contracts	4,081	5,366
Up to 1 year	1,884	1,739
From year 2 to year 5	2,197	3,627
Above 5 years	-	-
Amounts payable according to bank loan agreements	91,419	96,639
Up to 1 year	35,568	25,881
From year 2 to year 5	55,851	70,758
Above 5 years	-	-
Amount payable from trade and other liabilities according to maturity	156,653	166,558
Up to 1 year	156,653	166,558
From year 2 to year 5	-	-
Above 5 years	-	-

There are no other financial liabilities with a maturity period of over 12 months.

Note 25 Provisions

	PLN ths					
	Provision for employment costs	Provision for legal disputes	Provision for work in progress (services of subcontrac-tors)	Returns from customers	Other	Total
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
Balance at January 1, 2019	**6,106**	**4,023**	**1,281**	**516**	**7**	**11,933**
– Merger of VRG S.A. and Bytom S.A.						
– provisions created during the financial year	2,692		276		19	2,987
– release / use of provisions	- 2,551	- 146			- 7	- 2,704
Balance at December 31, 2019	**6,247**	**3,877**	**1,557**	**516**	**19**	**12,216**
– allocated to short-term liabilities	5,125	3,877	1,557	516	19	11,094
– allocated to long-term liabilities	1,122	-	-	-	-	1,122

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 31.12.2019 consists of:

long-term provision for retirement benefits	PLN 1,123 ths	Total PLN 12,216 ths
short-term provision for retirement benefits	PLN 154 ths	
short-term provision for unused holidays	PLN 2,952 ths	
provision for bonuses	PLN 2,018 ths	
provision for returns from customers	PLN 516 ths	
short-term provision for sewing services	PLN 1,557 ths	
provision for legal disputes	PLN 3,877 ths	
other provisions	PLN 19 ths	

Provisions for retirement benefits are calculated by an independent actuary. The main actuarial assumptions that were used for calculations were: the discount rate of 2.0%, 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, 2019, all shares issued were fully paid up.

Kapitał akcyjny	PLN ths	
	2019	2018
Registered: 234,455,840 common shares PLN 0.20 each (year 2017: 179,194,964 common shares PLN 0.20 each)	49,122	49,122
Issued: 234,455,840 common shares PLN 0.20 each (year 2017: 179,194,964 common shares PLN 0.20 each)	49,122	49,122

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 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 2019.

Note 27 Reserve capital

	PLN ths
Balance at January 1, 2018	**13,729**
Increases due to stock option program valuation	239
Balance at December 31, 2018	**13,968**
Balance at January 1, 2019	**13,968**
Increases due to stock option program valuation	365
Balance at December 31, 2019	**14,333**

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 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, 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**
Balance at January 1, 2019	**742,007**
Merger of VRG S.A. and BTM2 Sp. z o.o. subsidiary	- 6,169
Surplus from sale of shares above their nominal value (agio)	

Net profit for the current year	63,993
Other	
Balance at December 31, 2019	**799,831**

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.

In 2019, in connection with the merger of VRG S.A. and the BTM2 subsidiary, the net assets of BTM 2 in the amount of PLN 6,169 thousand were excluded from consolidation and booked aa decrease in Bytom's goodwill, a detailed settlement is presented in note No. 34.

Note 29 Contingent receivables and liabilities

OFF-BALANCE SHEET ITEMS	PLN ths	
	2019	2018
- bank guarantees for store rental payments and guarantees for timely payment of trade liabilities	44,668	37,462
– open letters of credit	42,226	36,819
– promissory notes to secure lease liabilities	650	634
Total contingent liabilities	**87,544**	**74,915**

There are no contingent receivables in the Group.

Note 30 Share-based compensation

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.

The value of the stock option program was estimated using the Monte Carlo model amounted to PLN 2,675,618.31, i.e. PLN 0.48 per share, and is accounted for proportionally to the duration of the program, taking into account the likelihood of non-market conditions being met. Amount calculated with a 100% probability.

F-series subscription warrants were allocated to participants of the program in 2019.

Data necessary for stock option program valuation

	2019	2018
share price at grant date	4.48	-
exercise price	4.22	-
expected volatility	25%	-
expected life of the option (in months)	36	-
risk free rate	1.7%	-
expected dividend yield	0.00%	-

In accordance with the terms of the Incentive Program, the following criteria were set for allocation of 2,350,000 warrants for 2019:

a) the average annual percentage change in the Company's share price (understood as the average value of closing prices of the Company's shares on the Warsaw Stock Exchange) in the calendar year 2019 compared to the same average in the calendar year 2018, is higher by at least 7.5 points percentage from the average change in the percentage of the WIG Index (understood as the average value of the index closing price) for the same period - 50% of the tranche is entitled to this criterion.

b) the value of the operating profit achieved by the Company indicated in the audited consolidated financial statement increased by depreciation (EBITDA) determined on the basis of the annual consolidated financial statement audited by the audit firm may not be lower than PLN 130,000,000 - 25% of the tranche is entitled to implement this criterion.

c) the value of the net profit achieved by the company, disclosed in the consolidated profit and loss account of the Company audited by the auditing company, cannot be lower than PLN 78,000,000 - 25% of the tranche is entitled to this criterion.

When determining the net profit and EBITDA, one-off transactions, the impact of IFRS 16 on the financial result and retail tax, if will be introduced, are excluded.

According to the financial data for 2019, the conditions and criteria on which the launch of the second tranche of warrants depends are not met.
In 2019, the amount of PLN 364 thousand was charged to overheads due to the valuation of the incentive program (in 2018: PLN 239 thousand).

Note 31 Significant events in 2019

Important events were described in the Report of the Management Board of the Capital Group.

Note 31a Events after the balance sheet date

24.01.2020

Convening the Extraordinary General Meeting of VRG S.A. for February 20, 2020

In Current Report 4/2020, the Company's Management Board, taking into account the fact that on January 24, 2020 it received a letter dated January 24, 2020, together with attachments from Nationale-Nederlanden PTE S.A. acting on behalf of Nationale-Nederlanden Open Pension Fund with a request to convene an Extraordinary General Meeting of VRG S.A. at its registered office in Cracow as soon as possible - published the announcement on convening the Extraordinary General Meeting of the Company on February 20, 2020 at 12.00 at the Company's headquarters in Cracow at Pilotów 10 (31-462 Cracow) with the agenda including the point regarding changes in the Company's Supervisory Board and draft resolutions of the Extraordinary General Meeting together with the justification provided by Nationale-Nederlanden PTE S.A. acting on behalf of Nationale-Nederlanden Open Pension Fund.

20.02.2020

Resolutions adopted by the Extraordinary General Meeting of VRG S.A. on February 20, 2020

In current report 4/2020, the Group published the content of resolutions adopted by the Extraordinary General Meeting of the Company on February 20, 2020 ("General Meeting") together with information on objections raised. At the same time, the Group informed that the General Meeting made the following changes in the composition of the Company's Supervisory Board of the current joint term:

a) Pursuant to Resolution No. 03/02/2020 of the General Meeting regarding changes in the composition of the Company's Supervisory Board, Mr. Artur Małek was dismissed from the Company's Supervisory Board.

b) pursuant to Resolution No. 04/02/2020 of the General Meeting regarding changes in the composition of the Company's Supervisory Board, Jan Pilch was dismissed from the Company's Supervisory Board.

c) Pursuant to Resolution No. 05/02/2020 of the General Meeting regarding changes in the composition of the Company's Supervisory Board, Mr. Piotr Nowjalis was appointed to the Company's Supervisory Board.

d) on the basis of Resolution No. 06/02/2020 of the General Meeting regarding changes in the composition of the Company's Supervisory Board, Mr. Piotr Stępniak was appointed to the Company's Supervisory Board.

e) Pursuant to Resolution No. 07/02/2020 of the General Meeting regarding changes in the composition of the Company's Supervisory Board, Mr. Grzegorz Janas was appointed to the Company's Supervisory Board.

16.03.2020

Information on the impact of coronavirus effects on the operations of the Company and the Company's Capital Group

In the current report No. 15/2020 of March 16, 2020, in connection with the published recommendation of the European Securities and Markets Authority ESMA of March 12, 2020, the Company informed about the possible impact of the coronavirus epidemic on the operations of the Issuer's Capital Group.

Przychody ze sprzedaży w kanale e-commerce w okresie I kwartału 2019 roku wyniosły 15,5%, natomiast Emitent szacuje, że w okresie I kwartału 2020 roku wyniosą około 24% przychodów ze sprzedaży Grupy Kapitałowej Emitenta ogółem.

To the best of our knowledge, the Company expects that the effects of the coronavirus epidemic will have a significant negative impact on the its future financial results. In particular, the Company indicates that restrictions on the operation of commercial facilities introduced by the Minister of Health, in which Vistula, W.KRUK, Bytom, Wólczanka and Deni Cler stores are located, pose a very high risk of negative impact on the financial result of the Company and the Company’s Capital Group in during the first quarter and depending on the duration of the restrictions associated with the coronavirus epidemic, also for a later period. In the Company's opinion, closing down of shopping malls related to the coronavirus epidemic will reduce consolidated revenues of the first quarter of 2020, which should amount to about PLN 190 million, i.e. 11% less than in the previous year. In this situation, the Company's Capital Group focuses its activities on intensifying sales in on-line stores of the above-mentioned brands. E-commerce revenues constituted some 15.5% of 1Q19 sales, while the Company estimates that in the first quarter of 2020 they will amount to some 24% of total Group revenues.

The risk related to the possible negative impact of the coronavirus epidemic on the current stocking of traditional stores and the availability of offers in on-line stores is rated by the Company as low. In the Company's opinion, the inventory of the Capital Group in the apparel segment (Vistula, Bytom, Wólczanka and Deni Cler brands) and in the jewellery segment (W.KRUK brand) allow for full availability of the product offer in on-line stores and in traditional stores (after lifting restrictions in operations of shopping malls) until the end of the current half-year. As at the date of publication of this report, the Company has not identified significant risks in terms of breaching the supply chain of the apparel and jewellery segment on the domestic and foreign markets.

The Company's Management Board analyses the situation of the companies of its Capital Group on an ongoing basis in relation to the spread of the coronavirus and the possible impact on current operating activities and the results of the Company and the Capital Group.

In this situation, the Capital Group has taken a number of actions, including:

a) intensification of sales in on-line stores of the abovementioned brands. Revenues from sales in the e-commerce channel in the period of the first quarter of 2019 amounted to 15.5%, while the Company estimates that in the period of the first quarter of 2020 they will amount to approximately 24% of total revenues from sales of the Capital Group,

b) optimization of order volumes for the second half of this year to minimise the costs of operations,

c) interventions regarding payment of rents for stores - renegotiation of rental agreements,

d) payments for goods according to modified purchase plans,

e) talks are held with banks that finance the operations of the Company and group companies,

f) analysis of available limits of available cash,

g) strict cash management.

The above assessment of the Company results from the best knowledge of the Company as at the date of these financial statements. As of today, it is not possible to accurately estimate the impact of sales restrictions on the Company and Capital Group as a result of the temporary closure of traditional stores located in shopping malls in the long term. The impact of the spread of the coronavirus in epidemic conditions on the financial results of the Company and the Capital Group depends on a number of factors that are beyond the direct influence and control of the Company.
Assuming that the period of the epidemic will be longer or in a situation where negative effects will take place after the end of the epidemic, further solutions have been prepared to reduce the liquidity risk.

According to the Management Board, the current situation is sufficiently monitored and controlled. Considering the actions taken, the Company's Management Board is convinced of the positive results of the above-described actions.

The Management Board will analyse the situation of the Company and its Capital Group on an ongoing basis in relation to the spread of the coronavirus and the possible impact on current operating activities and the results of the Company and the Capital Group. New circumstances and events, which in the opinion of the Company's Management Board will have a particularly significant impact on the generated financial results and the current operating situation of the Company and the Capital Group, will be made public in current reports in the manner provided for by the applicable provisions on the implementation of disclosure obligations public companies.

Additional explanatory information on the risks related to the effects of the coronavirus outbreak is provided in section 10, Significant Risks Factors.

25.03.2020

Notification regarding a significant block of shares

In current report no. 16/2020 VRG S.A. informed that it received from IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw ("the Fund"), information dated March 25, 2019 sent pursuant to art. 69 clause 1 point 1 and art. 87 paragraph 1 point 2 of the Act of July 29, 2005 on public offerings and conditions governing the introduction of financial instruments to organized trading, and on public groups that IPOPEMA 21 FIZ of Non-Public Assets fund managed by the Fund as a result of transactions carried out on the regulated market on March 17, 2020 and settled on March 19, 2020, the share of funds managed by the Fund in the total number of votes in the Company increased above the 15% threshold in the total number of votes in the Company.

Before the abovementioned event, all funds managed by the Fund held a total of 34,899,415 shares of the Company, which constituted 14.89% of the Company's share capital and gave 34,899,415 votes, which constituted 14.89% of the total number of votes at the Company’s General Shareholder Meeting.

After the abovementioned event, all funds managed by the Fund hold in total 35,918,372 shares of the Company, which constitutes 15.32% of the share capital of the Company and gives 35,918,372 votes and constitutes 15.32% in the total number of votes at the Company's General Shareholder Meeting.

At the same time, the Fund informed that the managed funds do not have financial instruments referred to in Article 69 b para. 1 of the Act.

Note 32 Related party transactions

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

	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	
	2019	2018	2019	2018	2019	2018	2019	2018
Vistula Market Sp. z o.o.	-		-		1,983	1,983		
DCG SA	24	16	-		19			
VG Property Sp. z o.o.	4	4	168	143	3		39	33
W.KRUK SA	5,958	7,270	32	19	706	718		
Wólczanka Shirts Manufacturing Sp. z o. o.	75	656	2,836	5,103	856	773	41	159
BTM 2 Sp. z o. o	7	-	561	-	-	17	-	998
Total	**6,068**	**7,946**	**3,597**	**5,265**	**3,567**	**3,491**	**80**	**1,190**
Balance of write-offs					- 1,983	- 1,983		
Amounts due from related parties net					**1,584**	**1,508**		

The Group includes BTM 2 Sp. z o.o. data for the first half of 2019, i.e. until the date of the merger with VRG S.A. on 01.07.2019

The costs of products, goods and services sold amounted to PLN 1,227 thousand (year 2018: PLN 1,546 thousand).

Financial income amounted to PLN 3 thousand (2018: PLN 2 thousand), and financial costs amounted to PLN 0 (2018: PLN 102 thousand).

Other operating income amounted to PLN 0 (2018: PLN 0 thousand), while other operating expenses amounted to PLN 0 (2018: 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 31.12.2019 amount to PLN 585 thousand (as at 31.12.2018: PLN 262 thousand), these receivables were written-off as at December 31, 2019 in the amount of PLN 227 thousand (as at 31.12.2018: PLN 227 thousand).

Liabilities due to loans received from related entities as at 31.12.20189amount to PLN 0 thousand (as at 31.12.2018: PLN 511 thousand).

Other receivables from related parties as at December 31, 2019 amount to PLN 4,300 thousand (as at 31.12.2018: PLN 4,400 thousand), these receivables were covered by write-off as at 31.12.2019 in the amount of PLN 4,300 thousand (as at 31.12.2018: PLN 4,300 thousand).

Receivables are not secured and their repayment is to be made in cash. As at December 31, 2019, write-offs for receivables from related parties amounted to PLN 6,510 thousand (2018: PLN 6,510 thousand). In 2019, write-offs were created for the amount of PLN 0 thousand, and released in the amount of PLN 0 thousand.

Parties and persons related to the Company's key managing personnel as at December 31, 2019.

- Cliffsidebrokers S.A. – related with a member of the Supervisory Board, Mr Jerzy Mazgaj; entity providing brokerage services for VRG S.A., W.Kruk and DCG
- Premium Cigars Sp. z o.o.– associated with a member of the Supervisory Board, Mr. Jerzy Mazgaj and Members of the Board of W.Kruk, Mr. Radosław Jakociuk and Łukasz Bernacki acting as Members of the Supervisory Board.
- Doksa Sp. z o.o. – associated with a member of the Supervisory Board, Mr. Jan Pilch; entity renting office space for VRG S.A.,
- Mazgaj Barbara – related with a member of the Supervisory Board, Mr Jerzy Mazgaj; Member of the Supervisory Board W.Kruk and DCG S.A.

In 2019, the Group concluded transactions with parties on which it has a significant influence 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., 2019 total gross turnover amounted to PLN 10 thousand,
- Doksa Sp. z o.o., 2019 total gross turnover amounted to PLN 665 thousand,
- Mazgaj Barbara – remuneration from W.Kruk supervisory board amounted to PLN 186 thousand for 2019 and for DCG S.A. supervisory board PLN 120 thousand.

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

In 2019, the Parent Company did not grant any additional guarantees to its subsidiaries.

As at 31.12.2019, 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:

- 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 2019, the Group made changes specified in the provisions of IAS 8 'Accounting principles, changes in estimates and correction of errors'.

The Group in the financial statements for 2019 has changed the presentation of assets and provisions for deferred income tax, therefore, in the statements for 2019, it adjusts comparable data for 2018. In accordance with the guidelines contained in the Interpretation of the International Financial Reporting Interpretation Committee No. 13, the presentation in the statement of financial position was adjusted in the form of a decrease in the amount of the asset and the deferred tax liability. As a result of the above adjustment, assets and liabilities decreased by PLN 1,320 thousand.

Note 34 Settlement of the merger of VRG S.A. and Bytom S.A. and the subsidiary BTM 2 Sp. z o.o.

In accordance with art. 493 § 2 of the Code of Commercial Companies, the merger of companies takes place on the date of entering the merger into the appropriate register according to the registered office of the Acquiring Company, i.e. on July 1, 2019. This entry results in the effect of removal from the register of the Acquired Company, i.e. BTM 2 Sp. z o.o.
Pursuant to art. 494 of Code of Commercial Companies the Company is the legal successor of BTM 2 Sp. z o.o., i.e. on the day of the merger it entered into all rights and obligations of BTM 2 Sp. z o.o. as the Acquired Company. The merger took place on the basis of art. 492 § 1 item 1) of the Code of Commercial Companies by transferring all assets of the Acquired Company to the Acquiring Company.

Due to the fact that the Company as the Acquiring Group was the sole shareholder of the Acquired Company and owned 100% of shares in the Acquired Company's share capital, the merger took place in a simplified mode and pursuant to art. 515 § 1 of the Code of Commercial Companies, the merger was carried out without increasing the Company's share capital as the acquiring company and without taking up any shares in the share capital of the Acquiring Company by the partners of the Acquired Company. Due to the lack of increase of the Company's share capital and the fact that the merger does not cause new circumstances requiring disclosure in the Company's Articles of Association, no changes have been made to the Company's Articles of Association in connection with the merger.

	PLN ths
Net assets acquired:	
Fixed assets	
Trademark	
Other intangible assets	
Long-term receivables	
Long-term investments	63,056
Deferred tax assets	
Other fixed assets	
Inventory	
Trade receivables	1,430
Other receivables	23
Loans granted	517
Cash and equivalents	2,969
Other current assets	619
Retirement provision	

Deferred tax provision	
Other provisions	
Trade liabilities	- 1
Tax liabilities	- 93
Bank loans	
Finance liabilities	
Finance lease liabilities	
Other liabilities	- 28
Net assets	**68,492**

The merger was carried out using the acquisition method.

Establishing goodwill value:

	PLN ths
Fixed assets	63,056
Current assets	5,558
Sum of assets valued at fair value	**68,614**
Minus liabilities	- 122
Net assets of the acquired company	**68,492**
Exclusion of trademark leasing	-61,160
Bytom trademark valuation	79,504
Total purchase price	- 65,551
Badwill	21,285

Merger of VRG S.A. and BTM 2 Sp. z o.o. was included in the financial statements taking into account the economic combination of entities (establishment of control), i.e. on 30.11.2018 as a result of the merger of VRG S.A. and BYTOM S.A . This means that book values of VRG S.A.'s assets and liabilities were added to the book values of the respective assets and liabilities of the acquired company BTM 2 Sp. z o.o., after making appropriate adjustments (e.g. reciprocal transactions, valuation adjustments related to the taking over control, adjustments for intragroup transactions).

Negative goodwill was booked as a reduction of BYTOM's goodwill.

Below are the changes in individual items in the consolidated statement of financial position of the Group as at 01.07.2019 in connection with the merger of the parent company VRG S.A. with the subsidiary BTM 2 Sp. z o. o.

Item	PLN ths		
	Balance at 01.07.2019 before the merger	Changes in consolidated statement of financial position as a result of merger between VRG and BTM 2	Balance at 01.07.2019 after the merger
Fixed assets, including:	**876,952**	**- 6,606**	**870,346**
Goodwill	324,033	- 21,385	302,748
Other intangibles	183,088	14,001	197,089
incl.: BYTOM trademark valuation	*65,503*	*14,001*	*79,504*
Deferred tax asset	7,416	678	8,094
Current assets, including:	**563,588**	**- 43**	**563,545**
Trade receivables and other, total	30,629	- 43	30,586
Assets total	**1,440,540**	**- 6,649**	**1,433,891**
Equity	**826,994**	**- 6,169**	**820,825**
incl.: retained earnings	*742,008*	*- 6,169*	*735,839*
Deferred tax liability	**939**	**- 480**	**459**

Liabilities and provisions, total	**613,546**	**- 480**	**613,066**
Liabilities and equity, total	**1,440,540**	**- 6,649**	**1,433,891**

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
BTM 2
registered
July 1, 2019

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

In 2019, the Group did not issue, redeem or repay equity securities.

6. Paid and declared dividends

In 2019, the Group did not pay or declare dividend payment. There is no preference for shares regarding 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 31.12.2019, there were no other guarantees.

9. Remuneration of Parent Company Management and Supervisory Board for 2019

Management Board

		PLN ths
Grzegorz Pilch	President of the Management Board	2,031
Michał Wójcik	Vice-President of the Management Board	1,076
Mateusz Żmijewski	Vice-President of the Management Board	1,193
Erwin Bakalarz	Member of the Management Board	365
Total		**4,665**

Supervisory Board

		PLN ths
Jerzy Mazgaj	Chairman of the Supervisory Board	267
Artur Małek	Member of the Supervisory Board	140
Katarzyna Basiak- Gała	Member of the Supervisory Board	58
Grażyna Sudzińska-Amroziewicz	Member of the Supervisory Board	154
Andrzej Szumański	Member of the Supervisory Board	123
Maciej Matusiak	Member of the Supervisory Board	58
Jan Pilch	Member of the Supervisory Board	154

Piotr Kaczmarek	Member of the Supervisory Board	74
Paweł Tymczyszyn	Member of the Supervisory Board	74
Total		**1,102**

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

The total remuneration for 2019 amounted to PLN 692 thousand, including:

Jerzy Mazgaj	-	PLN 368 ths
Jan Pilch	-	PLN 175 ths
Grzegorz Pilch	-	PLN 74 ths
Michał Wójcik	-	PLN 1 ths
Mateusz Żmijewski	-	PLN 74 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 30 of the financial statements. The managing persons are entitled to the benefits specified in the employment contracts.

10. Significant risk factors

Below 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.

Foreign exchange risk and risk related to hedging policy

The Group generates revenues mainly in PLN, but incurs significant costs in EUR and US dollar, which results in the financial result being exposed to exchange rate risk. In periods of weakening of PLN in relation to the main settlement currencies, the Group incurs higher costs due to exchange rate differences.

In currencies other than PLN, the Group bears the costs of (a) purchasing production materials (fabrics, accessories) and supplementary assortments in the apparel segment (shoes, knitwear, leather accessories and other) and (b) arising from commercial space lease agreements.

In the event of a significant and long-term weakening 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 Group.

Based on the sensitivity analysis carried out:

- an average annual increase of USD to PLN by 1.0% will result in a decrease in the financial result by 2.1%.
- an average annual increase of EUR to PLN by 1.0% will reduce the financial result by 2.6%.

Actions: In recent years, the Group has taken actions to limit the impact of an increase in the exchange rate on the level of the "in take" margin achieved mainly in relation to the USD / PLN exchange rate. The above changes involve the implementation of a hedging policy that is expected to significantly reduce the risk of possible USD strengthening, which could have a significant negative impact on the Group's margin. The forward contracts concluded are related to individual deliveries of goods, particularly in the fashion area and do not relate to the neutralization of any risk related to the increase in rents due to the change in the EUR/PLN exchange rate. However, it should be noted that while the hedging policy is to protect the parent company against the risk of a significant depreciation of the zloty, especially in the USD/PLN area, at the same time, if the trend is reversed and the Polish currency is significantly strengthened, it may have a negative impact on the achieved financial results. This impact will be visible in the valuation of currency liabilities related to concluded forward transactions.

Interest rate risk

As at December 31, 2019, the Group had liabilities measured at amortized cost of PLN 121,876 thousand due to loans taken. Therefore, the Group is exposed to interest rate risk due to a change in the valuation of debt based on a variable interest rate. An increase in the level of interest rates may increase the cost of financing and thus reduce the Group's profitability. Based on the sensitivity analysis, the average annual increase in the base interest rate by 10% will reduce the financial result by 0.04%.

Actions: with relatively low debt (net debt / Ebitda is 0.8) the Company now considers this risk as low. It constantly monitors the market situation, but currently does not take additional actions to hedge the interest rate risk.

Liquidity risk

The Group has liabilities under loan agreements. Consequently, collateral covering a significant portion of the property was established. The above obligations are handled primarily using current operating revenues.

In the extreme case of a sharp, simultaneous decrease in demand and an increase in costs (especially in the situation of a deep weakening of the zloty), the Group may experience difficulties in maintaining financial liquidity. An additional negative factor affecting the risk of loss of liquidity is the current situation, described in the item above, related to the epidemic of coronavirus and temporary loss of revenues of the Group.

Actions: The Group constantly monitors its liquidity position by analyzing the volume of revenues and liabilities due. In addition, in the current situation, the Group has taken active measures to improve financial liquidity and to protect cash in individual Group companies. The Group carries out activities to optimize the volume of orders for the second half of this year and to minimize the costs of its operations, in particular, it undertook activities related to rental renegotiations and reduction of HR costs. In addition, talks are held with banks that finance the operations of the Company and companies from the capital group.

One of the main goals for 2020, which is closely related to current activities related to securing the financial liquidity of the Group, will be the improvement of working capital utilization efficiency, which we intend to achieve by decreasing the level of inventories year by year, changing the structure of financing purchases (introducing longer payment terms by the end of 2020 for 90% of supplies from the Asian market, reaching for alternative sources of financing, among others, through increased use of reverse factoring).

Assuming that the period of the epidemic will be longer or in a situation where negative effects will take place after the end of the epidemic, further solutions have been prepared to reduce the liquidity risk.

According to the Management Board, the current situation is sufficiently monitored and controlled. Considering the actions taken, the Company's Management Board is convinced of the positive results of the above-described actions.

Information on liabilities and their maturity dates is presented in Note 24a of the Consolidated Financial Statements. Information on credit lines from which these obligations will be settled is described in Note 19 Bank loans.

Risk related to effects of coronavirus epidemic

In emergency situations, such as an epidemic, there may be state ordinances regarding the functioning of business entities, as well as changes in consumer behavior and preferences. In order to counteract the effects of such phenomena, actions may be taken on the part of government administration, local governments or other social groups that will affect the Company's operations.

According to the current assessment, the Company anticipates that the effects associated with the coronavirus epidemic will have a significant negative impact on the Company's future financial results. In particular, the Company indicates that restrictions on the operation of commercial facilities introduced by the Minister of Health, with a sales area over 2,000 m2, in which over 95% of Vistula, W.KRUK, Bytom, Wólczanka and Deni Cler stores are located, pose a very high risk of negative impact on the financial result of the Company's Capital Group during the first quarter and depending on the duration of restrictions related to the coronavirus epidemic, also for a further period. In the Company's opinion, the closing down of shopping malls related to the coronavirus epidemic will reduce consolidated revenues in the first and second quarter of 2020. In addition, the Company expects that due to deterioration of social sentiment associated with the epidemic and the expected decrease in consumption also in the period after the reopening of shopping malls, demand will be lower year-on-year, which will translate into lowering of Company's revenues in subsequent periods.

The above assessment results from the Company's best knowledge as at the date of the annual report. An accurate estimate of the impact of sales restrictions due to the temporary shut down of traditional stores located in shopping malls is impossible in the long term. The impact of coronovirus spread in epidemic conditions on financial results depends on a number of factors that are beyond the direct influence and control of the Company. However, any protracted restrictions on store openings in shopping centers will undoubtedly translate into a decrease in sales revenues and deterioration of the Group's financial standing, and their possible long-term nature may affect the risk of continuing operations.

Actions: In this situation, the Group focuses its activities on intensifying sales in on-line stores of the above-mentioned brands. The Group carries out activities to optimize the order volume for the second half of this year and to minimize the costs of its operations, in particular, it undertook activities related to rentals' renegotiation and the reduction of HR costs. In addition, talks are held with banks that finance the operations of the Company and its companies from the capital group.

Assuming that the period of the epidemic will be longer or in a situation where negative effects will take place after the end of the epidemic, further solutions have been prepared to reduce the liquidity risk.

According to the Management Board, the current situation is sufficiently monitored and controlled. Considering the actions taken, the Company's Management Board is convinced of the positive results of the above-described actions.

Other significant risk factors are listed and described in the Capital Group Report of Operations.

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

In 2019, there were no circumstances that could significantly worsen the staff, property and financial position and financial results of the Group or that could jeopardize its ability to meet its obligations.

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**	**Management board Member**

Signature of the person entrusted

with bookkeeping

Alicja Weber

…...................

Chief Accountant

Cracow, March 30, 2020

VRG Spółka Akcyjna
Pilotów 10 St.
31-462 Cracow

www.vrg.pl

VRG
VISTULA RETAIL GROUP

VISTULA WÓLCZANKA BYTOM W.KRUK DENI CLER

VRG
VISTULA RETAIL GROUP

www.vrg.pl

REPORT OF THE MANAGEMENT BOARD ON OPERATIONS

of VRG S.A. Capital Group in 2019

Cracow, March 30, 2020

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.)**
2019	**Merger with BTM 2 Sp. z o.o.**

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 2019, the composition of the Management Board of VRG S.A. was as the following:

Management Board		
	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

The following changes occurred in the composition of the Company's Management Board during 2019:

On December 30, 2019, the Company received a statement from Mr. Mateusz Żmijewski, Vice President of the Company's Management Board, on his resignation from his function on the Company's Management Board with effect as of March 31, 2020.

In the period from December 31, 2019 to the date of approval of these financial statements, the composition of the Management Board did not change.

Supervisory Board

As at December 31, 2019, the composition of the Supervisory Board of VRG S.A. was as follows:

Supervisory Board			
	Jerzy Mazgaj Chairman of the Supervisory Board		
	Artur Małek Member of the Supervisory Board	**Paweł Tymczyszyn** Member of the Supervisory Board	**Piotr Kaczmarek** 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 January 1, 2019 to December 31, 2019, the following changes took place in the composition of the Supervisory Board:

- on April 9, 2019, the parent company received a statement from Katarzyna Basiak-Gała on resignation from the function of a member of the Company's Supervisory Board on the day of the Company's next General Meeting of Shareholders.

- on June 17, 2019, the General Meeting adopted the following resolutions regarding changes in the composition of the Company's Supervisory Board during the current joint term of office:

a) pursuant to Resolution No. 20/06/2019 of the General Meeting regarding the dismissal of a member of the Company's Supervisory Board, Mr. Maciej Matusiak was dismissed from the Company's Supervisory Board of the current joint term of office.

b) pursuant to Resolution No. 21/06/2019 of the General Meeting regarding the appointment of a member to the Company's Supervisory Board, Mr. Piotr Kaczmarek was appointed to the Company's Supervisory Board for the period of the current joint term of office.

c) on the basis of Resolution No. 22/06/2019 of the General Meeting regarding the appointment of a new member of the Company's Supervisory Board, Mr. Paweł Tymszyszyn was appointed to the Company's Supervisory Board for the current joint term of office.

In the period from the balance sheet date, i.e. 31.12.2019 to the date of signing this report, the above composition of the Company's Supervisory Board has changed as follows.

- on February 19, 2020, Ms Grażyna Sudzińska-Amroziewicz submitted a statement of resignation from the function of a member of the Supervisory Board of VRG S.A. and as a consequence of membership in committees operating within the Supervisory Board of VRG S.A.

- on February 20, 2020; The Extraordinary General Meeting of VRG S.A adopted the following resolutions regarding changes in the composition of the Company's Supervisory Board of the current joint term:

a) Pursuant to Resolution No. 03/02/2020 of the General Meeting regarding changes in the composition of the Company's Supervisory Board, Mr. Artur Małek was dismissed from the Company's Supervisory Board.

b) pursuant to Resolution No. 04/02/2020 of the General Meeting regarding changes in the composition of the Company's Supervisory Board, Jan Pilch was dismissed from the Company's Supervisory Board.

c) Pursuant to Resolution No. 05/02/2020 of the General Meeting regarding changes in the composition of the Company's Supervisory Board, Mr. Piotr Nowjalis was appointed to the Company's Supervisory Board.

d) on the basis of Resolution No. 06/02/2020 of the General Meeting regarding changes in the composition of the Company's Supervisory Board, Mr. Piotr Stępniak was appointed to the Company's Supervisory Board.

e) Pursuant to Resolution No. 07/02/2020 of the General Meeting regarding changes in the composition of the Company's Supervisory Board, Mr. Grzegorz Janas was appointed to the Company's Supervisory Board.

As at the date of signing these financial statements, the composition of the Supervisory Board of VRG S.A. was as follows:

Supervisory Board	**Jerzy Mazgaj** Chairman of the Supervisory Board		
	Grzegorz Janas Member of the Supervisory Board	**Piotr Kaczmarek** Member of the Supervisory Board	**Piotr Nowjalis** Member of the Supervisory Board
	Piotr Stępniak Member of the Supervisory Board	**Andrzej Szumański** Member of the Supervisory Board	**Paweł Tymczyszyn** Member of the Supervisory Board

1.3. Approval of financial statements

These consolidated financial statements have been approved for publication and signed by the Management Board of the Parent Company on March 30, 2020.

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 2019.

However, in the current situation related to the coronavirus pandemic - i.e. with shopping malls closed until further notice and thus with loss of over 80% of the revenues of the Capital Group companies, the Management Board of the Company underlines the existence of significant uncertainty in this matter arising from events occurring after the balance sheet, which in the longer term may threaten the continuation of operations of the Capital Group companies.

This threat, in the event of adverse circumstances, which the Management Board of the Company is not able to assess, may cause a reduction in the scope of conducted operations, which in effect may affect the adopted going concern assumption. The Management Board of the Company has taken measures to limit the impact of the epidemic on the financial situation of the companies of the Capital Group. Detailed information on this subject is included in note 31a 'Events after the balance sheet date' and the description of risks in consolidated financial statements, as well as in the description of risks and in the item 'Planned development activities' in the Management Board's report on operations of the Capital Group.

2. PRINCIPLES FOR PREPARATION OF 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 2019 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.

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 2019 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, 2019 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, 2018 contained in these financial statements were audited for the purpose of 2018 report.

The entity authorized to audit financial statements in the scope of the separate and consolidated financial statements for 2019 was Mazars Audyt Sp. z o.o., with which on June 19, 2017 a contract was concluded (amended by annex no 1 dated June 19, 2018 and annex no 2 dated August 7, 2019) 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 2018 was also Mazars Audyt Sp. z o.o. The total remuneration resulting from contracts concluded for the review and audit of separate financial statements for 2019 amounted to PLN 105 ths and for 2018 amounted to PLN 80 ths.

In 2019, Mazars Audyt Sp. z o. o. did not conclude any agreements with the Capital Group other than those covering the audit of the annual financial statements and review of the interim financial statements. In 2018, the total remuneration for contracts for the verification of compliance of the financial ratios indicated in the Parent Company's and W.KRUK S.A. credit agreements, as well as for the audit of the pro-forma statements attached to the Parent Company's memorandum, amounted to PLN 41 ths.

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

The financial statements are prepared for the period of 2019, in which the merger took place - merger of VRG S.A. with a subsidiary BTM 2 Limited liability company with its registered office in Cracow, entered into the Register of Entrepreneurs of the National Court Register under the number KRS 0000605215 - "Acquired Company", which previously became part of the Company's capital group as a result of the merger of BYTOM S.A. with the Company. In accordance with art. 493 § 2 of Code of Commercial Companies, the merger of companies takes place on the date of entering the merger into the appropriate register according to the registered office of the Acquiring Company, i.e. on July 1, 2019. This entry results in the effect of removal from the register of the Acquired Company, i.e. BTM 2 Sp. z o.o.

Pursuant to art. 494 of Code of Commercial Companies the Company is the legal successor of BTM 2 Sp. z o.o., i.e. on the day of the merger he entered into all rights and obligations of BTM 2 Sp. z o.o. as the Acquired Company. The merger took place on the basis of art. 492 § 1 item 1) of Code of Commercial Companies by transferring all assets of the Acquired Company to the Acquiring Company.

Due to the fact that the Company as the Acquiring Company was the sole shareholder of the Acquired Company and had 100% of shares in the Acquired Company's share capital, the merger took place in a simplified mode and pursuant to art. 515 § 1 of the Code of Commercial Companies, the merger was carried out without increasing the Company's share capital as the Acquiring company and without taking up any shares in the share capital of the Acquiring Company by the partners of the Acquired Company. Due to the lack of increase of the Company's share capital and the fact that the merger does not cause new circumstances requiring disclosure in the Company's Articles of Association, no changes have been made to the Issuer's Articles of Association in connection with the merger. Detailed information on the merger is provided in note 34.

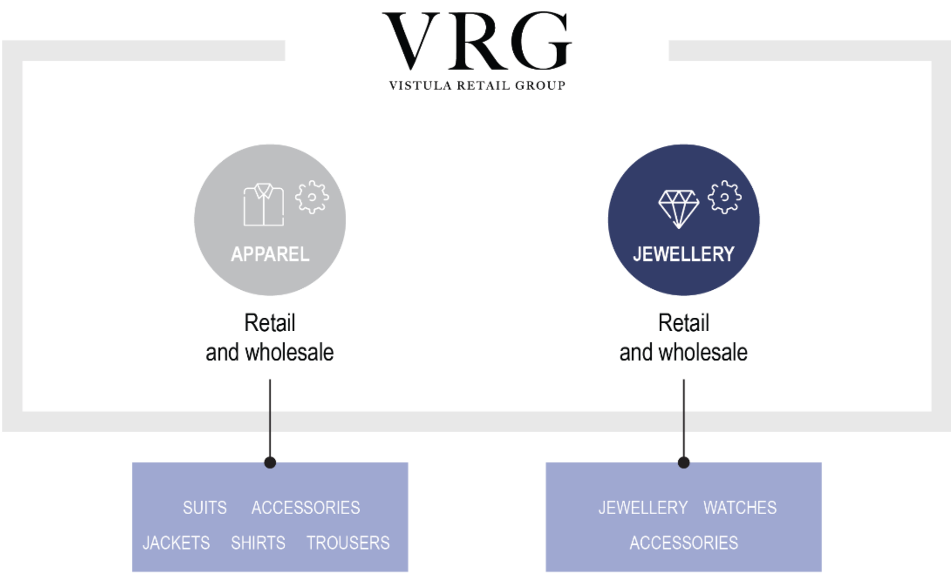
The accounting principles (policies) adopted in these consolidated financial statements were applied on a continuous basis and they are consistent with the accounting principles applied in the last annual consolidated financial statements.

In 2019, there were no significant changes in the basic management principles of the Company's enterprise 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 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, 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	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 VISTULA FINE TAILORING	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 Bytom business line:

Bytom	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 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.
	Intermoda	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.

Leading brands of the Wólczanka business line:

Wólczanka	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. The complementary assortment of the Wólczanka brand are sweaters, polo shirts and, from Spring/Summer 2019, men's chinos.

	LAMBERT LONDON STYLE SHIRTING	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.

The Company 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.

Other own brands in the apparel segment:

Apparel segment	DENI CLER MILANO	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.

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:

Jewellery segment	W.KRUK 1840	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. W.KRUK jako pierwsza sieć salonów jubilerskich na polskim rynku w 2019 roku wprowadziła do oferty sprzedażowej nową kategorię diamentów stworzonych przez człowieka w warunkach laboratoryjnych pod nazwą własną – New Diamond by W.KRUK. Posiadają one parametry identyczne jak diamenty wydobywane metodami tradycyjnymi i klasyfikowane są według tych samych parametrów, z wykorzystaniem tych samych standardów eksperckiej oceny, co diamenty kopalniane. Kolekcja zdobiona New Diamond by W.KRUK obejmuje pierścionki pod nazwą Doskonały®, kolczyki oraz wisiorki ze stworzonymi przez człowieka

	diamentami w kolorach: białym oraz, po raz pierwszy na rynku polskim, różowym i niebieskim. In 2019, W.KRUK as the first jewellery chain on the Polish market introduced to its sales offer a new category of diamonds – lab-grown ones – under its own name - New Diamond by W.KRUK. They have parameters identical to diamonds mined by traditional methods and are classified according to the same parameters, using the same expert assessment standards as mine diamonds. The collection decorated with New Diamond by W.KRUK includes rings under the name Perfect®, earrings and pendants with lab-grown diamonds in white and, for the first time on the Polish market, pink and blue.
ZEGARKI	W.KRUK offers watches of luxury Swiss brands like Rolex (as the only distributor of this brand in Poland), Cartier, Jaeger-LeCoultre, Hublot, Panerai, Chopard, Breitling, Girard-Perregaux, Omega, Tudor, Tag Heuer, Longines, Rado, Frédérique Constant, Tissot, Certina, Doxa, Gucci, Swatch and many others. Watches of renowned brands sold in W.KRUK stores occupy a strong position on the Polish market, and their sales value is systematically increasing.

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 cyclicality of operations

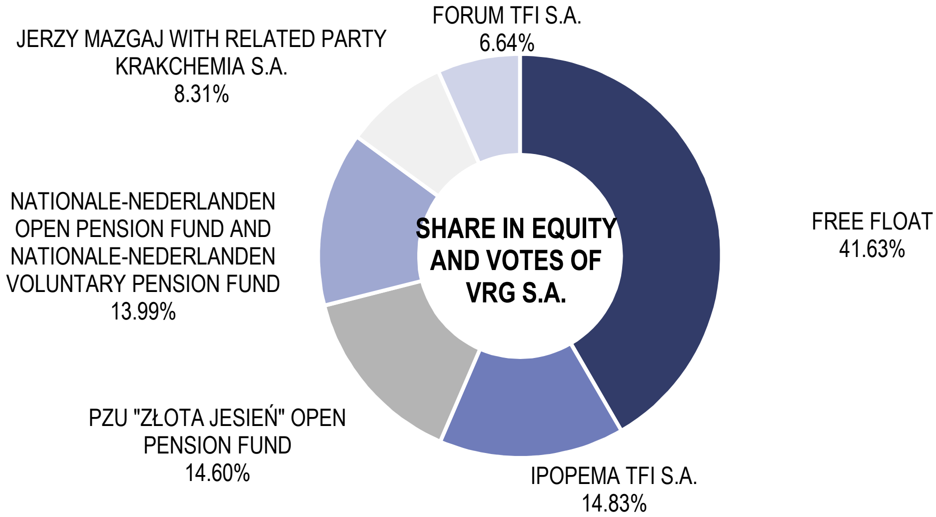
Retail sales both in the fashion sector and in the jewellery industry are characterized by significant seasonality of sales. For the apparel market, the most favourable period from the point of view of the generated financial result is the period of the second and fourth quarter, while in the jewellery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

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 2019 and as at the date of approval of the annual report for the financial year 2019.

1) Shareholder structure as at 31.12.2019



As at 31.12.2019, 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	IPOPEMA TFI S.A.I[1]	34,775,787	14.83	34,775,787	14.83
2	Open Pension Funds PZU „Złota Jesień"[2]	34,230,000	14.60	34,230,000	14.60
3	Nationale-Nederlanden Open Pension Fund and Nationale-Nederlanden Voluntary pension Fund[3]	32,802,252	13.99	32,802,252	13.99
4	Jerzy Mazgaj with related party Krakchemia S.A.I[4]	19,477,333	8.31	19,477,333	8.31
5	Forum TFI S.A.[5]	15,580,800	6.64	15,580,800	6.64

[1] *information on the number of shares provided in accordance with the notification received by the Company pursuant to art. 69 clause 1 point 2 and art. 87 paragraph 1 item 2 of the Act of July 29, 2005 on public offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies and in accordance with the notifications received by the Company pursuant to art. 19 MAR., applies to shares held jointly by all funds managed by IPOPEMA TFI S.A. According to the information received by the Company, the Ipopema 21 FIZ Private Equity Fund, managed by IPOPEMA TFI SA, holds 13,800,226 shares of the Company, which accounts for 5.89% of the share capital of the Company and gives 13.800.226 votes, constituting 5.89% of the total number votes at the Company's General Meeting.*

[2] *information provided based on the number of shares registered by the PZU Open Golden Pension Fund at the Annual General Meeting of the Company on June 17, 2019*

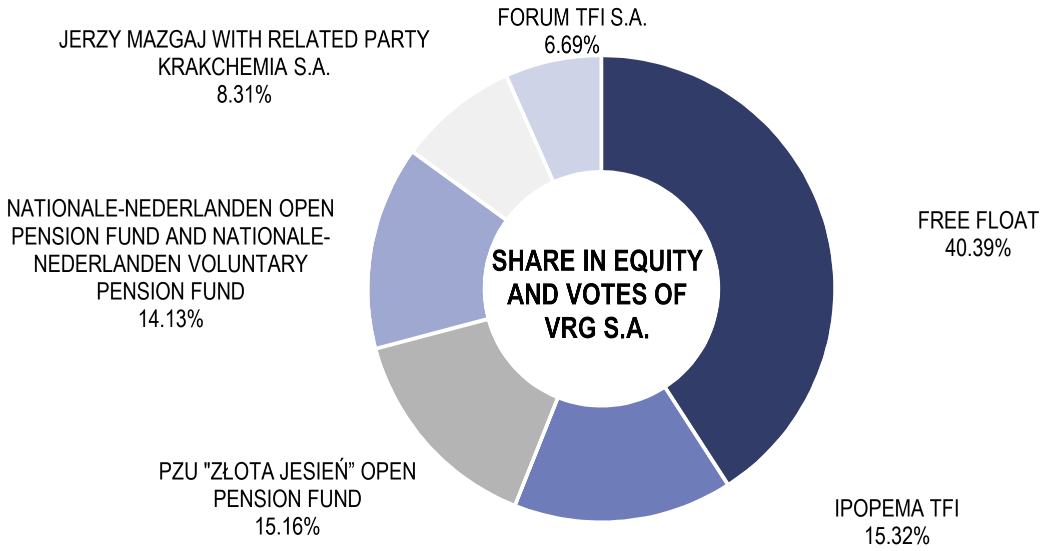
[3] *information provided on the basis of the number of shares registered jointly by Nationale-Nederlanden Open Pension Fund and Nationale-Nederlanden Voluntary Pension Fund at the Annual General Meeting of the Company on 17.06.2019. At the Ordinary General Meeting of the Company on 17.06.2019, Nationale-Nederlanden Open Pension Fund independently owned 32,433,252 shares of the Company, which constitutes 13.83% of the Company's share capital and was entitled to 32,433,252 votes at the General Meeting of the Company, which constitutes 13.83% of the total number of votes at the Company's General Meeting.*

[4] *information on the number of shares provided in accordance with the notifications received by the Company pursuant to art. 69 of the Act of July 29, 2005 on public offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies and in accordance with the notifications received by the Company pursuant to art. 19 MAR. According to the information held by the Company, Mr. Jerzy Mazgaj owns 18,477,333 shares of the Company, which represents 7.88% of the Company's share capital and is entitled to 18.477.333 votes at the Company's General Meeting, which represents 7.88% of the total number of votes at the Company's General Meeting.*

[5] *information on the number of shares provided in accordance with the notification received by the Company pursuant to art. 69 clause 1 point 2 in connection from art. 87 paragraph 1 point 2 lit. a) The Act of July 29, 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 the following funds managed by*

Forum TFI SA: (i) Forum X Closed Investment Fund with 8,429 .760 shares of the Company constituting 3.59% of the share capital of the Company and entitling to 8,429.760 votes at the General Meeting of the Company, constituting 3.59% of the total number of votes in the Company and (ii) Forum XXIII Closed-end Investment Fund holding 7,151,040 shares of the Company constituting 3.05% of the share capital of the Company and entitling to 7,151,040 votes at the Company's General Meeting, constituting 3.05% of the total number of votes in the Company.

2) Shareholder structure, according to the Company's best knowledge, as 30.03.2020



As at 30.03.2020, 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	IPOPEMA TFI[1]	35,918,372	15.32	35,918,372	15.32
2	Open Pension Fund PZU „Złota Jesień" and Voluntary Pension Fund PZU „Złota Jesień" [2]	35,540,000	15.16	35,540,000	15.16
3	Nationale-Nederlanden Open Pension Fund and Nationale-Nederlanden Voluntary Pension Fund [3]	33,119,487	14.13	33,119,487	14.13
4	Jerzy Mazgaj with related party Krakchemia S.A. [4]	19,477,333	8.31	19,477,333	8.31
5	Forum TFI S.A. [5]	15,680,800	6.69	15,680,800	6.69

1 information on the number of shares provided in accordance with the notification received by the Company pursuant to art. 69 clause 1 point 2 and art. 87 paragraph 1 item 2 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 the notifications received by the Company pursuant to art. 19 MAR., applies to shares held jointly by all funds managed by IPOPEMA TFI S.A. According to the information held by the Company, the Ipopema 21 FIZ Private Equity Fund, managed by IPOPEMA TFI SA, holds 14,819,183 shares of the Company, which constitutes 6.32% of the share capital of the Company and gives 14,819,183 votes, constituting 6.32% of the total number votes at the Company's General Meeting.

2 information on the number of shares provided in accordance with the notification received by the Company pursuant to art. 69 clause information provided on the basis of the number of shares registered by the PZU Open Golden Pension Fund and the PZU Voluntary Pension Fund at the EGM of the Company on February 20, 2020. At the Extraordinary General Meeting of the Company on February 20th, 2020, the PZU "Złota Jesień" Open Pension Fund owned 34,700,000 shares of the Company, representing 14.80% of the Company's share capital and was entitled to 34,700,000 votes at the Company's GM, which is 14.80% of the total number of votes at the Company's General Meeting.

3 information provided on the basis of the number of shares registered jointly by Nationale-Nederlanden Open Pension Fund and Nationale-Nederlanden Voluntary Pension Fund at the Extraordinary General Meeting of the Company on February 20th, 2020. At the Extraordinary General Meeting of the Company on February 20 th, 2020, Nationale-Nederlanden Otwarty Fundusz Emerytalny independently owned 32,750,487 shares of the Company, which constitutes 13.97% of the Company's share capital and was entitled to 32,750,487 votes at the General Meeting of the Company, which is 13.97% of the total number of votes at the Company's General Meeting.

4 information on the number of shares provided 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 the notifications received by the Company pursuant to art. 19 MAR. According to the information held by the Company, Mr. Jerzy Mazgaj owns 18,477,333 shares of the Company, which represents 7.88% of the Company's share capital and is entitled to 18,477,333 votes at the General Meeting of the Company, which represents 7.88% of the total number of votes at the Company's General Meeting.

5 information on the number of shares provided in accordance with the notification received by the Company pursuant to art. 69 clause 1 point 2 in connection from art. 87 paragraph 1 point 2 lit. a) The Act of July 29th, 2005 on public offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies and in accordance with the notification received by the Company pursuant to art. 19 MAR., applies to shares held jointly by the following funds managed by Forum TFI SA: (i) Forum X Closed Investment Fund holding 8,429,760 shares of the Company representing 3.60% of the Company's share capital and entitling to 8,429,760 votes at the Company's General Meeting, constituting 3.60% of the total number of votes in the Company, and (ii) Forum XXIII closed-end Investment Fund holding 7,251,040 shares of the Company constituting 3.09% of the share capital of the Company and entitling to 7,251,040 votes at the Company's General Meeting, constituting 3.09 % of the total number of votes in 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 30.03.2020, the following numbers of VRG S.A. shares were held by the Management.

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	1,200,000	1,200,000	240,000.00
Erwin Bakalarz – Member of the Management Board	19,332	19,332	3,866.40

According to the information possessed by the Company as at 30.03.2020, managers do not hold shares in related parties.

As at 30.03.2020, 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	18,477,333	18,477,333	3,695,466.60

As at 30.03.2020, the Issuer is not aware of any contracts, including those concluded after the balance sheet date, which may result in future changes in the proportions of shares held by existing shareholders and bondholders.

There is no employee share program in the Parent.

4. REMUNERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD FOR 2019

Management Board

		PLN ths
Grzegorz Pilch	President of the Management Board	2,031

Michał Wójcik	Vice-President of the Management Board	1,076
Mateusz Żmijewski	Vice-President of the Management Board	1,193
Erwin Bakalarz	Member of the Management Board	365
Total		**4,665**

Supervisory Board

		w tys. zł.
Jerzy Mazgaj	Chairman of the Supervisory Board	267
Artur Małek	Member of the Supervisory Board	140
Katarzyna Basiak- Gała	Member of the Supervisory Board	58
Grażyna Sudzińska-Amroziewicz	Member of the Supervisory Board	154
Andrzej Szumański	Member of the Supervisory Board	123
Maciej Matusiak	Member of the Supervisory Board	58
Jan Pilch	Member of the Supervisory Board	154
Piotr Kaczmarek	Member of the Supervisory Board	74
Paweł Tymczyszyn	Member of the Supervisory Board	74
Total		**1,102**

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

The total remuneration for 2019 amounted to PLN 692 thousand, including:

Jerzy Mazgaj - PLN 368 ths

Jan Pilch - PLN 175 ths

Grzegorz Pilch - PLN 74 ths

Mateusz Żmijewski - PLN 74 ths

Michał Wójcik - PLN 1 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 30 of the financial statements. The managing persons are entitled to the benefits specified in the employment contracts.

5. SIGNIFICANT EVENTS IN 2019 AND AFTER THE BALANCE SHEET DATE

04.01.2019

Notification regarding a significant block of shares

In its current report 2/2019 the Company informed that that on January 4, 2019, it received from IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A. (IPOPEMA joint stock Investment Fund Company) with its registered office in Warsaw ("Fund"), information sent pursuant to Art. 69 sect. 1 pt 1, Art. 69a sect. 1 pt 1 and Art. 87 sect. 1 pt 2 to the Act of July 29, 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies, Official Journal of Laws of 2018, item 512, as amended, ("the Act"), that as a result of purchase by IPOPEMA 21 FIZ Aktywów Niepublicznych (IPOPEMA 21 Closed-End Investment Fund of Non-Public Assets), managed by the Fund, shares in VRG Spółka Akcyjna ("the Company") (formerly under the business name: VISTULA

GROUP Spółka Akcyjna joint stock company) with registered office in Cracow, in a transaction carried out on the regulated market on December 28, 2018, settled on December 28, 2018 and as the result of assimilation of shares of BYTOM Spółka Akcyjna joint stock company with its registered office in Cracow with shares of the Company, carried out on December 28, 2018, the share of funds managed by the Fund in the total number of votes in the Company increased above the 10% threshold in the total number of votes in the Company. Prior to the above-mentioned activities, all funds managed by the Fund held a total of 21,117,000 shares of the Company, which accounted for 9.02% of the Company's share capital and gave 21,137,000 votes, which represented 9.02% of the total number of votes at the Company's General Shareholder Meeting. After the above-mentioned activities, all funds managed by the Fund have a total of 25,455,558 shares of the Company, which accounts for 10.86% of the Company's share capital and gives 25,455,558 votes and represents 10.86% of the total number of votes at the Company's General Shareholder Meeting. At the same time, the Fund informs that funds managed by the Fund do not have financial instruments referred to in Art. 69 b sect. 1 of the Act.

21.03.2019

Notification regarding a significant block of shares

In its current report 7/2019 the Company informed that on March 21, 2019, it received from the Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A (Nationale-Nederlanden Universal Pension Fund, joint stock company) with its registered office in Warsaw, a notification prepared pursuant to Art. 69 sect. 2 pt. 1 la of the Act of July 29, 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies, Official Journal of Laws of 2009, No. 185, item 1439, as amended containing information that as a result of purchasing the Company's shares in a transaction on the Warsaw Stock Exchange, settled on March 15, 2019, Nationale-Nederlanden Open Pension Fund ("OPF") increased its stake in the Company by at least 2% of votes at the Company's General Shareholder Meeting. At the same time, pursuant to Art. 87 sect. 1 item 5 of the above-mentioned Act, Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A. informed the Company that as a result of the same transaction managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A. funds: Nationale-Nederlanden Open Penison Funds and Nationale-Nederlanden Voluntary Pension Fund ("VPF") increased the total stake in the Company's shares by at least 2% of votes at the General Meeting of Shareholders of the Company.

Prior to the transaction settlement (14.03.2019), OFE held 27,803,380 shares, which constituted 11.859% of the share capital, gave 27,803.380 votes at the Company's General Shareholder Meeting of the Company, which constituted 11.859% of the total number of votes at the Company's General Shareholder Meeting.

Before the transaction settlement (14.03.2019), OFE and DFE jointly held 28,172,380 shares, which constituted 12,016% of the share capital, gave 28,172,380 votes at the Company's General Shareholder Meeting, which constituted 12.016% of the total number of votes at the Company's General Shareholder Meeting.

After the transaction settlement (15.03.2019), OFE held 28,408,370 shares, which constituted 12.117% of the share capital, gave 28,408,370 votes at the Company's General Shareholder Meeting, which constituted 12.117% in the total number of votes at the Company's General Shareholder Meeting.

After the transaction settlement (15.03.2019), OFE and DFE jointly held 28,777,370 shares, which constituted 12.274% of the share capital, gave 28,777,370 votes at the Company's General Shareholder Meeting, which constituted 12.274% in the total number of votes at the Company's General Shareholder Meeting.

27.03.2019

Signing and publication of the merger plan as part of the preparation of the VRG S.A. and BTM 2 Sp. z o. o. merger process.

In its current report 8/2019 the Company informed that on March 27, 2019, the merger plan of VRG S.A. (hereinafter also referred to as the "Acquiring Company") and its subsidiary, BTM 2 Sp. z o. o. (hereinafter also "Acquired Company") was agreed and signed. BTM 2 Sp. z o. o. had previously been a part of the VRG S.A. Capital Group as a result of the merger of BYTOM S.A. with the Company.

The merger will be effected on the basis of Art. 492 § 1 pt 1) of the Code of Commercial Companies by transferring all assets of the Acquired Company to the Acquiring Company. As a result of the merger, the Acquired Company will be dissolved and the Company, as the Acquiring Company, will enter into the entire rights and obligations of the Acquired Company as of the merger date.

Due to the fact that the Company, as the Acquiring Company, is the sole shareholder of the Acquired Company and holds 100% of shares in the share capital of the Acquired Company, the merger will take place in a simplified mode and in accordance with:

a) Art. 515 § 1 of the Code of Commercial Companies, the merger will be carried out without increasing the share capital of the Company, as the Acquiring Company, and without taking up any shares in the share capital of the Acquiring Company by the partners of the Acquired Company;

b) Art. 516 § 6 of the Code of Commercial Companies, in connection with art. 516 § 5 of the Code of Commercial Companies, the merger plan will be submitted to the registry court, however, it will not be subject to examination by an expert referred to in art. 502 § 1 of the Code of Commercial Companies and the expert opinion in this respect will not be prepared, and the management boards of the merging companies will not prepare written reports justifying the merger referred to in art. 501 § 1 of the Code of Commercial Companies.

Due to the lack of increasing the share capital of the Company, and the fact that the merger does not create new circumstances requiring disclosure in the Company's Articles of Association and no other amendments to this Statute are proposed, an amendment of the Company's Articles of Association in connection with the merger is not planned. The merger of the companies will depend on the adoption by the Company's General Shareholder Meeting as the Acquiring Company, and the Shareholders' Meeting of the Acquired Company, resolutions containing the consent to the merger, including the Merger Plan.

First notification to shareholders about the intention to merge of VRG S.A. with the subsidiary BTM 2 Sp. z o.o. in accordance with art. 504 § 1 of the Code of Commercial Companies took place on April 2, 2019 (about which the Company informed in current report 11/2019). Second notification to shareholders about the intention to merge of VRG S.A. with the subsidiary BTM 2 Sp. z o.o. in accordance with art. 504 § 1 the Code took place on April 16, 2019 (current report 15/2019).

24.04.2019

Notification regarding a significant block of shares

In its current report 19/2019 the Company informed that on 24 April, 2019, it received from Forum TFI S.A. with its registered office in Cracow („Fund"), acting on behalf of funds managed by the Investment Fund Company, i.e. Forum X Fundusz Inwestycyjny Zamknięty (Forum X Closed-End Investment Fund) and Forum XXIII Fundusz Inwestycyjny Zamknięty (Forum XXIII Closed-End Investment Fund) a notification prepared pursuant to Art. 69 sect. 1 item 2a in relation to Art. 87 par. 1 item 2 a of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies, consolidated text, Official Journal of Laws of 2019, No. 623, as amended. According to the content of the above notifications as a result of the acquisition of the Company's shares by Fund 2 (hereinafter: "Event") the total stake of funds managed by the Company in the total number of votes in the Company exceeded the threshold of 5% of the total number of votes at the Company's General Shareholder Meeting, including respectively:
- the share of Fund 1 did not change and remained at 3.59% of the total number of votes at the Company's General Shareholder Meeting,
- the share of Fund 2 increased from 0.43% to 3.05% of the total number of votes at the Company's General Shareholder Meeting.
The change in the number of votes took place as a result of the Fund 2 purchasing of a total of 6,143,040 shares of the Company in 2 block off-session transactions on the regulated market of the Warsaw Stock Exchange, carried out on April 17, 2019, which were settled on April 18, 2019.

Before the change of participation, the funds managed by the Fund had:
1) Fund 1 held 8,429.760 shares of the Company constituting 3.59% of the share capital of the Company and entitling to 8,429.760 votes at the Company's General Shareholder Meeting, constituting 3.59% of the total number of votes in the Company,
2) Fund 2 held 1,008,000 shares of the Company constituting 0.43% of the share capital of the Company and entitling to 1,008,000 votes at the Company's General Shareholder Meeting, constituting 0.43% of the total number of votes in the Company,
that is a total of 9,437,760 shares of the Company constituting in total 4.025% of the share capital of the Company and entitling to 9.437.760 votes at the Company's General Shareholder Meeting, constituting 4.025% of the total number of votes in the Company.
After the event described above, the funds managed by the Fund had:
1) Fund 1 held 8,429.760 shares of the Company constituting 3.59% of the share capital of the Company and entitling to 8,429.760 votes at the Company's General Shareholder Meeting, constituting 3.59% of the total number of votes in the Company,
2) Fund 2 held 7,151,040 shares of the Company constituting 3.05% of the share capital of the Company and entitling to 7,151,040 votes at the Company's General Shareholder Meeting, constituting 3.05% of the total number of votes in the Company,
that is, a total of 15,580,800 shares of the Company, constituting 6.645% of the share capital of the Company and entitling to 15.580.800 votes at the Company's General Shareholder Meeting, constituting 6.645% of the total number of votes in the Company.
According to information held by the Company, Fund 1 and Fund 2, and none of the other funds managed by the Company have subsidiaries holding the Company's shares.

28.05.2019

Notification regarding a significant block of shares

On May 28, 2019 the Company received from IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A. (IPOPEMA joint stock Investment Fund Company) with its registered office in Warsaw ("the Fund") information sent pursuant to Article 69 section 1 item 2 and Article 87 section 1 item 2 of the Act of July 29, 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies, Journal of Laws of 2009, No. 185, item 1439, as amended, "the Act", that as a result of the disposal by the IPOPEMA 2 FIZ Aktywów Niepublicznych (IPOPEMA 2 Closed-End Investment Fund of Non-Public Assets), managed by the Fund, of the Company's shares in a transaction conducted on the regulated market on May 21, 2019, and settled on May 23, 2019, the share of funds managed by the Fund in the total number of votes in the Company dropped below the 10% threshold in the total number of votes in the Company.

Before the aforementioned transaction, all the funds managed by the Fund held 23,459,945 shares in total, which constituted 10.01% of the Company's share capital and entitled to 23,459,945 votes, which constituted 10.01% of the total number of votes at the Company's General Shareholder Meeting.

After the above-mentioned transaction, all the funds managed by the Fund hold 23,159,945 shares in total, which constitutes 9.88% of the Company's share capital and 23,159,945 votes and 9.88% of the total number of votes at the Company's General Shareholder Meeting.

At the same time the Fund informed that the funds managed by the Investment Fund Company do not have any financial instruments referred to in art. 69 b section 1 of the Act.

03.06.2019

Notification regarding a significant block of shares

In its current report 30/2019 the Company informed that it received from IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw (the "Fund") information as of June 3, 2019 sent pursuant to Article 69 section 1 point 2 and Article 87 section 1 point 2 of the Act of July 29, 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies ("the Act"), that as a result of the purchase by the IPOPEMA 2 FIZ Aktywów Niepublicznych fund, managed by the Fund, of the Company's shares in a transaction conducted on the regulated market on May 27, 2019, settled on 28 May, 2019, the share of funds managed by the Fund in the total number of votes in the Company increased above the 10% threshold in the total number of votes in the Company.

Before the aforementioned transaction, all the funds managed by the Fund held 23,159,945 shares in total, which constituted 9.88 % of the Company's share capital and entitled to 23,159,945 votes, which constituted 9.88% of the total number of votes at the Company's General Shareholder Meeting.

After the above-mentioned transaction, all the funds managed by the Society hold 26.159.945 shares in total, which constitutes 11,16 % of the Company's share capital and 26.159.945 votes and 11,16 % of the total number of votes at the Company's General Meeting.

At the same time the Fund informed that the funds managed by the Fund do not have any financial instruments referred to in art. 69 b section 1 of the Act.

14.06.2019

Appointment of a Nomination and Remuneration Committee in the composition of the Supervisory Board of the Company

June 14, 209 the Company obtained information on appointment by the Supervisory Board of the Company of an internal Nomination and Remuneration Committee (the "Committee"), whose headcount has been set at three. The following members of the Supervisory Board were appointed to the Committee: Mr. Jerzy Mazgaj - Chairman of the Committee, Ms Grażyna Sudzińska-Amroziewicz - Member of the Committee, Mr. Jan Pilch - Member of the Committee.

17.06.2019

Resolution of the Company's Ordinary General Shareholder Meeting on June 17, 2019 regarding the merger of VRG S.A. with the subsidiary BTM 2 Sp. z o.o.

In current report 35/2019, the Company announced the content of resolutions adopted by the Company's Ordinary General Shareholder Meeting on June 17, 2019 ("General Meeting"), including content of Resolution No. 25/06/2019 of the Company's General Meeting on June 17, 2019 regarding merger of VRG S.A. with the subsidiary BTM 2 Sp. z o.o. ("Resolution").

Pursuant to the resolution, the General Shareholder Meeting of VRG S.A. with its registered office in Cracow (the "Company") acting pursuant to art. 492 § 1 point 1) and art. 506 of the Code of Commercial Companies decided to:

1. to adopt a merger of the Company with the company BTM 2 Spółka z o.o. with its registered office in Cracow (31-462), Pilotów 10 St., entered into the Register of Entrepreneurs of the National Court Register by the District Court for Cracow - Śródmieście in Cracow, 11th Commercial Department of the National Court Register under the number KRS 0000605215, NIP 9442250477, REGON 363895872 (hereinafter: "Acquired Company") pursuant to art. 492 § 1 point 1 of the Code of Commercial Companies, i.e. by transferring all the assets of the Acquired Company to the Company - on the terms set out in the merger plan agreed between the Company and the Acquired Company on March 27, 2019 (hereinafter referred to as the "Merger Plan"), which in accordance with art. 500 § 21 of the Code of Commercial Companies has been made available in the Company's current report No. 8/2019 of March 27, 2019, as well as on the website www.vrg.pl and on the website www.btm2.pl; The Merger Plan constitutes an attachment to this resolution;

2. agree to the Merger Plan;

3. authorize the Company's Management Board to perform all necessary factual and legal actions related to the procedure of merging the Company with the Acquired Company.

The resolution came into force on the day of its adoption. The merger of the Company with the Acquired Company will take place upon entering the merger into the register of entrepreneurs by the appropriate registry court.

17.06.2019

Changes in the composition of the Company's Supervisory Board of the current term in office

In current report 35/2019, the Company announced the content of resolutions adopted by the Company's Ordinary General Shareholder Meeting on June 17, 2019 ("General Meeting"), including content of resolutions regarding changes in the composition of the Company's Supervisory Board of the current term in office:

a) pursuant to Resolution No. 20/06/2019 of the General Meeting regarding the dismissal of a member of the Company's Supervisory Board, Mr. Maciej Matusiak was dismissed from the Company's Supervisory Board of the current joint term of office.

b) pursuant to Resolution No. 21/06/2019 of the General Meeting regarding the appointment of a member to the Company's Supervisory Board, Mr. Piotr Kaczmarek was appointed to the Company's Supervisory Board for the current joint term of office.

c) on the basis of Resolution No. 22/06/2019 of the General Meeting regarding the appointment of a new member of the Company's Supervisory Board, Mr. Paweł Tymczyszyn was appointed to the Company's Supervisory Board for the current joint term of office.

01.07.2019

Notification regarding a significant block of shares

In current report no. 37/2019, the Company announced that it had received from IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A. with registered office in Warsaw ("the Fund"), information dated July 1, 2019 sent on the basis of art. 69 clause 1 point 1, art. 69 clause 2 point 1 lit. a and art. 87 paragraph 1 point 2 of the Act of July 29, 2005 on public offering and conditions for introducing financial instruments to the organized trading system and on public companies ("the Act") that as a result of the purchase by the IPOPEMA fund 21 FIZ Non-Public Assets managed by the Fund ("Fund"), of the Company's shares in a transaction carried out on a regulated market on June 25, 2019, settled on June 26, 2019, the share of funds managed by the Fund in the total number of votes in the Company increased by more than 2%, and also above the 15% threshold in the total number of votes in the Company.

Before the abovementioned event, the Fund held 4,200,000 shares of the Company constituting 1.79% of the Company's share capital, entitling to 4,200,000 votes, which constituted 1.79% in the total number of votes at the Company's General Shareholder Meeting.

After the abovementioned event, the Fund holds a total of 13,800,226 shares of the Company, which constitutes 5.89% of the share capital of the Company and gives 13,800,226 votes, constituting 5.89% in the total number of votes at the Company's General Shareholder Meeting. Prior to the above-mentioned event, all funds managed by the Fund held in total 26,155,825 shares of the Company, which constituted 11.16% of the share capital of the Company and gave 26.158.825 votes, which constituted 11.16% in the total number of votes at the Company's General Shareholder Meeting.

After the above-mentioned event, all funds managed by the Company held a total of 35,759,051 shares of the Company, which constituted 15.25% of the share capital of the Company and gave 35.759.051 votes and constituted 15.25% of the total number of votes at the Company's General Shareholder Meeting.

At the same time, the Company announced that the funds managed by the Company did not have financial instruments referred to in art. 69 b paragraph 1 of the Act.

02.07.2019

Merger of the Company with its subsidiary

In its current report 38/2019 VRG S.A. (the Company) informed that on July 2, 2019 it received information on the entry, on 1 July, 2019 by the District Court for Cracow - Śródmieście in Cracow, XI Economic Department - National Court Register in the register of entrepreneurs of the National Court Register, on the Company's merger ("the Acquiring Company") with the subsidiary BTM 2 Spółka z ograniczoną odpowiedzialnością with its registered office in Cracow, entered into the register of entrepreneurs under KRS number 0000605215 ("the Acquired Company"), which previously became a part of the Company's capital group as a result of the merger of BYTOM S.A. with the Company.

Pursuant to Art. 493 § 2 of Code of Commercial Companies, the merger is effective as of the date of registration of the merger in the register appropriate for the seat of the Acquiring Company, i.e. on July 1, 2019. This entry shall result in the deletion from the register of the Acquired Company, i.e. BTM 2 Sp. z o. o. Pursuant to Art. 494 of Code of Commercial, the Company is the legal successor of BTM 2 Sp. z o. o., i.e. on the merger date it assumed all the rights and obligations of BTM 2 Sp. z o. o. as the Acquired Company.

Due to the fact that the Company as the Acquiring Company was the sole shareholder of the Acquired Company and owned 100% of shares in the Acquired Company's share capital, the merger took place in a simplified mode and pursuant to art. 515 § 1 of the Code of Commercial

Companies, the merger was carried out without increasing the Company's share capital as the acquiring company and without taking up any shares in the share capital of the Acquiring Company by the partners of the Acquired Company.

Due to the lack of increase of the Company's share capital and the fact that the merger does not cause new circumstances requiring disclosure in the Issuer's Articles of Association, no changes have been made to the Company's Articles of Association in connection with the merger made.

31.10.2019

Notification regarding a significant block of shares

In its current report 47/2020 the Company informed that it received from IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw ("the Fund ") information on October 31, 2019 sent pursuant to Article 69 section 1 item 2 and Article 87 section 1 item 2 of the Act of July 29, 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies ("the Act"), that as a result of the disposal by the IPOPEMA 2 FIZ Aktywów Niepublicznych (IPOPEMA 2 Closed-End Investment Fund of Non-Public Assets), managed by the Fund, of the Company's shares in a transaction conducted on the regulated market on October 28, 2019, settled on 30 October, 2019, the share of funds managed by the Fund in the total number of votes in the Company dropped below the 15% threshold in the total number of votes in the Company.

Before the aforementioned transaction, all the funds managed by the Fund held 35,365,787 shares in total, which constituted 15.08% of the Company's share capital and entitled to 35,365,787 votes, which constituted 15.08% of the total number of votes at the Company's General Shareholder Meeting. After the above-mentioned transaction, all the funds managed by the Fund hold 35,075,787 shares in total, which constitutes 14.96% of the Company's share capital and 35,075,787 votes and 14,96% of the total number of votes at the Company's General Shareholder Meeting. At the same time the Fund informed that the funds managed by the Fund do not have any financial instruments referred to in art. 69 b section 1 of the Act.

30.12.2019

Resignation of the managing person

In its current report 52/2019 the Company informed that on December 30, 2019 it received a statement of Mr. Mateusz Żmijewski, Vice President of the Company's Management Board on resignation from his function on the Company's Management Board with effect as at March 31, 2020. Resignation from the function of the Management Board of the Company referred to above, was submitted in connection with an agreement on December 30, 2019 between Mr. Mateusz Żmijewski and the Company on the conditions for resignation and termination of the employment contract.

24.01.2020

Convening the Extraordinary General Meeting of VRG S.A. for February 20, 2020

In Current Report 4/2020, the Company's Management Board, taking into account the fact that on January 24, 2020 it received a letter dated January 24, 2020, together with attachments from Nationale-Nederlanden PTE S.A. acting on behalf of Nationale-Nederlanden Open Pension Fund with a request to convene an Extraordinary General Meeting of VRG S.A. at its registered office in Cracow as soon as possible - published the announcement on convening the Extraordinary General Meeting of the Company on February 20, 2020 at 12.00 at the Company's headquarters in Cracow at Pilotów 10 (31-462 Cracow) with the agenda including the point regarding changes in the Company's Supervisory Board and draft resolutions of the Extraordinary General Meeting together with the justification provided by Nationale-Nederlanden PTE S.A. acting on behalf of Nationale-Nederlanden Open Pension Fund.

20.02.2020

Resolutions adopted by the Extraordinary General Meeting of VRG S.A. on February 20, 2020

In current report 4/2020, the Group published the content of resolutions adopted by the Extraordinary General Meeting of the Company on February 20, 2020 ("General Meeting") together with information on objections raised. At the same time, the Group informed that the General Meeting made the following changes in the composition of the Company's Supervisory Board of the current joint term:

a) Pursuant to Resolution No. 03/02/2020 of the General Meeting regarding changes in the composition of the Company's Supervisory Board, Mr. Artur Małek was dismissed from the Company's Supervisory Board.

b) pursuant to Resolution No. 04/02/2020 of the General Meeting regarding changes in the composition of the Company's Supervisory Board, Jan Pilch was dismissed from the Company's Supervisory Board.

c) Pursuant to Resolution No. 05/02/2020 of the General Meeting regarding changes in the composition of the Company's Supervisory Board, Mr. Piotr Nowjalis was appointed to the Company's Supervisory Board.

d) on the basis of Resolution No. 06/02/2020 of the General Meeting regarding changes in the composition of the Company's Supervisory Board, Mr. Piotr Stępniak was appointed to the Company's Supervisory Board.

e) Pursuant to Resolution No. 07/02/2020 of the General Meeting regarding changes in the composition of the Company's Supervisory Board, Mr. Grzegorz Janas was appointed to the Company's Supervisory Board.

16.03.2020

Information on the impact of coronavirus effects on the operations of the Company and the Company's Capital Group

In the current report No. 15/2020 of March 16, 2020, in connection with the published recommendation of the European Securities and Markets Authority ESMA of March 12, 2020, the Company informed about the possible impact of the coronavirus epidemic on the operations of the Issuer's Capital Group.

Przychody ze sprzedaży w kanale e-commerce w okresie I kwartału 2019 roku wyniosły 15,5%, natomiast Emitent szacuje, że w okresie I kwartału 2020 roku wyniosą około 24% przychodów ze sprzedaży Grupy Kapitałowej Emitenta ogółem.

To the best of our knowledge, the Company expects that the effects of the coronavirus epidemic will have a significant negative impact on the its future financial results. In particular, the Company indicates that restrictions on the operation of commercial facilities introduced by the Minister of Health, in which Vistula, W.KRUK, Bytom, Wólczanka and Deni Cler stores are located, pose a very high risk of negative impact on the financial result of the Company and the Company's Capital Group in during the first quarter and depending on the duration of the restrictions associated with the coronavirus epidemic, also for a later period. In the Company's opinion, closing down of shopping malls related to the coronavirus epidemic will reduce consolidated revenues of the first quarter of 2020, which should amount to about PLN 190 million, i.e. 11% less than in the previous year. In this situation, the Company's Capital Group focuses its activities on intensifying sales in on-line stores of the above-mentioned brands. E-commerce revenues constituted some 15.5% of 1Q19 sales, while the Company estimates that in the first quarter of 2020 they will amount to some 24% of total Group revenues.

The risk related to the possible negative impact of the coronavirus epidemic on the current stocking of traditional stores and the availability of offers in on-line stores is rated by the Company as low. In the Company's opinion, the inventory of the Capital Group in the apparel segment (Vistula, Bytom, Wólczanka and Deni Cler brands) and in the jewellery segment (W.KRUK brand) allow for full availability of the product offer in on-line stores and in traditional stores (after lifting restrictions in operations of shopping malls) until the end of the current half-year. As at the date of publication of this report, the Company has not identified significant risks in terms of breaching the supply chain of the apparel and jewellery segment on the domestic and foreign markets.

The Company's Management Board analyses the situation of the companies of its Capital Group on an ongoing basis in relation to the spread of the coronavirus and the possible impact on current operating activities and the results of the Company and the Capital Group.

In this situation, the Capital Group has taken a number of actions, including:

a) intensification of sales in on-line stores of the abovementioned brands. Revenues from sales in the e-commerce channel in the period of the first quarter of 2019 amounted to 15.5%, while the Company estimates that in the period of the first quarter of 2020 they will amount to approximately 24% of total revenues from sales of the Capital Group,

b) optimization of order volumes for the second half of this year to minimise the costs of operations,

c) interventions regarding payment of rents for stores - renegotiation of rental agreements,

d) payments for goods according to modified purchase plans,

e) talks are held with banks that finance the operations of the Company and group companies,

f) analysis of available limits of available cash,

g) strict cash management.

The above assessment of the Company results from the best knowledge of the Company as at the date of these financial statements. As of today, it is not possible to accurately estimate the impact of sales restrictions on the Company and Capital Group as a result of the temporary closure of traditional stores located in shopping malls in the long term. The impact of the spread of the coronavirus in epidemic conditions on the financial results of the Company and the Capital Group depends on a number of factors that are beyond the direct influence and control of the Company.
Assuming that the period of the epidemic will be longer or in a situation where negative effects will take place after the end of the epidemic, further solutions have been prepared to reduce the liquidity risk.

According to the Management Board, the current situation is sufficiently monitored and controlled. Considering the actions taken, the Company's Management Board is convinced of the positive results of the above-described actions.

The Management Board will analyse the situation of the Company and its Capital Group on an ongoing basis in relation to the spread of the coronavirus and the possible impact on current operating activities and the results of the Company and the Capital Group. New circumstances and events, which in the opinion of the Company's Management Board will have a particularly significant impact on the generated financial results and the current operating situation of the Company and the Capital Group, will be made public in current reports in the manner provided for by the applicable provisions on the implementation of disclosure obligations public companies. Additional explanatory information on the risks related to the effects of the coronavirus outbreak is provided in section 10, Significant Risks Factors.

25.03.2020

Notification regarding a significant block of shares

In current report no. 16/2020 VRG S.A. informed that it received from IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw ("the Fund"), information dated March 25, 2019 sent pursuant to art. 69 clause 1 point 1 and art. 87 paragraph 1 point 2 of the Act of July 29, 2005 on public offerings and conditions governing the introduction of financial instruments to organized trading, and on public groups that IPOPEMA 21 FIZ of Non-Public Assets fund managed by the Fund as a result of transactions carried out on the regulated market on March 17, 2020 and settled on March 19, 2020, the share of funds managed by the Fund in the total number of votes in the Company increased above the 15% threshold in the total number of votes in the Company.

Before the abovementioned event, all funds managed by the Fund held a total of 34,899,415 shares of the Company, which constituted 14.89% of the Company's share capital and gave 34,899,415 votes, which constituted 14.89% of the total number of votes at the Company's General Shareholder Meeting.

After the abovementioned event, all funds managed by the Fund hold in total 35,918,372 shares of the Company, which constitutes 15.32% of the share capital of the Company and gives 35,918,372 votes and constitutes 15.32% in the total number of votes at the Company's General Shareholder Meeting.
At the same time, the Fund informed that the managed funds do not have financial instruments referred to in Article 69 b para. 1 of the Act.

54.4 ths m2 of Group’s floorspace at the end of 2019

6. FINANCIAL RESULTS OF VRG S.A. GROUP IN 2019

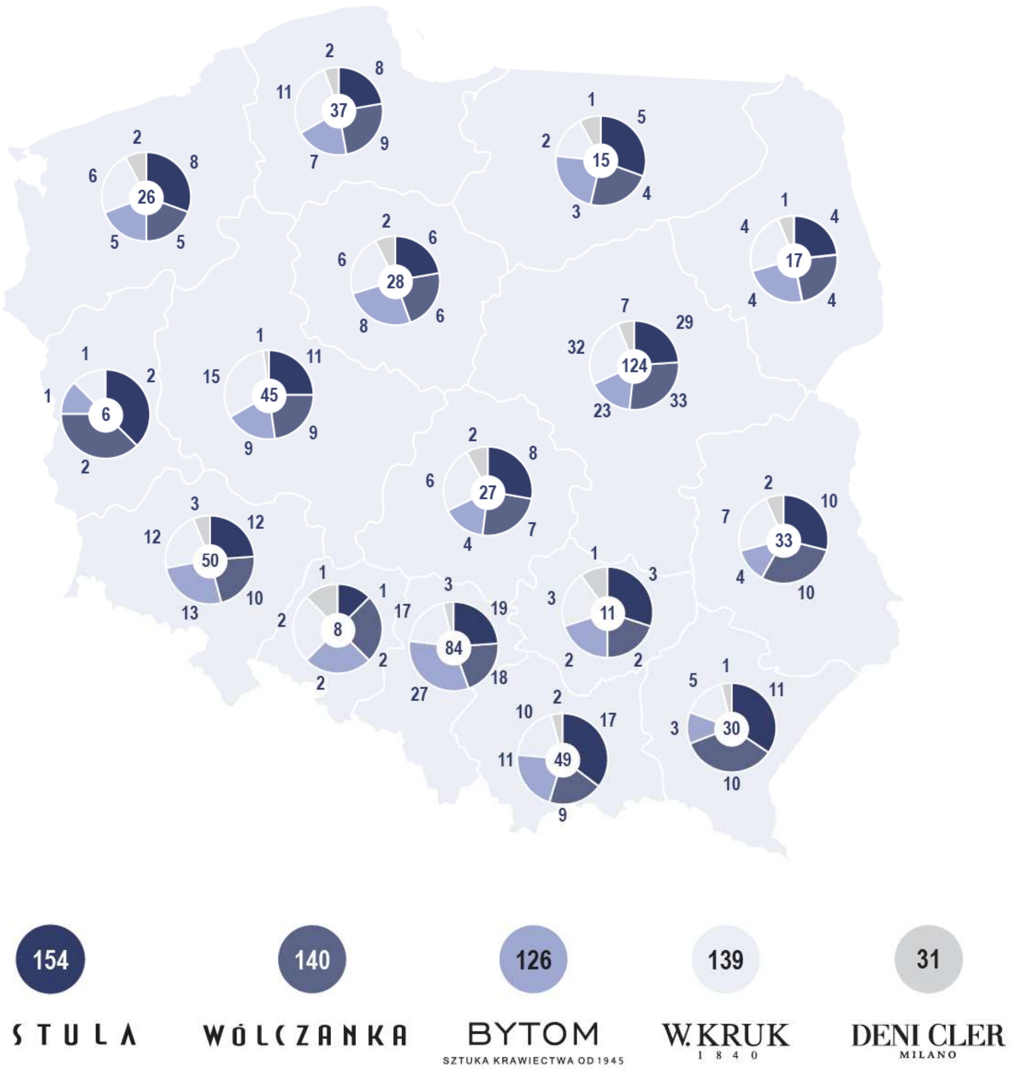
At the end of 2019, retail floorspace increased to some 54.4 thousand m2. Growth in floorspace in the apparel segment amounted to 4%, while in the jewellery segment floorspace grew by some 11%.

Retail floorspace (end of period):

	Ths m2	
	31.12.2019	31.12.2018
Apparel segment	43,7	42,1
Jewellery segment	10,6	9,6
Total floorspace	**54,4**	**51,6**

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 590 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.

Below we present distribution and number of branded stores of the Capital Group at the end of 2019 by individual brands.



Selected financial data of VRG Group

Item	PLN ths	
	2019	2018
Revenues	1,068,266	805,674
EBITDA	198,483	89,266
EBIT	87,492	71,917
Net profit	**63,993**	**53,572**

Item	PLN ths		
	2019	IFRS 16	2019 excl. IFRS 16
Revenues	1,068,266		1,068,266
EBITDA	198,483	-87,357	111,126
EBIT	87,492	43	87,535
Net profit	**63,993**	**1,935**	**65,928**

Revenues

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

In 2019, revenues of the Capital Group amounted to PLN 1,068.3 million and were PLN 262.6 million (33%) 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 198.5 million in 2019 and was 122% higher than in the previous year. On comparable data, i.e. excluding the impact of IFRS16, consolidated 2019 EBITDA came in at PLN 111.1 million, up 24% YoY.

In the current year, the Group achieved a net profit of PLN 64.0 million compared to PLN 53.6 million, i.e. by 19% more than in 2018. On comparable data, i.e. excluding the impact of IFRS16, consolidated 2019 net profit came in at PLN 65.9 million, up 23% versus 2018 base.

APPAREL SEGMENT

Apparel segment	PLN ths			
	4Q19	4Q18	2019	2018
Revenues	**206,834**	**161,944**	**692,319**	**483,068**
Cost of sales	95,919	77,760	334,341	238,155
Gross profit on sales	110,915	84,184	357,978	244,913
Other operating income	2,096	2,999	2,541	3,479
Profit from sale of non-financial non-current assets	-	-	477	-
Selling costs	68,460	51,274	258,531	170,130
Administrative expenses	15,485	13,036	55,267	41,876
Other operating costs	2,284	2,532	4,182	3,581
Loss from sale of non-financial non-current assets	224	237	-16	255
Profit (loss) from operations	**26,558**	**20,104**	**43,032**	**32,550**
Financial income / costs	3,371	-362	-4,093	-1,738
Pre-tax profit (loss)	29,929	19,742	38,939	30,812
Income tax	5,138	2,685	7,125	5,155
Net profit (loss) for the period	**24,791**	**17,057**	**31,814**	**25,657**

Apparel segment	PLN ths			
	2019	IFRS 16 impact	2019 excl. IFRS 16	2018
Revenues	**692,319**	**-**	**692,319**	**483,068**
Cost of sales	334,341	-	334,341	238,155
Gross profit on sales	357,978	-	357,978	244,913
Other operating income	2,541	-	2,541	3,479
Profit from sale of non-financial non-current assets	477	-	477	-
Selling costs	258,531	-22	258,509	170,130
Administrative expenses	55,267	65	55,332	41,876
Other operating costs	4,182	65	4,247	4,577
Loss from sale of non-financial non-current assets	-16	-	-16	-
Profit (loss) from operations	**43,032**	**108**	**42,924**	**32,550**
Financial income / costs	-4,093	-1,191	-2,902	-1,738
Pre-tax profit (loss)	38,939	-1,083	40,022	30,812
Income tax	7,125	-	7,125	5,155
Net profit (loss) for the period	**31,814**	**-1,083**	**32,897**	**25,657**

Apparel segment	PLN ths			
	4Q19	IFRS 16 impact	4Q19 excl. IFRS 16 impact	4Q18
Revenues	**206,834**	**-**	**206,834**	**161,944**
Cost of sales	95,919	-	95,919	77,760
Gross profit on sales	110,915	-	110,915	84,184
Other operating income	2,096	-1	2,097	2,999
Profit from sale of non-financial non-current assets	-	-	-	-
Selling costs	68,460	78	68,538	51,274
Administrative expenses	15,485	14	15,499	13,036
Other operating costs	2,284	-	2,284	2,532
Loss from sale of non-financial non-current assets	224	-	224	237
Profit (loss) from operations	**26,558**	**91**	**26,467**	**20,104**
Financial income / costs	3,371	3,894	-523	-362
Pre-tax profit (loss)	29,929	3,985	25,944	19,742
Income tax	5,138	-	5,138	2,685
Net profit (loss) for the period	**24,791**	**3,985**	**20,806**	**17,057**

Increase in retail sales

Revenues from the apparel segment sales amounted to PLN 692.3 million in 2019 and were PLN 209.3 million higher than revenues in 2018 (result of Bytom brand sales being included in Group revenues for the whole 2019 while only one month in 2018).

Apparel segment	PLN m			
	4Q19	4Q18	2019	2018
Revenue	**206.8**	**161.9**	**692.3**	**483.1**
Retail sales	198.2	154.1	657.1	453.1
Processing	6.4	5.0	25.4	20.1
B2B	2.3	2.8	9.8	9.9

In 2019, the Group recorded the following results in the following retail channels:

VISTULA increase by PLN 17.7m (+ 7%)	WÓLCZANKA increase by PLN 9.7 m (+ 8%)	BYTOM consolidation of 2019 results 2019 (PLN 198.2m)	DENI CLER MILANO increase by PLN 2.9m (+7%)

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 198.2 million. On-line sales of all brands grow much faster than sales in the traditional network and are more effective, which improves the profitability achieved by individual brands.

In 4Q19, the Group recorded the following results in the following retail channels:

VISTULA increase by PLN 5.6 m (+ 7%)	WÓLCZANKA increase by PLN 2.0 m (+ 5%)	BYTOM consolidation of 4Q19 results (PLN 59.9m)	DENI CLER MILANO increase by PLN1.1 m (+9%)

B2B sales at PLN 9.9m

B2B sales were stable compared to 2018 data. At the same time, the value of processing services increased by 26% compared to 2018. The Group focuses on the development of retail sales (95% share in revenues in 2019 compared to 94% share in 2018), 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 358.0 million in 2019 and was 46% higher (increase by PLN 113.1 million) from the one generated in the previous year. In 2019, the gross margin was up by 1.0 pp. to 51.7% compared to 2018.

Gross profit from sales of the apparel segment amounted to PLN 110.9 million in 4Q19 and was 32% higher (by PLN 26.7 million) than result generated in previous year. Gross profit margin grew by 1.6 pp. to 53.6% in 2019 versus 52.0% in comparable period of 2018.

Changes in gross profit margins in apparel brands in 2019:

VISTULA	WÓLCZANKA	BYTOM	DENI CLER MILANO
0.5 pp. margin pick-up due to margin synergies	0.6 pp. margin increase due to higher in-take margin	stable margin at 52.6%	margin pick-up by 1.5 pp. due to higher in-take margin

Changes in gross profit margins in apparel brands in 4Q19:

VISTULA	WÓLCZANKA	BYTOM	DENI CLER MILANO
0.9 pp. margin pick-up due to margin synergies	0.6 pp. margin increase due to higher in-take margin	gross profit at 53.1%, up by 0.8 pp.	margin pick-up by 1.4 pp. due to higher in-take margin

Achieved increase in gross margin on sales in the amount of 1 pp. is mainly related to obtained margin synergies within the Vistula, Bytom and Wólczanka brands regarding the coordination of the sell-off policy, which were initiated in the Autumn/Winter 2019 season.

Selling costs

Selling costs amounted to PLN 258.5 million in 2019 and were PLN 88.4 million (up 52%) higher compared to the same period in 2018 (no Bytom impact between January-November 2018). The share of selling costs in revenues in 2019 was 37.3% compared to 35.2% in 2018, which means an increase in the share of costs in revenues by 2.1 pp. The increase results from merger with Bytom and its functioning for the whole 12 month in frames of VRG S.A. In 2018 the brand was part of VRG S.A. only in December 2018.

Selling costs amounted to PLN 68.5 million in 4Q19 and were PLN 17.2 million (up 34%) higher compared to the same period in 2018. Consolidation of Bytom had a material impact (lack of Bytom results in October-November 2018). The share of selling costs in revenues in 4Q19 was 33.1% compared to 31.7% in 4Q18, which means an increase in the share of costs in revenues by 1.4 pp.

Administrative expenses

General administrative expenses amounted to PLN 55.3 million in 2019 and were ca. 32% higher compared to 2018. At the same time, the share of general administrative expenses in sales fell to 8.0% compared to 8.7% in 2018. In the fourth quarter of 2019, the proportion of general administrative expenses in revenues came at 7.5% and decreased by 0.5 pp. compared to the previous year.

Increase of operating result in the apparel segment

EBIT increase resulted from general administrative expenses growing at a slower pace than the gross profit on sales. Other operating activity was in the red due to PLN 1.6 million inventory write-off at DCG S.A. company.

Financial income and costs

In 2019, the net financial result in the apparel segment amounted to PLN -4.1 million in comparison to PLN -1.7 million in 2018. Worsening of the result on net financial line was a consequence of PLN 1.2 million IFRS 16 impact.

Apparel segment	PLN ths			
	4Q19	4Q18	2019	2018
Financial costs net	-1,406	-692	-3,568	-2,605
FX differences net (excl. IFRS16)	883	330	666	867
IFRS 16 impact	3,894	-	-1,191	-
'- incl. FX differences	*4,547*	-	*1,466*	-
'- incl. interest	*-653*	-	*-2,657*	-
Financial income/ costs	**3,371**	**-362**	**-4,093**	**-1,738**

Increase of net profit in the apparel segment

In the apparel segment, VRG Group achieved a net profit of PLN 31.8 million in 2019 compared to PLN 25.7 million in 2018, which means a 24% YoY increase. Comparable net result excluding IFRS came in at PLN 32.9 million (up 28% YoY).

5 key brands at VRG Capital Group

JEWELLERY SEGMENT

Jewellery segment	PLN ths			
	4Q19	4Q18	2019	2018
Revenues	**125,628**	**110,197**	**375,947**	**322,606**
Cost of sales	58,049	50,544	177,851	155,228
Gross profit on sales	67,579	59,653	198,096	167,378
Other operating income	1,920	531	2,843	1,184
Selling costs	39,520	31,592	124,530	102,698
Administrative expenses	8,598	7,539	30,851	25,435
Other operating costs	358	369	1,082	1,029
Loss from sale of non-financial non-current assets	26	23	16	33
Profit (loss) from operations	**20,997**	**20,661**	**44,460**	**39,367**
Financial income / costs	2,938	-1,547	-4,042	-4,451
Pre-tax profit (loss)	23,935	19,114	40,418	34,916
Income tax	4,378	3,738	8,239	7,001
Net profit (loss) for the period	**19,557**	**15,376**	**32,179**	**27,915**

Jewellery segment	PLN ths			
	2019	IFRS 16 impact	2019 excl. IFRS16	2018
Revenues	**375,947**	**-**	**375,947**	**322,606**
Cost of sales	177,851	-	177,851	155,228
Gross profit on sales	198,096	-	198,096	167,378
Other operating income	2,843	8	2,835	1,184
Selling costs	124,530	-148	124,382	102,698
Administrative expenses	30,851	-10	30,841	25,435
Other operating costs	1,082		1,082	1,029
Loss from sale of non-financial non-current assets	16		16	33
Profit (loss) from operations	**44,460**	**-151**	**44,611**	**39,367**
Financial income / costs	-4,042	-700	-3,342	-4,451
Pre-tax profit (loss)	40,418	-851	41,269	34,916
Income tax	8,239	-	8,239	7,001
Net profit (loss) for the period	**32,179**	**-851**	**33,030**	**27,915**

Jewellery segment	PLN ths			
	4Q19	IFRS 16 impact	4Q19 excl. IFRS 16	4Q18
Revenues	**125,628**	**-**	**125,628**	**110,197**
Cost of sales	58,049	-	58,049	50,544
Gross profit on sales	67,579	-	67,579	59,653
Other operating income	1,920	-	1,920	531
Selling costs	39,520	-1	39,519	31,592
Administrative expenses	8,598	2	8,600	7,539
Other operating costs	358	-	358	369
Loss from sale of non-financial non-current assets	26	-	26	23
Profit (loss) from operations	**20,997**	**1**	**20,996**	**20,661**
Financial income / costs	2,938	2,358	580	-1,547
Pre-tax profit (loss)	23,935	2,359	21,576	19,114
Income tax	4,378	-	4,378	3,738
Net profit (loss) for the period	**19,557**	**2,359**	**17,198**	**15,376**

Revenues

Revenues of the jewellery segment in VRG Capital Group amounted to PLN 375.9 million in 2019 and were higher than the segment's results in 2018 by PLN 53.3 million (17%).

Revenues of the jewellery segment in VRG Capital Group in 4Q19 amounted to PLN 125.9 million and were higher than the segment's results in 2018 by PLN 15.4 million (14%).

The increase in sales of the jewellery segment was achieved due to higher sales per m2, higher on-line sales and floorspace development (11% 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 198.1 million in 2019 and was 18% higher than the one generated in the corresponding period of the previous year. Gross profit margin increased by 0.8 pp. from 51.9% in 2018 to 52.7% in 2019.

The change in the gross margin was influenced by: lower share of B2B segment with lower gross profit margin than the retail sales and improvement of gross profit margin in on-line sales.

Gross profit from the sales of the jewellery segment in 4Q19 amounted to PLN 67.6 million and was 13% higher than the one generated in the corresponding period of the previous year. In 4Q19 the gross profit margin increased to 53.8% and was 0.3 pp. lower than in 4Q18. Deterioration resulted from a growing share of watches in 4Q19 sales.

Selling costs

Selling costs in the jewellery segment amounted to PLN 124.5 million in 2019 compared to PLN 102.7 million in 2018 which means 21% YoY cost growth. The share of selling costs in total revenues slightly increased by 1.3 pp. from 31.8% in 2018 to 33.1% in 2019. Growth was related to increased marketing spending.

Administrative expenses

The value of general administrative expenses amounted to PLN 30.9 million in 2019 versus PLN 25.4 million in 2018 which translates into a 21% YoY increase. The share of general administrative expenses in jewellery segment revenues amounted to 8.2% in 2019 and was higher by 0.3 pp. from comparable period of last year. Higher share of costs in revenues is related to growth in personal costs.

Increase of the operating result in the jewellery segment

VRG Group within the jewellery segment achieved an increase in operating profit by PLN 5.1 million (+13%) in 2019. Operating profitability came in at 11.8% and was slightly lower (by 0.4 pp.) versus comparable period of last year.

Financial income and costs

The net financial activity in the jewellery segment amounted to PLN -4,0 million in 2019. IFRS16 introduction resulted in recognition of additional cost of PLN 0.7m, yet at the same time other financial costs (FX differences and interest) were lower YoY.

Jewellery segment	PLN ths			
	4Q19	4Q18	2019	2018
Financial costs net	-426	-970	-2,759	-3,358
FX differences net (excl. IFRS16)	1,006	-577	-583	-1,093
IFRS 16 impact	2,358	-	-700	-
'- incl. FX differences	*2,767*	-	*891*	-
'- incl. interest	*-409*	-	*-1,592*	-
Financial income/ costs	**2,938**	**-1,547**	**-4,042**	**-4,451**

Increase of net profit in the jewellery segment

The net profit of the jewellery segment amounted to PLN 32.2 million in 2019 compared to PLN 27.9 million in 2018, i.e. an increase by 15% YoY. Comparable YoY result excluding the impact of IFRS16 came in at PLN 33.0 million (up 18%).

Franchise constitutes 19% of Group's floorspace

Structure and characteristics of statement of financial position

Consolidated balance sheet	31.12.2019		31.12.2018	
	value PLN ths	share (%)	value PLN ths	share (%)
Non-current assets, including:	**847,036**	*59.2%*	**591,929**	*53.2%*
Intangible assets	*499,704*	*34.9%*	*507,253*	*45.6%*
Fixed assets	*71,623*	*5.0%*	*78,046*	*7.0%*
Right-of-use asset (IFRS16)	*266,405*	*18.6%*	*0*	*0%*
Current assets, including:	**584,278**	*40.8%*	**520,102**	*46.8%*
Inventory	*535,539*	*37.4%*	*460,781*	*41.4%*
Receivables	*19,986*	*1.4%*	*23,907*	*2.1%*
Cash and cash equivalents	*25,280*	*1.8%*	*33,523*	*3.0%*
Total assets	**1,431,314**		**1,112,031**	
Equity attributable to dominating entity, including:	**863,286**	*60.3%*	**805,097**	*72.4%*
Share capital	*49,122*	*3.4%*	*49,122*	*4.4%*
Net profit (loss) for the current period	*63,933*	*4.5%*	*53,572*	*4.8%*
Long-term liabilities and provisions:	**243,356**	*17.0%*	**75,468**	*6.0%*
Long-term loans and borrowings	*55,851*	*6.4%*	*70,758*	*6.4%*
Lease liabilities	*186,112*	*6.5%*	*3,627*	*0.3%*
' incl. IFRS16	*183,915*	*5.9%*	*0*	*0%*
Short-term liabilities and provisions, including:	**324,672**	*22.7%*	**231,466**	*20.8%*
Trade liabilities	*191,702*	*13.4%*	*192,820*	*17.3%*
Short-term loans and borrowings	*35,568*	*2.5%*	*25,881*	*2.3%*
Lease liabilities	*86,308*	*6.0%*	*1,739*	*0.2%*
' incl. IFRS16	*84,424*	*5.9%*	*0*	*0%*
Total equity and liabilities	**1,431,314**		**1,112,031**	

Assets

Increase in assets compared to December 31, 2018 results from recognition of right-of-use asset related to IFRS 16. This standard was introduced by the Company from January 1, 2019.

Intangible assets

Change in these items is related to settlement of merger with BTM 2 Sp z o.o. which was described in detail in notes to Consolidated Financial Statements.

IFRS 16 right-of-use asset

The company decided to implement the IFRS 16 standard from January 1, 2019. The application of this standard has a significant impact on the financial statements of the Company and the Group, as in frames of its own activities, is a party to lease agreements for premises where it sells its products and rents office space. Until now, these contracts were classified in accordance with IAS 17 as operating leasing, therefore the fees in this respect were recognized in operating costs during the contract period in the amounts resulting from invoices. Pursuant to IFRS 16 "Leases", the Company recognizes an asset due to the right-of-use together with an appropriate leasing liability determined in the amount of discounted future payments during the lease period. As of January 1, 2019, assets under the right of use are amortized on a straight-line basis, while liabilities under lease contracts are settled using the effective interest rate. The value of the right to use as at December 31, 2019 is PLN 266.4 million, which significantly increases the balance sheet total of the Company and the Group.

Inventory

Inventories as at December 31, 2019 amounted to PLN 535.5 million, which means an increase by 16% compared to December 31, 2018. In the apparel segment, the value of inventories increased by +15% YoY, while in the jewellery segment by +18%. The nominal increase in inventories resulted from development of the sales network planned for the first half of 2020.

The Group's inventory per m2 amounted to PLN 9,848, which means an increase of 10% YoY.

Inventory / [PLN/m2]	4Q19	4Q18	YoY
VRG	9,848	8,928	10.3%
Apparel segment	6,978	6,331	10.2%
Jewellery segment	21,640	20,336	6.4%

Equity and liabilities

Equity

Changes in equity by PLN 58.2 million are the result of profit generated for 2019 in the amount of PLN 64 million and consolidation adjustments resulting from the merger with BTM2 Sp. z o.o.

Long-term and short-term indebtedness

Indebtedness under long-term loans at the end of 2019 amounted to PLN 55.9 million compared to PLN 70.8 million at the end of 2018, which means a PLN 14.9 million reduction. There was an increase in lease liabilities due to recognition of leases under IFRS16. Total liabilities from IFRS16 amount to PLN 268.3 million, out of which PLN 183.9 million are long-term ones, while PLN 84.4 million are short-term ones.

In case of short-term debt, increase results mostly from the above described lease liability due to right-of-use (PLN 84 million).

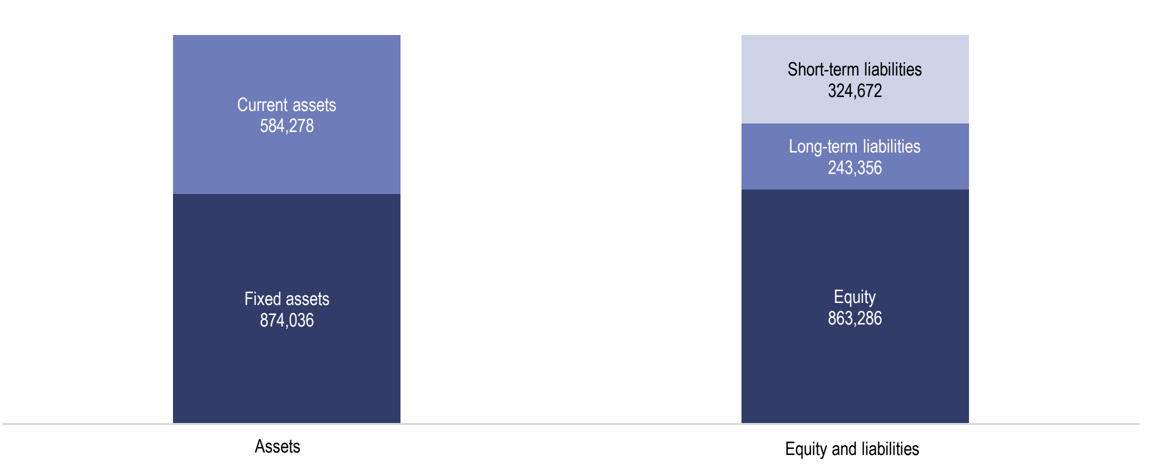
The table below presents financial liabilities at the end of 2019 and 2018 and net debt. The table includes net debt values also excluding IFRS16 which significantly changes its value.

Net debt [PLN ths]	31.12.2019	31.12.2019 (excl. IFRS16)	31.12.2018
Long-term debt	241,963	58,048	74,385
Long-term loans and borrowings	55,851	55,851	70,758
Finance lease liabilities	186,112	2,197	3,627
'- incl. IFRS 16	*183,915*	*0*	*0*
Short-term debt	143,003	58,579	48,488
Loans and borrowings	21,340	21,340	14,627
Short-term part of long-term loans	14,228	14,228	11,254

Reverse factoring	21,127	21,127	20,868
Finance lease liabilities	86,308	1,884	1,739
'- incl. IFRS 16	*84,424*	*0*	*0*
Cash	25,280	25,280	33,523
Net debt	**359,686**	**91,347**	**89,350**

The diagram below presents the structure of the balance sheet, including the most important components of assets and liabilities.

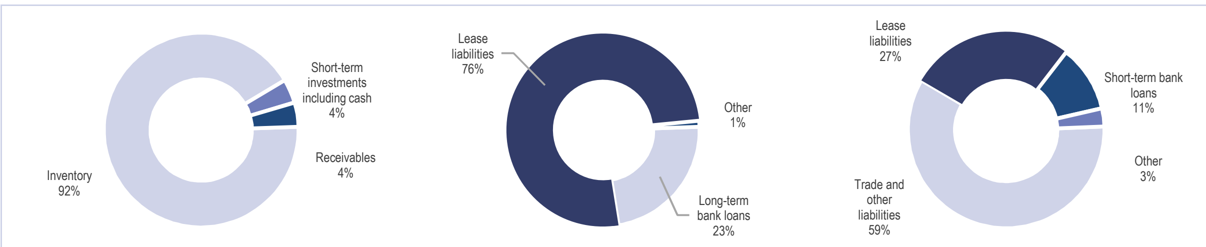
Balance sheet analysis at the end 2019



Current assets

Long-term liabilities

Short-term liabilities



Significant off-balance sheet items

Significant off-balance sheet items are described in Notes No. 29 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.

External risk factors

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.

Actions: Each of the brands owned by VRG is targeted at a wide range of consumers. The Group offers very good quality products at attractive prices. In the event of a downturn or weakening demand, the Group will reduce costs to maintain profitability.

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, labour 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.

In connection with the introduction of the retail sales tax, and in particular the provisions of the already adopted and currently suspended Act, there is a risk of charging some of the revenues of the Issuer's Capital Group with this tax. The impact on the financial result of the Group would be visible at the earliest in 2021 depending on the date of settlement of the issue of introducing this tax by the Court of Justice of the European Union and declarations of the Ministry of Finance.

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

Activities: The Group regularly analyses changing regulations, including tax regulations. In the event of legal changes, the Management Board will focus its activities on minimizing their impact on the Group's financial results.

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 traditional stores. Before introduction of the ban on trade of Sundays in 2017, Sunday was the fourth most important trading day in the week, and its percentage share in sales was 14% and fluctuated depending on the individual brands in the Company from 11 - 17%. Sales data after gradual expansion of the ban to trade on Sundays in 2018-19 show that consumer demand transfers to Saturdays and Mondays and migrates to internet, yet it is not neutral. There is a noticeable growth in e-commerce, yet falling profitability of traditional stores. The impact of this risk on Group’s financial results may grow in light of the current law which implies that almost all Sundays will be banned from trade in 2020, with few exceptions.

Actions: The Group has taken all necessary steps, including in the area of cost reduction, to minimize the impact of the restrictions introduced, nevertheless one should take into account the loss of part of the revenues generated by the Group on Sundays.

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 emergence of competition from newly established brands. VRG Group may be forced to look for new sourcing markets to keep its offer competitive. In addition, it may be necessary to increase marketing and promotion expenditures to reach the target customers.

Actions: 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.

Foreign exchange risk and risk related to hedging policy

The Group generates revenues mainly in PLN, but incurs significant costs in EUR and US dollar, which results in the financial result being exposed to exchange rate risk. In periods of weakening of PLN in relation to the main settlement currencies, the Group incurs higher costs due to exchange rate differences.

In currencies other than PLN, the Group bears the costs of (a) purchasing production materials (fabrics, accessories) and supplementary assortments in the apparel segment (shoes, knitwear, leather accessories and other) and (b) arising from commercial space lease agreements.

In the event of a significant and long-term weakening 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 Group.

Based on the sensitivity analysis carried out:

- an average annual increase of USD to PLN by 1.0% will result in a decrease in the financial result by 2.1%.
- an average annual increase of EUR to PLN by 1.0% will reduce the financial result by 2.6%.

Actions: In recent years, the Group has taken actions to limit the impact of an increase in the exchange rate on the level of the "in take" margin achieved mainly in relation to the USD / PLN exchange rate. The above changes involve the implementation of a hedging policy that is expected to significantly reduce the risk of possible USD strengthening, which could have a significant negative impact on the Group's margin. The forward contracts concluded are related to individual deliveries of goods, particularly in the fashion area and do not relate to the neutralization of any risk related to the increase in rents due to the change in the EUR/PLN exchange rate. However, it should be noted that while the hedging policy is to protect the parent company against the risk of a significant depreciation of the zloty, especially in the USD/PLN area, at the same time, if the trend is reversed and the Polish currency is significantly strengthened, it may have a negative impact on the achieved financial results. This impact will be visible in the valuation of currency liabilities related to concluded forward transactions.

Interest rate risk

As at December 31, 2019, the Group had liabilities measured at amortized cost of PLN 121,876 thousand due to loans taken. Therefore, the Group is exposed to interest rate risk due to a change in the valuation of debt based on a variable interest rate. An increase in the level of interest rates may increase the cost of financing and thus reduce the Group's profitability. Based on the sensitivity analysis, the average annual increase in the base interest rate by 10% will reduce the financial result by 0.04%.

Actions: with relatively low debt (net debt / Ebitda is 0.8) the Company now considers this risk as low. It constantly monitors the market situation, but currently does not take additional actions to hedge the interest rate risk.

Risk related to effects of coronavirus epidemic

In emergency situations, such as an epidemic, there may be state ordinances regarding the functioning of business entities, as well as changes in consumer behavior and preferences. In order to counteract the effects of such phenomena, actions may be taken on the part of government administration, local governments or other social groups that will affect the Company's operations.

According to the current assessment, the Company anticipates that the effects associated with the coronavirus epidemic will have a significant negative impact on the Company's future financial results. In particular, the Company indicates that restrictions on the operation of commercial facilities introduced by the Minister of Health, with a sales area over 2,000 m2, in which over 95% of Vistula, W.KRUK, Bytom, Wólczanka and Deni Cler stores are located, pose a very high risk of negative impact on the financial result of the Company's Capital Group during the first quarter and depending on the duration of restrictions related to the coronavirus epidemic, also for a further period. In the Company's opinion, the closing down of shopping malls related to the coronavirus epidemic will reduce consolidated revenues in the first and second quarter of 2020. In addition, the Company expects that due to deterioration of social sentiment associated with the epidemic and the expected decrease in consumption also in the period after the reopening of shopping malls, demand will be lower year-on-year, which will translate into lowering of Company's revenues in subsequent periods.

The above assessment results from the Company's best knowledge as at the date of the annual report. An accurate estimate of the impact of sales restrictions due to the temporary shut down of traditional stores located in shopping malls is impossible in the long term. The impact of coronovirus spread in epidemic conditions on financial results depends on a number of factors that are beyond the direct influence and control of the Company. However, any protracted restrictions on store openings in shopping centers will undoubtedly translate into a decrease in sales revenues and deterioration of the Group's financial standing, and their possible long-term nature may affect the risk of continuing operations.

Actions: In this situation, the Group focuses its activities on intensifying sales in on-line stores of the above-mentioned brands. The Group carries out activities to optimize the order volume for the second half of this year and to minimize the costs of its operations, in particular, it undertook activities related to rentals' renegotiation and the reduction of HR costs. In addition, talks are held with banks that finance the operations of the Company and its companies from the capital group.

Assuming that the period of the epidemic will be longer or in a situation where negative effects will take place after the end of the epidemic, further solutions have been prepared to reduce the liquidity risk.

According to the Management Board, the current situation is sufficiently monitored and controlled. Considering the actions taken, the Company's Management Board is convinced of the positive results of the above-described actions.

Internal risk factors

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.

Activities: Management boards analyse the effects of implemented activities as part of the adopted development strategy on an ongoing basis. Data on available new locations are obtained, as well as the currently possessed stores undergo evaluation. Optimization measures are taken and customer behaviour is observed to minimize the risk of adopting an incorrect strategy and its impact on the Group's operations.

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.

Actions: VRG S.A. Group 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.

In the face of recent events related to the outbreak of coronavirus, which led to the temporary shut-dwon of shopping centers, and thus lack of sales possibility on these premises, there is a risk that in the absence of the possibility of proportional to the loss of revenue reduction of rentals due for the leasable area, the commitments concluded in lease contracts will become an additional cost burden for the Company, and as a consequence may significantly affect its financial results.

Działania: prowadzony jest stały monitoring posiadanych i potencjalnych lokalizacji w celu osiągnięcia optymalnego, zgodnego z oczekiwaniami Grupy portfolio. Jednocześnie Emitent podjął działania w celu renegocjacji czynszów za aktualnie wynajmowaną powierzchnię handlową, a w szczególności domaga się braku naliczania opłat czynszowych za okres zamknięcia centrów handlowych.

Actions: constant monitoring of possessed and potential locations is carried out in order to achieve an optimal portfolio in line with the Group's expectations. At the same time, the Company has taken steps to renegotiate rents for currently rented retail space, and in particular demands that no rent be charged for the period of closed shopping malss.

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.

Actions: A quantitative and qualitative analysis of stocks is carried out periodically. On its basis, the Group decides on rebate, the amount of sell-offs, as well as any inventory write-offs. In addition, based on analysis of inventory on-hand and resale of current collections, decisions are made as to the level of purchases for subsequent sales periods.

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

The Group purchases imported materials for production, especially high-quality fabrics and sewing accessories. The cost of the above materials is an important factor affecting the cost of manufacturing of individual products in the Group'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.

Actions: The Group, taking into account the required quality, is actively looking for the most optimal service providers and suppliers, and negotiates price conditions.

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.

Actions: Constant monitoring of concluded contracts is carried out and their comparison with current market conditions.

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.

In addition, the Company has a Multi-Product Agreement in PKO BP Bank for PLN 75 million and a Multi-Product Agreement with mBank for PLN 19 million and a factoring line (EUR 2.2 million and USD 0.3 million). Along with the merger with Bytom S.A., the Company took over Multi-product Agreements regarding current financing by ING Bank Śląski S.A. for the amount of PLN 40 million. These agreements contain covenants that the Company is required to implement. In the event of a downturn in the economy, weakening of the demand for the Company's products, covenants may be at risk of breach, which results in the risk of termination by the financing banks.

Actions: The Group minimizes the risk by timely implementation of commitments to banks and monitoring compliance with covenants.

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. An additional negative factor affecting the risk of loss of liquidity is the current situation, described in the item above, related to the epidemic of coronavirus and temporary loss of revenues of the Group.

Actions: The Group constantly monitors its liquidity position by analyzing the volume of sales revenues and required liabilities. In addition, in the current situation, the Group has taken active measures to improve financial liquidity and cash protection in individual Group companies. The Group carries out activities to optimize the orders volume for the second half of this year and to minimize the costs of its operations, in particular it has taken actions related to rental renegotiations and reducing salary costs. In addition, talks are held with banks that finance the operations of the Company and its Group companies.

One of the main goals for 2020, which is closely related to the current activities related to securing the Group's financial liquidity, will be the improvement of working capital utilization efficiency, which we intend to achieve by decreasing the level of inventories year by year, changing the purchase financing structure (introducing longer payment deadlines by the end of 2020 for 90% of deliveries from the Asian market, reaching for alternative sources of financing, among others, through increased use of reverse factoring). Assuming that the period of the epidemic will be longer or in a situation where negative effects will take place after the end of the epidemic, further solutions have been prepared to reduce the liquidity risk.

According to the Management Board, the current situation is sufficiently monitored and controlled. Considering the actions taken, the Company's Management Board is convinced of the positive results of the above-described actions. Information on liabilities due and their maturity is presented in note 24a of the Consolidated Financial Statements. Information on credit lines from which these obligations will be settled is described in note 19 Credits and loans.

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 Group'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 Group or even completely block the possibility of conducting business, achieving revenues and profits.

Actions: The Group minimizes the risk by timely fulfilment of its obligations to banks.

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.

Activities: The parent company concludes transactions with related entities on market terms and analyses their marketability.

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 five significant shareholders hold a total of 59.61% 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 guarantied 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.

Activities: The Group regularly monitors the financial standing of subsidiaries and the fulfilment of their obligations towards banks financing their activities.

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).

Actions: 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.

Actions: 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 th 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 and Wólczanka. 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.

Activities: training store employees, developing customer service standards and monitoring its implementation.

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.

Actions: The Management Board monitors synergies and opportunities in this area on a regular basis after the merger of both Companies. The sales results of individual brands, their market positioning and the results of the adopted sales strategies are also observed to maximize the Group's benefits resulting from the merger.

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 2019, 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 for credit or loans and guarantees granted

Information on loan or credit sureties granted and guarantees granted is included in note 32 of the supplementary 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 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. 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.

There was no issuance in 2019.

Delivery of published forecasts

VRG S.A. did not make public any forecast of financial results for 2019.

7. PLANNED DEVELOPMENT ACTIVITIES

Development prospects of the VRG Capital Group in 2020 will be determined by the extraordinary circumstances related to the outbreak of the coronavirus pandemic, which has a negative impact on the functioning of all areas of social life and the economy. Actions taken by the state authorities to limit the spread of this disease and minimize its impact on public health of citizens, directly affect this year's operating conditions of the VRG Capital Group and its possibilities of improving financial results in relation to 2019. Strict restrictions in the operations of shopping malls introduced in the form of an administrative procedure, overnight deprived retail companies of the VRG Capital Group of the ability to generate revenues in traditional stores. Threats regarding possible interruptions in supply chains forced us to significantly revise our development plans. At present, we are facing the need to ensure the continuity of the VRG Capital Group's operation and to maintain its brands' presence on the market. VRG S.A. announced its accession to the Association of Polish Trade and Service Employers (ZPPHU), representing, among others, the largest public clothing and footwear companies, to take part in a joint action of Polish enterprises to obtain real state support as soon as possible in the form of direct financial assistance and introduction of appropriate transitional provisions in the areas of labour law, social security law and tax law, necessary to ensure the companies' functioning in the conditions of extraordinary crisis we are currently dealing with. At the same time, ZPPHU has begun negotiations with shopping malls to reduce rents for commercial space to an extent that will allow tenants to maintain financial liquidity in the absence of revenues from traditional stores.

VRG Capital Group currently enjoys a safe liquidity situation, but despite the uncertainty regarding the deadline for ending shopping malls restrictions, it conducts a number of activities so that the liquidity does not deteriorate significantly. The management boards of key retail companies from the Capital Group have already started discussions with the banks financing the VRG Capital Group to adjust the terms of instalments' repayment on long-term debt and working capital financing, as well as to provide additional limits. At the same time, VRG Capital Group continues to develop sales in on-line stores, which are currently its main source of revenue. The share of on-line channel in Capital Group revenues accounted for about 14% in 2019. The Management Board expects it to increase to over 20% in 2020. Due to the limitation of traditional trade, the Group companies reduced their orders for Spring/ Summer 2020 and the second half of this year, and implemented measures to reduce particularly significant cost of their operations. This applies in particular to renegotiating rental agreements, reducing capital expenditures for traditional network, restructuring employment costs, as well as halving marketing expenditure (except for on-line advertising).

The Capital Group expects lower revenues this year compared to the previous year and is taking active steps to ensure that the expected reduction is as low as possible. In the base case scenarios, we assume that reduced sales dynamics may last until the end of August (traditional stores closed by the end of April, weakened demand for the next months), which may translate into a loss of some 20% of annual revenues.

In connection with the anticipated promotional activities resulting from the intensification of on-line sales and its growing share in total revenues, we do not assume an improvement in the gross percentage margin. Synergies resulting from merger with Bytom SA will have a positive impact on financial results: further increase in Asian sourcing, gaining new production markets for the formal offering, joint supplier policies, which will translate into more favourable purchase prices since the Spring/Summer collection.

In 2020, VRG Capital Group, as part of the implemented savings measures, does not anticipate an increase in net retail floorspace compared to the end of 2019, with even its decrease being a possibility. Capital expenditures planned for the current year in the amount of PLN 15 million (down from the planned PLN 25 million) will be allocated to the modernization of existing stores in major shopping malls as well as development of IT infrastructure and systems.

The Management Board's goal will be to maintain positive EBITDA in 2020 (under IAS17), which should be achieved through a series of actions focused on reducing fixed costs and obtaining state support. Cost activities are primarily focused on fixed costs of stores: employee and rentals. In terms of employee costs, overdue and current holidays are being used to the maximum, sales bonuses and headquarters bonuses are limited. There is also a resignation from subcontractors, and a reduction of full-time jobs will be introduced in line with the expected reduction in shopping mall traffic. For the health of employees, remote work is used to the greatest possible extent. We have also taken measures to reduce rental rates not only for the period of closed shopping malls, but also for the period of decreased movement expected by us in shopping malls after their launch.

The board of VRG S.A. informs that continuation of activities related to the strategy of building the House of Brands and a significant acceleration of development through acquisition activities regarding strong and recognizable apparel and jewellery brands will be possible only after the coronavirus pandemic has ceased and the market situation has stabilized. The current situation also influenced the decision of the W.KRUK S.A. subsidiary to suspend the acquisition of the Czech jewellery company Klenoty Aurum. At the same time, the Management Board of VRG S.A. will closely follow new, attractive acquisition opportunities on the Polish market and neighbouring foreign markets that may potentially appear.

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 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 Company, as well as the Company'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.

Internet already amounts to 14% of Group revenues

9. Statement on application of corporate governance rules in 2019

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 2019.

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 2019.

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.

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.

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
- 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.

Audit 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 Company's Articles of Association.

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.

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, 2019

As at 31.12.2019, 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 Company's General Shareholder Meeting.

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	IPOPEMA TFI[1]	34,775,787	14.83	34,775,787	14.83
2	PZU „Złota Jesień" Open Pension Fund [2]	34,230,000	14.60	34,230,000	14.60
3	Nationale-Nederlanden Open Pension Fund and Nationale-Nederlanden Voluntary Pension Fund [3]	32,802,252	13.99	32,802,252	13.99
4	Jerzy Mazgaj with related party Krakchemia S.A.[4]	19,477,333	8.31	19,477,333	8.31
5	Forum TFI S.A.[5]	15,580,800	6.64	15,580,800	6.64

[1] information on the number of shares provided in accordance with the notification received by the Company pursuant to art. 69 clause 1 point 2 and art. 87 paragraph 1 item 2 of the Act of July 29, 2005 on public offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies and in accordance with the notifications received by the Company pursuant to art. 19 MAR., Applies to shares held jointly by all funds managed by IPOPEMA TFI S.A. According to the information received by the Company, the Ipopema 21 FIZ Private Equity Fund, managed by IPOPEMA TFI SA, holds 13,800,226 shares of the Company, which accounts for 5.89% of the share capital of the Company and gives 13,800,226 votes, constituting 5.89% of the total number votes at the Company's General Meeting of the Company.

[2] information provided on the basis of the number of shares registered by the PZU Open Golden Pension Fund at the Annual General Meeting of the Company on June 17, 2019

[3] information provided on the basis of the number of shares registered jointly by Nationale-Nederlanden Open Pension Fund and Nationale-Nederlanden Voluntary Pension Fund at the Annual General Meeting of the Company on June 17, 2019. At the Ordinary General Meeting of the Company on 17.06.2019, Nationale-Nederlanden Open Pension Fund owned independently 32.433.252 shares of the Company, which constitutes 13.83% of the share capital of the Company and was entitled to 32,433,252 votes at the Company's General Shareholder Meeting, which constitutes 13.83% of the total number of votes at the Company's General Shareholder Meeting.

[4] information on the number of shares provided 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 the notifications received by the Company pursuant to art. 19 MAR. According to the information held by the Company, Mr. Jerzy Mazgaj owns 18,477,333 shares of the Company, which represents 7.88% of the Company's share capital and is entitled to 18,477,333 votes at the Company's General Shareholder Meeting, which represents 7.88% of the total number of votes at the Company's General Shareholder Meeting.

[5] information on the number of shares provided in accordance with the notification received by the Company pursuant to art. 69 clause 1 point 2 in connection from art. 87 paragraph 1 point 2 lit. a) The Act of July 29, 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 the following funds managed by Forum TFI SA: (i) Forum X Closed Investment Fund with 8,429 .760 shares of the Company constituting 3.59% of the share capital of the Company and entitling to 8,429.760 votes at the Company's General Shareholder Meeting, constituting 3.59% of the total number of votes in

the Company and (ii) Forum XXIII Closed-end Investment Fund holding 7,151,040 shares of the Company constituting 3.05% of the share capital of the Company and entitling to 7,151,040 votes at the General Meeting of the Company, constituting 3.05% of the total number of votes in 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 2019

The table below contains information about Shareholders who had as at the date of preparation of the annual report for the financial year 2019, at least 5% of the total number of votes at the General Meeting of Shareholders, according to information possessed by the Company.

As at 30.03.2020, 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 Company's General Shareholder.

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	IPOPEMA TFI[1]	35,918,372	15.32	35,918,372	15.32
2	PZU „Złota Jesień" Open Pension Fund and PZU Voluntary Pension Fund[2]	35,540,000	15.16	35,540,000	15.16
3	Nationale-Nederlanden Open Pension Fund and Nationale-Nederlanden Voluntary pension Fund[3]	33,119,487	14.13	33,119,487	14.13
4	Jerzy Mazgaj with related party Krakchemia S.A. [4]	19,477,333	8.31	19,477,333	8.31
5	Forum TFI S.A.[5]	15,680,800	6.69	15,680,800	6.69

1 information on the number of shares provided in accordance with the notification received by the Company pursuant to art. 69 clause 1 point 2 and art. 87 paragraph 1 item 2 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, applies to shares held jointly by all funds managed by IPOPEMA TFI S.A. In accordance with the information held by the Company, the Ipopema 21 FIZ Private Non-Public Fund, managed by IPOPEMA TFI SA, holds 14,819,183 shares of the Company, which constitutes 6.32% of the share capital of the Company and gives 14,819,183 votes, constituting 6.32% in the total number of votes at the Company's General Shareholder Meeting.

2information provided on the basis of the number of shares registered by the PZU Open Golden Pension Fund and the PZU Voluntary Pension Fund at the Extraordinary General Meeting of the Company on February 20, 2020. At the Extraordinary General Meeting of the Company on February 20, 2020, the PZU "Złota Jesień" Open Pension Fund owned 34,700,000 shares of the Company independently, representing 14.80% of the Company's share capital and was entitled to 34,700,000 votes at the Company's General Shareholder Meeting, which constitutes 14.80% of the total number of votes at the Company's General Meeting.

3 information provided on the basis of the number of shares registered jointly by Nationale-Nederlanden Open Pension Fund and Nationale-Nederlanden Voluntary Pension Fund at the Extraordinary General Meeting of the Company on February 20, 2020. At the Extraordinary General Meeting of the Company on February 20, 2020, Nationale-Nederlanden Otwarty Fundusz Emerytalny independently owned 32,750,487 shares of the Company, which constitutes 13.97% of the share capital of the Company and was entitled to 32,750,487 votes at the General Meeting of the Company, which constitutes 13 , 97% of the total number of votes at the Company's General Shareholder Meeting.

4 information on the number of shares provided 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 the notifications received by the Company pursuant to art. 19 MAR. According to the information held by the Company, Mr. Jerzy Mazgaj owns 18,477,333 shares of the Company, which represents 7.88% of the Company's share capital and is entitled to 18,477,333 votes at the Company's General Shareholder Meeting, which represents 7.88% of the total number of votes at the Company's General Shareholder Meeting.

5 information on the number of shares provided in accordance with the notification received by the Company pursuant to art. 69 clause 1 point 2 in connection from art. 87 paragraph 1 point 2 lit. a) 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 the notification received by the Company pursuant to art. 19 MAR., Applies to shares held jointly by the following funds managed by Forum TFI SA: (i) Forum X Closed-End Investment Fund holding 8,429.760 shares of the Company constituting 3.60% of the share capital of the Company and entitling to 8,429.760 votes at the General Meeting The Company's General Meeting, constituting 3.60% of the total number of votes in the Company, and (ii) Forum XXIII Closed-end Investment Fund holding 7,251,040 shares of the Company, representing 3.09% of the Company's share capital and entitling to 7,251,040 votes at the Company's General Shareholder Meeting, constituting 3.09% of the total number of votes in the Company

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2020 target: maintaining a safe liquidity position

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

3. 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,

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.

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.

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 cation is submitted by authorized entities.

Extraordinary General Shareholder Meeting may also be convened by the Supervisory Board, anytime it deems the convocation necessary.

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.

A 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,
  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. 406[1] 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.

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.

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 Scrutiny 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 Scrutiny 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.

4. 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 2019, item 89, 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 of 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.

Both a member of the Management Board and an employee of the Company may be appointed proxies to represent the shareholder at the General Shareholder Meeting. However, if the proxy at the General Shareholder Meeting of a public company is a member of the management board, a member of the supervisory board, a liquidator, an employee of a public company or a member of bodies or an employee of a company or cooperative dependent on that company, the power of attorney for such a person may authorize representation only at one General Shareholder Meeting. Meeting. The proxy is obliged to disclose to the shareholder the circumstances indicating the existence or the possibility of a conflict of interest. In the cases referred to in this paragraph, further power of attorney may not be granted and the proxy shall vote in accordance with the instructions given by the shareholder.

A shareholder of a public company holding shares registered on more than one securities account may appoint separate proxies to exercise the rights attached to shares registered on each account.

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 2019 item 623) (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's
stores located
in 104 cities at
the end of
2019

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

5. The Management Board

Composition of the Management Board:

At the balance sheet date of 31.12.2019 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 composition of the Company's Management Board did not change during 2019.

In the period from the balance sheet date, i.e. 31.12.2019 to 30.03.2020 (date of this statement), the above composition of the Company's Management Board has not changed. On December 30, 2019, the Company received a statement from Mr. Mateusz Żmijewski - Vice President of the Company's Management Board on resignation from his function on the Company's Management Board with effect as at March 31, 2020.

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.

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:

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 and approval of the Supervisory Board.

6. The Company’s Supervisory Board

Composition of the Supervisory Board:

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 31.12.2019 the Supervisory Board consisted of:

- Jerzy Mazgaj - Chairman of the Supervisory Board
- Piotr Kaczmarek - Member of the Supervisory Board
- Artur Małek - 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
- Paweł Tymczyszyn - Member of the Supervisory Board

There were following changes within the composition of the Supervisory Board during 2019:

Between 01.01.2019 and 17.06.2019 the Company’s Supervisory Board consisted of the following persons:

- 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.

On April 9, 2019, the Company received a statement from Katarzyna Basiak-Gała on resignation from the function of a member of the Company's Supervisory Board on the day of the next General Meeting of the Company.

On June 17, 2019, the Company's Ordinary General Shareholder Meeting adopted the following resolutions regarding changes in the composition of the Company's Supervisory Board of the current joint term of office:

a) pursuant to Resolution No. 20/06/2019 of the General Meeting regarding the dismissal of a member of the Company's Supervisory Board, Mr. Maciej Matusiak was dismissed from the Company's Supervisory Board of the current joint term of office.

b) pursuant to Resolution No. 21/06/2019 of the General Meeting regarding the appointment of a member to the Company's Supervisory Board, Mr. Piotr Kaczmarek was appointed to the Company's Supervisory Board for the period of the current joint term of office.

c) on the basis of Resolution No. 22/06/2019 of the General Meeting regarding the appointment of a new member of the Company's Supervisory Board, Mr. Paweł Tymczyszy was appointed to the Company's Supervisory Board for the current joint term of office.

As a result, between 17.06.2019 and 31.12.2019 the Company's Supervisory Board consisted of the following persons:

- Jerzy Mazgaj - Chairman of the Supervisory Board
- Piotr Kaczmarek - Member of the Supervisory Board
- Artur Małek - 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
- Paweł Tymczyszyn - Member of the Supervisory Board

Between the balance sheet date, i.e. 31.12.2019 and 30.03.2020 (date of this statement) the composition of the Company's Supervisory Board undergone the following changes:

On February 19, 2020, Ms Grażyna Sudzińska-Amroziewicz submitted a statement of resignation from the function of a member of the Supervisory Board of VRG S.A. and as a consequence of membership in committees operating within the Supervisory Board of VRG S.A.

On February 20, 2020, the Extraordinary General Meeting of VRG S.A adopted the following resolutions regarding changes in the composition of the Company's Supervisory Board of the current joint term of office:

a) pursuant to Resolution No. 03/02/2020 of the General Meeting regarding changes in the composition of the Company's Supervisory Board, Mr. Artur Małek was dismissed from the Company's Supervisory Board,

b) pursuant to Resolution No. 04/02/2020 of the General Meeting regarding changes in the composition of the Company's Supervisory Board, Mr Jan Pilch was dismissed from the Company's Supervisory Board,

c) pursuant to Resolution No. 05/02/2020 of the General Meeting regarding changes in the composition of the Company's Supervisory Board, Mr. Piotr Nowjalis was appointed to the Company's Supervisory Board,

d) on the basis of Resolution No. 06/02/2020 of the General Meeting regarding changes in the composition of the Company's Supervisory Board, Mr. Piotr Stępniak was appointed to the Company's Supervisory Board,

e) Pursuant to Resolution No. 07/02/2020 of the General Meeting regarding changes in the composition of the Company's Supervisory Board, Mr. Grzegorz Janas was appointed to the Company's Supervisory Board.

As a result of the above, as at 30.03.2020 (date of this statement) the Company's Supervisory Board consisted of the following persons:

- Jerzy Mazgaj - Chairman of the Supervisory Board
- Grzegorz Janas - Member of the Supervisory Board
- Piotr Kaczmarek - Member of the Supervisory Board
- Piotr Nowjalis - Member of the Supervisory Board
- Piotr Stępniak - Member of the Supervisory Board
- Andrzej Szumański - Member of the Supervisory Board
- Paweł Tymczyszyn - Member of the Supervisory Board

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,

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.

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;
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, resolutions 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 committee is appointed by a resolution of the Supervisory Board from among its members, whereas in the case of the Audit Committee, the majority of its members must meet the independence criteria referred to in art. 129 section 3 of the Act on Statutory Auditors, Audit Firms and Public Oversight, and in addition at least one member of the Audit Committee must have knowledge and skills in accounting or auditing financial statements. Members of the Audit Committee should also have knowledge and skills in the industry in which the Company operates, and this condition is considered to be met if at least one member of the Audit Committee has knowledge and skills in this industry or individual members in specific areas have knowledge and skills in this industry.

The committees elect the Chairman of the committee from among its members, whereas in the case of the Audit Committee, its Chairman must meet the independence criteria referred to in art. 129 section 3 of the Act on Statutory Auditors, Audit Firms and Public Oversight.

The committee consists of three (3) to five (5) members, with the exception that the Audit Committee has three (3) to four (4) 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 reports on their activities to the Supervisory Board at least once a year, on the date of approving the annual reports.

The obligation of the Audit Committee to operate applies to the Supervisory Board, in which six members of the Supervisory Board will be appointed. If the Supervisory Board consists of five members, the tasks of the Audit Committee may be performed by the entire Supervisory Board.

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.

The Supervisory Board currently has a standing Audit Committee and a standing Nomination and Remuneration Committee.

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.

7. 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 2019, 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 Company's Supervisory Board of the current term of office at the meeting held on July 3, 2018, acting on the basis of art. 128 section 1 and art. 129 section 1 of the Act of May 11, 2017 on Statutory Auditors, Audit Firms and Public Oversight (hereinafter: the Act on Statutory Auditors), set up 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 (Chairman of the Audit Committee), Mr. Maciej Matusiak, Mrs. Grażyna Sudzińska-Amroziewicz.

The composition of the Audit Committee during 2019 was subject to changes described below resulting from changes in the composition of the Supervisory Board made on the basis of the resolutions of the Company's Annual General Shareholder Meeting on June 17, 2019, which made changes to the composition of the Supervisory Board of the current joint term of office.

Between 01.01.2019 and 17.06.2019 the Audit Committee composed of the following three members of the former Supervisory Board:

- Pan Artur Małek – Chairman of the Audit Committee,
- Pan Maciej Matusiak – Member of the Audit Committee,
- Pani Grażyna Sudzińska-Amroziewicz – Member of the Audit Committee.

In connection with the fact that pursuant to Resolution No. 20/06/2019 of the Company's Annual General Shareholder Meeting, Mr. Maciej Matusiak was dismissed from the of the Supervisory Board of the current joint term, from June 17, 2019 to July 15, 2019 in the Committee Audit was coming in.

- Pan Artur Małek – Przewodniczący Komitetu Audytu,
- Pani Grażyna Sudzińska-Amroziewicz – Członek Komitetu Audytu.

Na posiedzeniu odbytym w dniu 15.07.2019 roku Rada Nadzorcza Spółki uzupełniła skład trzyosobowego Komitetu Audytu i powołała w jego skład Pana Jana Pilcha. W związku z powyższym w okresie od dnia 15.07.2019 roku do dnia 30.09.2019 roku w skład Komitetu Audytu wchodzili.

At the meeting held on July 15, 2019, the Company's Supervisory Board supplemented the composition of the three-member Audit Committee and appointed Jan Pilch to its composition. Therefore, in the period from July 15, 2019 to September 30, 2019, the Audit Committee included.

- Pan Artur Małek – Chairman of the Audit Committee,
- Pan Jan Pilch – Member of the Audit Committee,
- Pani Grażyna Sudzińska-Amroziewicz – Member of the Audit Committee.

At the meeting held on September 30, 2019, the Company's Supervisory Board of the current term of office increased the size of the Audit Committee to four members and appointed Piotr Kaczmarek to its members. Therefore, in the period from 30.09.2019 to 31.12.2019, the Audit Committee included.

- Pan Artur Małek – Chairman of the Audit Committee,
- Pan Piotr Kaczmarek – Member of the Audit Committee,
- Pan Jan Pilch – Member of the Audit Committee,
- Pani Grażyna Sudzińska-Amroziewicz – Member of the Audit Committee.

In the period from the balance sheet date, i.e. 31.12.2019 to 30.03.2020 (date of this statement), the above composition of the Audit Committee was subject to the following changes:

On February 19, 2020, Ms Grażyna Sudzińska-Amroziewicz submitted a statement of resignation from the function of a member of the Supervisory Board of VRG S.A. and as a consequence of membership in committees operating within the Supervisory Board of VRG S.A., i.e. the Audit Committee and the Nomination and Remuneration Committee.

On February 20, 2020, the Extraordinary General Meeting dismissed Mr. Jan Pilch from the Company's Supervisory Board, which resulted in the termination of his membership in the committees operating within the Supervisory Board of VRG S.A., i.e. the Audit Committee and the Nomination and Remuneration Committee.

At the meeting of the Company's Supervisory Board on February 27, 2020, the following four persons were appointed to the Audit Committee operating within the Supervisory Board of the current term: Mr. Piotr Kaczmarek, Mr. Grzegorz Janas, Mr. Piotr Nowjalis, Mr. Piotr Stępniak.

As a result of the above, as at 30.03.2020 (date of this statement) the Audit Committe consisted of the following persons:

- Pan Piotr Nowjalis – Chairman of the Audit Committee,
- Pan Grzegorz Janas - Member of the Audit Committee,
- Pan Piotr Kaczmarek - Member of the Audit Committee,
- Pan Piotr Stępniak - Member of the Audit Committee.

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;

b) 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

c) 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;

d) assessing the independence of the auditor and consenting to the provision of permitted non-audit services to the public interest entity;

e) developing a policy for selecting an audit firm to conduct the audit and submitting it to the Supervisory Board for approval;

f) 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;

g) determining the procedure for the selection of an audit firm by a public interest entity;

h) 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);

i) 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, by the date of approving the annual reports. The Audit Committee may request that the key statutory auditor discuss with the Audit Committee, the management board or the Supervisory Board, or the key statutory auditor may request the discussion with the Audit Committee, the management board or the Supervisory Board of key audit issues that were mentioned in the additional report referred to in in art. 11 of Regulation No. 537/2014. Additional report of the audit firm or statutory auditor for the Audit Committee referred to in art. 11 of Regulation No. 537/2014, is submitted to the Supervisory Board and the management board. The Audit Committee may provide an additional report to the Audit Committee to the General Shareholder Meeting.

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 audit.

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 2019, the following Members of the Audit Committee met the criteria of independence within the meaning of art. 129 section 3 of the Act on Statutory Auditors: Mr. Artur Małek, Mr. Piotr Kaczmarek, Mrs. Grażyna Sudzińska-Amroziewicz, Mr. Maciej Matusiak. In the case of the Company, accounting knowledge and skills were in particular held by members of the Audit Committee in the following persons: Mr. Artur Małek, Mr. Piotr Kaczmarek, Mrs. Grażyna Sudzińska-Amroziewicz, Mr. Maciej Matusiak. Members of the Audit Committee acquired knowledge and skills in the above-mentioned area by obtaining education in economic and related sciences within the framework of higher education, post-graduate studies, specialized courses and training, as well as through professional experience related to performing functions in the management and supervisory bodies of capital companies (in including also performing the function of a member of the Audit Committee of these bodies). In particular, with regard to the education of the members of the Audit Committee, it may be indicated that:

Mr. Artur Małek graduated from the Faculty of Finance and Banking at the Cracow University of Economics in 2000 (Master's Degree). In 2001, he completed post-graduate studies at the School of Entrepreneurship and Management at the Cracow University of Economics, Faculty of Accounting and Finance. Mr. Artur Małek is a graduate of Executive MBA studies - Oxford Brookes University / Polish Open University in Warsaw (2009 - 2011) and a graduate of 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, 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 number of trainings in the field of financial analysis and investment consulting.

Ms Grażyna Sudzińska-Amroziewicz studied Economics and the Organization of Foreign Trade at the University of Gdańsk and was a participant in the development programs of the London Business School (Great Britain, Londyn), Institut Européen d'Administration des Affairs (Fontainbleau, France), CeDEP. She also carried out post-graduate inter-faculty studies at the Center for Forensic Sciences at the University of Warsaw.

Mr. Piotr Kaczmarek holds the title of CFA (Chartered Financial Analyst) and a securities broker license. He has been associated with the capital market since the beginning of his professional career. He has 19 years of experience in analysing and valuing financial instruments. He managed the portfolios of shares of the two largest pension funds in Poland: ING Open Penison Fund and Aviva Open Pension Fund. He is the co-author of the first model retirement funds on the market, the "Corporate Governance Principles". Initially, he worked as a securities broker at Dom Maklerski BMT S.A. (1994 - 1995), and at Bank Handlowy in Warsaw (1997-1998), and then as a capital market dealer at the American Bank in Poland S.A. (1999 - 2000). In the years 2000–2008 he was associated with ING Nationale -Nederlanden Polska PTE S.A., where he served in the following functions: stock analyst, managing the portfolio of shares and investment director for shares. In 2006, he was appointed a member of the Fund's Management Board and took the position of the director of the investment department. In the years 2009-2010 he was employed as a manager at Skarbiec TFI S.A. From 2011 until May 2016 he worked at Aviva PTE BZWBK S.A. holding the positions of senior analyst and portfolio manager in turn.
Has many years of experience in working on audit committees of listed companies. In 2016-2018 he was a member of the supervisory board and chairman of the audit committee at ROBYG S.A. and a member of the supervisory board and audit committee at HARPER HYGIENICS S.A.
Currently, he is a member of supervisory boards and audit committees in public companies: GRUPA KĘTY S.A., FERRO S.A., DEVELIA S.A., Erbud S.A., VRG S.A. and a member of the supervisory board in the private company NOVASERVIS spol. s.r.o.

Knowledge and skills in the industry in which the Company operates in 2019 had members of the Supervisory Board in the person of Mr. Artur Małek, Mr. Maciej Matusiak and Mr. Jan Pilch. Mr. Artur Małek gained industry knowledge in particular as a member of the Company's Supervisory Board and member of the Audit Committee of the Company's Supervisory Board since April 2016. Mr. Maciej Matusiak obtained knowledge of the industry in which the Company operates as a member of the Supervisory Board of LPP S.A. in 2004-2017. Mr. Jan Pilch gained knowledge in the field of the industry, among others as the founder and for many years the Vice President of the Management Board of Artman S.A. with its registered office in Cracow, listed on the Warsaw Stock Exchange in 2004-2009, where he was responsible for areas related to strategic management. In the years 1991–2004 he worked at Artman Spółka Akcyjna (until 2003, Artman Sp.z o.o.) as the Vice President of the Management Board, in the years 2004–2009 as the Vice President of the Management Board. In addition, Mr. Jan Pilch in the past was, among others, Chairman of the Supervisory Board of Simple Creative Products, Chairman of the Supervisory Board of Gino Rossi S.A. In addition, Mr. Jan Pilch was the Chairman of the Supervisory Board of Bytom S.A. from December 2010 to November 2018.

In 2019, the Audit Committee held seven plenary meetings, the main topic of which was: the scope, course and methodology of the auditor's work related to the review and audit of unit and consolidated financial statements of the Company and the audit of financial statements of subsidiaries: W.KRUK S.A. and DCG S.A., 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, monitoring and evaluation of the activity of the internal audit unit operating in the Company's organizational structure, detailed analysis of unit and consolidated projects financial statements included in the periodic reports of the Company disclosed to the public, obtaining additional information and explanations about them from the Company's Management Board and indicating the need to introduce any corrections, additional explanations or comments, assessment of the independence of the audit firm and members of the unit conducting audit of separate and consolidated financial statements of the Company for 2018, auditing the report of the Management Board of VRG SA on the Company's operations in 2018, the Company's separate financial statements for 2018, the Company's Management Board's report on the activities of the Company's Capital Group in 2018 and the consolidated financial statements of the Company Capital Group for 2018 and, based on its results, the Company's Supervisory Board recommending a positive the assessment of the audit of the above statements and the recommendation regarding the request of the Supervisory Board to the Annual General Meeting of the Company for their approval, submission to the Supervisory Board a recommendation regarding the selection of an audit company for the purpose of conducting the statutory audit of the financial statements of the Company and the Company's Capital Group in 2019 and 2020.

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:

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 Ordinance 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 Ordinance").

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 Ordinance.

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.

8. Nomination and Remuneration Committee of the Supervisory Board

As part of the Company's Supervisory Board, in the fiscal year 2019, the Nomination and Remuneration Committee operated as a permanent collective and advisory body to the Supervisory Board. The Nomination and Remuneration Committee was appointed for the first time in the Company by the resolution of the Company's Supervisory Board of June 12, 2019, pursuant to § 20. par. 1 of the Regulations of the Supervisory Board and having regard to the provisions of recommendation VI.R.3. and rules II.Z.7. of the document "Best Practice of WSE Listed Companies 2016". The abovementioned resolution determined the size of the Nomination and Remuneration Committee for three persons.

The first members of the Nomination and Remuneration Committee were: Mr Jerzy Mazgaj, Ms Grażyna Sudzińska-Amroziewicz, Mr Jan Pilch.

In the period from 01.01.2019 to 30.09.2019, the three-person Nomination and Remuneration Committee was composed of the following members of the Company's Supervisory Board:

- Pan Jerzy Mazgaj – Chairman of the Nomination and Remuneration Committee,
- Pan Jan Pilch – Member of the Nomination and Remuneration Committee,
- Pani Grażyna Sudzińska-Amroziewicz – Member of the Nomination and Remuneration Committee.

At the meeting held on September 30, 2019, the Company's Supervisory Board of the current term of office increased the size of the Nomination and Remuneration Committee to four members and appointed Paweł Tymczyszyn to its members. Accordingly, in the period from 30.09.2019 to 31.12.2019, the composition of the Nomination and Remuneration Committee included.

- Pan Jerzy Mazgaj – Chairman of the Nomination and Remuneration Committee,
- Pan Jan Pilch – Member of the Nomination and Remuneration Committee,
- Pani Grażyna Sudzińska-Amroziewicz – Member of the Nomination and Remuneration Committee,
- Pan Paweł Tymczyszyn – Member of the Nomination and Remuneration Committee.

In the period from the balance sheet date, i.e. 31.12.2019 to 30.03.2020 (date of this statement), the above composition of the Nomination and Remuneration Committee was subject to the following changes:

On February 19, 2020, Ms Grażyna Sudzińska-Amroziewicz submitted a statement of resignation from the function of a member of the Supervisory Board of VRG S.A. and as a consequence of membership in committees operating within the Supervisory Board of VRG S.A., i.e. the Audit Committee and the Nomination and Remuneration Committee.

On February 20, 2020, the Extraordinary General Shareholder Meeting dismissed Jan Pilch from the Company's Supervisory Board, which resulted in the termination of his membership in the committees operating within the Supervisory Board of VRG S.A., i.e. the Audit Committee and the Nomination and Remuneration Committee.

At the meeting of the Company's Supervisory Board on February 27, 2020, the Supervisory Board of the current term of office increased the number of the Nomination and Remuneration Committee to five people. The following five persons were appointed to the Nomination and Remuneration Committee operating within the Supervisory Board of the current term: Mr Grzegorz Janas, Mr Jerzy Mazgaj, Mr Andrzej Szumański, Mr Piotr Stępniak, Mr Paweł Tymczyszyn.

Accordingly, as at 30.03.2020 (date of this statement), the Nomination and Remuneration Committee was composed of the following persons:

- Pan Piotr Stępniak – Chairman of the Nomination and Remuneration Committee,
- Pan Grzegorz Janas - Member of the Nomination and Remuneration Committee,
- Pan Jerzy Mazgaj - Member of the Nomination and Remuneration Committee,
- Pan Andrzej Szumański - Member of the Nomination and Remuneration Committee,
- Pan Paweł Tymczyszyn - Member of the Nomination and Remuneration Committee.

The Nomination and Remuneration Committee advises the Supervisory Board on issues related to the appropriate shaping of the Company's policy regarding the employment and remuneration of the Company's management board members. In particular, the tasks of the Nomination and Remuneration Committee include the following activities in relation to the Company and companies belonging to the Company's capital group:

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) conducting analyses of remuneration and other benefits and payments to members of the Company's governing bodies and the terms of the contracts concluded with them in order to recommend the Supervisory Board decisions to conclude these contracts,
c) presenting proposals, for the approval of the Supervisory Board, regarding the principles of remuneration for members of the Management Board,
d) preparation of reports containing assessment and analysis on the payment of remuneration for members of the Company's bodies submitted to the Supervisory Board before adopting resolutions required by law, the Articles of Association and the Company's internal regulations,
e) supervising the policy regarding the applicable remuneration system, including monitoring the remuneration and bonus policy in the light of market conditions,
f) presenting to the Supervisory Board proposals regarding appropriate forms and content of agreements with members of the Management Board,
g) issuing general recommendations to executive or managing directors regarding the level and structure of remuneration for key personnel,
h) monitoring the level and structure of remuneration for key personnel based on relevant information provided by members of the Management Board,
i) discussing the general principles for implementing share-based incentive systems, in particular share options, and presenting proposals to the Supervisory Board in this respect,
j) reviewing information on incentive systems included in the annual report and presented at the General Meeting, as appropriate,
k) substantive assessment of candidates for the positions of members of the Company's Management Board and presentation of an opinion on this matter to the Supervisory Board,
l) substantive assessment of a motion to call of a Management Board member from the post and presentation of an opinion on this matter to the Supervisory Board,
m) determining and recommending candidates for members of the Company's Management Board for approval by the Supervisory Board; to this end, the Committee assesses the balance of skills, knowledge and experience of the Management Board candidates, prepares a description of the role and competences required of the candidate and estimates the expected working time,
n) periodically assessing the structure, headcount, composition and results of Management Board members and recommending changes to the Supervisory Board,
o) periodically assessing the skills, knowledge and experience of individual Board Members and presenting the results of the assessment to the Supervisory Board,
p) reviewing management policy regarding the selection and appointment of key personnel.

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	Management Board Member

Cracow, March, 30, 2020

VRG Spółka Akcyjna
Pilotów 10 St.
31-462 Cracow

DENI CLER MILANO
W.KRUK 1840
BYTOM SZTUKA KRAWIECTWA OD 1945
WÓLCZANKA
VISTULA

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 2019

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

Translation of the document originally issued in Polish

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 where VRG S.A. (the "Dominant entity", the "Group"), is a parent entity. These financial statements comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit and loss and consolidated statement of comprehensive income, the consolidated statement of changes in equity, the cash flow consolidated statement for the financial year from 1 January 2019 to 31 December 2019 and 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 2019, 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 Articles of Association applicable to the Group, as to the form and content;

The present opinion is consistent with the additional report to the Audit Committee that we issued on 30 March 2020.

Basis for opinion

Our audit was performed accordingly to the National Standards on Auditing as per International Standards on Auditing adopted by the resolution of the National Council of Statutory Auditors no. 3430/52a/2019 of the National Council of Statutory Auditors of 21 March 2019 regarding national audit standards and other documents (and its subsequent amendments) (National Standards on Auditing, “NAS”), as well as according to the Act on statutory auditors, audit companies and public supervision of 11 May, 2017 (“the Act on statutory auditors” - Journal of Laws 2019, item 1421 and its subsequent amendments), and 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 resolution of the National Council of Statutory Auditors N°. 2042/38/2018 of March 13, 2018 on the principles of professional ethics 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.

Explanation - material uncertainty related to going concern

We would like to draw attention to point 1.5 and note 31a of the information and explanations to the consolidated financial statements of the Capital Group, where there were described the events after the balance sheet date related to the occurrence of a coronavirus pandemic and their impact on the Capital Group's operations. This situation indicates the existence of significant uncertainty, which may raise serious doubts as to the possibility of continuing operations of the Capital Group. Our opinion does not contain any qualification to this matter.

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 of 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
Impairment of goodwill	
The goodwill recorded in consolidated financial statements as at 31 December 2019 amounted to PLN 302,748 thousand. The analysis of impairment was the Key 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.	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: - the assessment of key assumptions regarding market parameters of the impairment test, including discount rates, risk ratios, long-term 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 2019 amounted to PLN 535,539 thousand. The analysis of stocks valuation was the Key Audit Matter for the stock balance	Our audit procedures included in particular: - the review of accounting principles concerning the stocks valuation and related material judgements and assessments;

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 into account the character of the stocks. The Company presented disclosures related to stocks in the note no. 15 of information and explanations to the consolidated financial statements.	- 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 completeness within this scope. 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.
<u>Revenue recognition</u> The net revenues from sales recorded in the consolidated profit and loss account for period from 1 January 2019 to 31 December 2019 amounted to PLN 1,068,266 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. 1 and 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 Articles of Association. 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 the of 29 September 1994 (Journal of Laws of 2019, item 351 and its subsequent amendments) ("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 pay 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 2019 ("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 2019 (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.

Moreover, 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 separate parts meet 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 the Other information. Our responsibility regarding the audit of consolidated financial statements is to get acquainted with the 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 the Other information seems to be significantly misstated in other manner. If, based on work performed, we consider that there are material misstatements in the 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 of 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 (Journal of Laws of 2018, item 757)

- is in line with information contained 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 of 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 point 2 of the consolidated financial statements and in the point 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 resolutions of 20 February 2018 and 15 July 2019. We audit the Group's consolidated financial statements continuingly from the financial year ended 31 December 2017, which means over the last 3 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

Signed on the polish original

Key Statutory Auditor

No 90086

MAZARS

Warsaw, 30 March 2020

Annex to Resolution No. 6 of the Supervisory Board of VRG S.A. with its registered office in Cracow of March 30, 2020 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 2019 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 2019 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 2019 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 2019;
2. consolidated financial statement of the Company's Capital Group for 2019.

<u>Assessment of the Management Board's report on operations of the Company's Capital Group for 2019:</u>

The Supervisory Board assessed the Management Board's report on the operations of the Company's Capital Group for 2019 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, 2019, including the auditor's opinion on the Management Board's report on the operations of the Capital Group for 2019, and became acquainted with the recommendation of the Audit Committee regarding the Management Board's report on operations of the Capital Group for 2019 and therefore states that the Management Board's report on operations of the Capital Group for 2019:

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 2019.

The Supervisory Board states that the report on operations of the Capital Group of the Company in 2019 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 2019.

<u>Assessment of the consolidated financial statements of the Company's Capital Group for 2019:</u>

The Supervisory Board assessed the consolidated financial statements of the Capital Group for 2019 comprising:

a) consolidated statement of financial position prepared as at 31 December 2019,
b) consolidated statement of profit or loss for the fiscal year from January 1, 2019 to December 31, 2019;
c) consolidated statement of comprehensive income for the fiscal year from January 1, 2019 to December 31, 2019;
d) consolidated statement of cash flows for the fiscal year from January 1, 2019 to December 31, 2019;
e) consolidated statement of changes in equity for the fiscal year from January 1, 2019 to December 31, 2019,
f) supplementary 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, 2019, and became acquainted with the recommendation of the Audit Committee regarding the consolidated financial statements of the Capital Group for 2019 and states that the consolidated financial statements of the Capital Group for 2019 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 2019.

Taking into account the above assessment regarding the report on operations of the Capital Group in 2019 and the consolidated financial statements of the Capital Group for 2019 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,

We have had a very successful 2019. Last year consolidated revenues of VRG Capital Group exceeded PLN 1 billion for the first time in our history and amounted to PLN 1.068 billion, which gives a 33% growth versus revenues generated in the same period of the previous year. This effect was achieved despite further extension of the Sunday trade ban. The Group ended the year with 590 stores in 104 cities throughout Poland, which translated into 54.4 thousand m2 of floorspace. Development took place both through own and franchise stores. Consolidated net profit amounted to PLN 64 million, which translated into a 20% year-on-year dynamics. The most important challenge for the VRG Capital Group in the past year was effective implementation of operational integration with Bytom S.A. The consolidated gross profit margin generated thanks to revenue and cost synergies was 0.9 pp. higher compared to the previous year and proved to be consistent with our assumptions from the beginning of the year in which we promised to improve it by 1 pp. As announced, we have obtained additional synergies in the area of purchases and sourcing. Due to a better allocation of the process of creating our collections, benefiting from a joint suppliers and producers database, increased order volumes and the resulting stronger bargaining power, we have reduced the costs of purchasing products and goods, as well as sourcing costs. It should be emphasized that the obtained improvement in the margin is also the result of coordinating promotional policies applied by individual apparel brands managed by VRG S.A. This is a positive change resulting from the merger with Bytom S.A., after which the fierce market competition, especially between the Vistula and Bytom brands, has been replaced by diverse communication with the client and work on a clear stylistic distinction between both brands.

Last year, the Capital Group recorded an increase in sales both in the apparel and jewellery segment. The apparel segment achieved revenues of PLN 692 million and some 43% mainly due to acquisition of Bytom S.A. The latest fashion trends that direct our clients' demand towards casual collections have been confirmed. All our brands actively follow this trend, successfully introducing their collections to the market and achieving sales growth. In accordance with the adopted concept of mutual positioning of brands within the Capital Group, Bytom maintained its more classic line, while Vistula remained a more fashionable brand. Preserving and maintaining the identity of both brands is emphasized by the organizational structure of VRG S.A., where separate design and marketing teams of the Vistula and Bytom brands have been maintained. Formal clothing, whose symbol is still a classic suit, has a decreasing share in our revenues, but thanks to the ability to adapt the collection to current trends and flexible pricing policy we are able to generate revenue increases.

Our brand of luxury women clothing – Deni Cler – has also been successful in 2019. In the absence of floorspace increase, its revenues grew by 7% and gross profit margin increased up to 60%. Sales efficiency improvement was achieved by introduction of successful capsule collections, development of the shop in shop concept and increased presence of the Deni Cler brand in selected multibrand stores.

W.KRUK brand representing the jewellery segment can boast of a two-digit growth rate. W.KRUK retail revenues amounted to PLN 371 million, which gave 19% growth compared to 2019. Last year W.KRUK's offer was also enriched by new product categories including lab-grown diamonds (New Diamond by W.KRUK) and a collection of perfumes. This year W.KRUK is celebrating the 180th anniversary and it will be a great opportunity to emphasize that it is the brand with the longest history on the Polish jewellery market.

As announced, in addition to investments in traditional stores, 2019 was also a year of dynamic development of on-line sales. In 2019, sales of e-stores of VRG Capital Group amounted to PLN 145 million, which is an *increase of 50% year on year. In the Group's revenues for 2019, the share of the Internet channel already amounted to almost 14%. Sales of our on-line stores have been growing systematically for years at a rate many times higher than sales of the traditional network, in line with changes in consumer behaviour, increasingly using the possibility to shop on-line. As in previous years, Wólczanka was the leader of on-line sales among all brands of the Group. The brand's on-line sales increased by 40% and the share of the Internet channel in the revenues of this brand amounted to almost 37%.*

In connection with the growing epidemic of coronavirus in Poland, there has been an absolutely extraordinary situation in recent weeks that has never occurred during the long-term operation of our brands on the market. All our Group's traditional stores located in shopping malls have been closed and the prospects of their opening in the near future are uncertain. This means that during the closing period we will lose over 80% of our revenues. And after this period, expecting a significant change in the shopping sentiment of our customers and a decrease in consumer demand, we expect that also after the opening of stores revenues will be lower. We estimate that the prospect of returning to sales levels similar to the previous year will only appear with the launch of the Autumn collection. The loss of revenues that will occur in the first half of the year will not be able to be compensated in the rest of the year. It also means that this year, for the first time in seven years, we will not be able to achieve the double-digit revenue and profit dynamics to which we have accustomed our shareholders.

The current situation requires redefining the goals we set ourselves in 2020. We will now focus primarily on maintaining financial liquidity and improving working capital management. As part of actions taken, we will strive to reduce operating costs, limit investments from planned PLN 25 million to around PLN 15 million, and renegotiate rental agreements and speed up closing of unprofitable stores. We will increase our focus on intensifying on-line sales by optimizing the purchasing process in terms of maximum shortening of delivery time, facilitation of returns and development of a recommendations system for subsequent purchases. We anticipate that the share of on-line stores in our revenues will clearly exceed 20%. We will also significantly optimize the volume of orders for the second half of this year, adapting it to expected demand. All these activities are to lead our Capital Group through an unprecedented crisis that we have been experiencing as a retail industry since mid-March this year and whose effects cannot be fully predicted. We believe that the actions taken in conjunction with the solidarity of our employees, for which I would like to thank, will help stop and effectively control the situation that the coronavirus epidemic has created for the health and life of citizens, and consequently for our Group and the entire Polish economy.

Our Capital Group, being in a very good financial condition and implementing the strategy of building the House of Brands is ready for long-term and dynamic development. I am convinced that the current extraordinary situation related to the coronavirus epidemic that is affecting us so much today does not cancel our long-term intentions and plans, but only defers them. I believe that thanks to activity and the commitment of our entire team we will survive this difficult period and will soon return to the path of further dynamic growth.

Grzegorz Pilch
President of the Management Board

Cracow, March 30, 2020

VISTULA WÓLCZANKA BYTOM W.KRUK DENI CLER

2019

NON-FINANCIAL REPORT

of VRG S.A. and VRG S.A. Capital Group for 2019

Cracow, March 30, 2020

VRG
VISTULA RETAIL GROUP

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1. Introduction

VRG S.A. Capital Group and VRG S.A. as the third largest non-food retailer listed on the Warsaw Stock Exchange in Poland, managing five recognisable brands, both in the apparel and jewellery segments, takes corporate social responsibility and sustainable growth into account in its actions. While conducting its operations, both VRG S.A. Capital Group as well as VRG S.A. use natural, human and social capitals. As a result, the Management engages in actions to deepen the understanding of the expectations not only of its shareholders but all stakeholders. Coming across these expectations, the Management of VRG S.A. presents the Non-financial Report of VRG S.A. and VRG S.A. Capital Group which comprises the period between January 1, 2019 and December 31, 2019 as well as comparable data.

The Report has been prepared in line with the guidelines of Accounting Act, especially article 49b and article 55 point 2b. Both in 2019 and 2018 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 2019 and 2018, 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.

2019 was a year of important changes for VRG S.A. Capital Group and VRG S.A. On 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. 2019 was marked by intensive work to physically not only formally merge the two entities, with the aim to achieve synergies promised by the Management. The merger affected both the separate and consolidated financial statements in 2018 and 2019. The results of Bytom S.A. Capital Group were consolidated only for December in 2018, but were reflected in the end-2018 balance sheet. 2019 results were consolidated for the whole year and were part of both the separate and consolidated statements. Non-financial data has been presented in the same way, to maintain the possibility of comparison of non-financial data with financial ones. At the same time, to allow readers to make more insightful YoY comparison, in selected areas we also present 2018 pro-forma data i.e. showing how the data would look like if Bytom S.A. Capital Group was consolidated for the whole 2018, and information on a stand-alone basis, i.e. without the impact of Bytom S.A., allowing to assess the organic growth of VRG S.A. and VRG S.A. Capital Group.

Similarly to last year, the basis for creation of this Non-financial Report 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 in the form of Code of Conduct for Suppliers and Contractors and Sustainable Development Strategy for 2020-22, which are presented in this document. At the same time, compared to last year, the Report also includes a description of selected climate topics, meeting some of the requirements of the non-binding Guidelines on non-financial reporting: Supplement on reporting climate-related information (2019/C 209/01) published by the European Commission in June 2019. This Non-financial Report presents an expanded set of non-financial indicators to help recipients better understand the Company and the Group and their impact on employees, society, environment and climate.

Preparation of the content of this Non-financial Report took place in five stages. The first stage was confirmation of important issues for each of the reporting areas and confirmation of previously performed materiality analysis. The second stage encompassed confirmation whether the map of stakeholders and the description of relations with external parties are up-to-date. The third stage was updating of data and non-financial information provided in previous years together with an analysis of relationships and trends. The fourth stage was supplementing the non-financial information with new elements subject to reporting. The fifth stage was gathering all of the latter to form a Non-financial Report.

The Company and the Group have produced this Non-financial Report 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. While preparing this Report the Management used the materiality assessments prepared two years ago, as merger with Bytom S.A. did not add new stakeholder groups. Information presented in this Report includes the majority of topics that have been deemed as material in SIN materiality matrix for the retail segment. While preparing this Report, the Management tried to incorporate to the highest possible extent the Guidelines on non-financial reporting: methodology for reporting non-financial information (2017/C 215/01) published by the European Commission in 2017, so as to include information needed to understand development, results and the situation of the Company and Capital Group by its stakeholders. Similarly as last year, the Report has not been audited by any external party. In 2019 the Company and the Group decided to publish the non-financial information in the form of a report. In the previous two years publication took place in the form of a statement.

KEY NON-FINANCIAL INDICATORS OF VRG S.A. CAPITAL GROUP FOR 2019

2,541 employees	**3.7m** loyal customers	**86%** women as employees
54,378 m^2 floorspace	**19%** franchise in total m2 / **14%** Internet in revenues	**5** brands
590 stores	**830** suppliers	**104** cities

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, Deni Cler Milano (the apparel segment) and W.KRUK (the jewellery segment). The brands on top, offer different lines and sub-brands. 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. The Group's offer is targeted at both: women and men.

APPAREL SEGMENT	JEWELLERY SEGMENT	OTHER BUSINESS
VRG S.A. parent company Brands: Vistula, Wólczanka, Bytom (since XII.2018) DCG S.A. Deni Cler brand Wólczanka Shirts Manufacturing sp. z o.o. Production	W.KRUK S.A. Jewellery, watches, accessories	VG Property sp. z o.o. Real estate

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 debute 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, WIG-ODZIEŻ and WIG ESG.

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 (dating back to 1945), 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.

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.

APPAREL SEGMENT

VISTULA 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.		
VISTULA	Lantier VISTULA FINE TAILORING	VISTULA RED
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.
Number of stores		
2018: 148 2019: 154		
Floorspace (m2)		
2018: 18,230 2019: 19,320		
Average stores size (m2)		
2018: 123 2019: 125		

WÓLCZANKA

the brand exists since 1948, a boutique with men and women shirts, including an up-market Lambert line.

WÓLCZANKA	LAMBERT LONDON STYLE SHIRTING
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	
2018: 139 2019: 140	
Floorspace (m2)	
2018: 4,979 2019: 4,954	
Average stores size (m2)	
2018: 36 2019: 35	

BYTOM

to Polish brand with a history dating back to 1945, when clothing production facilities were established. Basing on a 75-year-long heritage, the brand offers men formalwear which combine tradition with a modern vision of men tailoring.

DENI CLER

brand coming from Milan, offering up-market clothing for women.

BYTOM	Intermoda	DENI CLER MILANO
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.	Brand created for men with a classic offering: suits, trousers and jackets. Dedicated for wholesale.	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.
Number of stores		
2018: 122 2019: 126		2018: 31 2019: 31
Floorspace (m2)		
2018: 15,816 2019: 16,421		2018: 3,047 2019: 3,037
Average stores size (m2)		
2018: 130 2019: 130		2018: 98 2019: 98

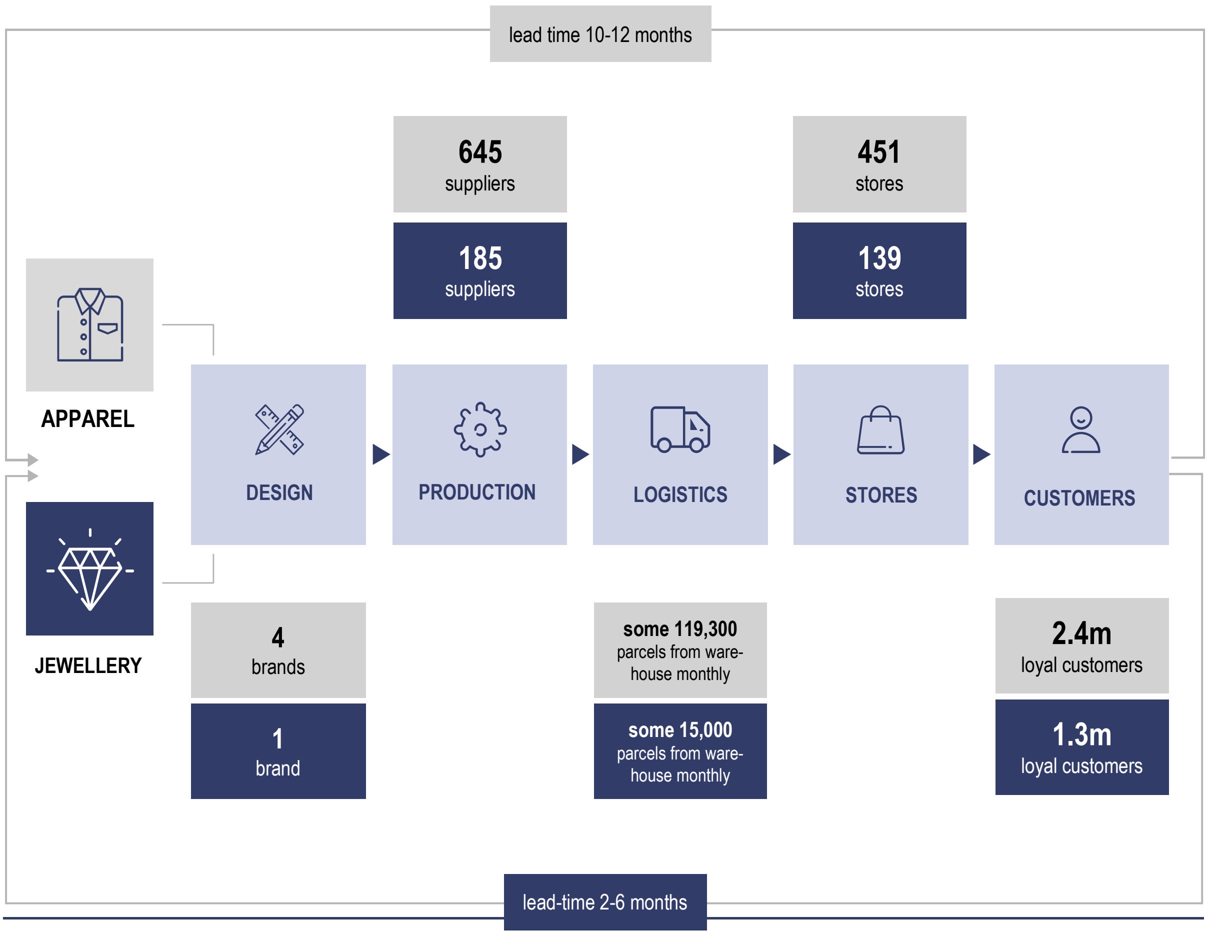
JEWELLERY SEGMENT

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		
W.KRUK 1840	KRUK FASHION	ZEGARKI
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.	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.	W.KRUK also has a broad offering of luxury Swiss watches of such brands like Rolex (sole distributor in Poland), Cartier, Jaeger-LeCoultre, Hublot, Panerai, Chopard, Breitling, Girard-Perregaux, Omega, Tudor, Tag Heuer, Longines, Rado, Frédérique Constant, Tissot, Certina, Doxa, Gucci, Swatch and many others.
Number of stores		
2018: 128 2019: 139		
Floorspace (m2)		
2018: 9,554 2019: 10,647		
Average stores size (m2)		
2018: 75 2019: 77		

2.2. Value chain

2.2.1. Value chain description

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. In 2019 W.KRUK presented a line of signature perfumes for men and women.

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, Czech Republic, Slovenia, Portugal, Spain, UK and France. Part of fabrics is sourced from China, India, Turkey and Egypt. To a lower extent we rely on Thai, Wietnamese, Korean (South Korea), Brazilian, Japanese and Moroccan 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 2019, some 25% of the Company's production-related suppliers had cooperation history of more than 10 years with Vistula, Wólczanka and Bytom brands. Some 31% of suppliers have a cooperation history of between 5 to 10 years, while the remaining 44% was constituted by suppliers with whom cooperation lasted less 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 2019 some 11% of the plant production was manufactured for VRG S.A. versus 13.5% in 2018.

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 in Komorniki near Poznań and other Polish workshops. 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. For the purposes of calculations, we have taken into account suppliers of precious stones, jewellery and finished products for which W.KRUK is a distributor of the so-called external brands. Some 58% of jewellery suppliers are suppliers with whom W.KRUK has cooperated for less than 5 years, some 17% are suppliers, cooperation with which has lasted between 5 and 10 years, while some 25% are companies with which W.KRUK has cooperated more than 10 years. The high share of suppliers with seniority of less than 5 years results from the strategy of modifying the portfolio of suppliers and the desire to cooperate with suppliers with new technical capabilities, and the growing share of external brands purchases. Data provided in the Non-Financial Statement for 2018 did not include suppliers of finished products, the so-called external brands. W.KRUK collects statements from its suppliers of gold and precious stones jewellery, confirming that gold, platinum and stones used in jewellery are natural, obtained from legal sources. In addition, the authenticity of the components is also confirmed at the quality control stage by W.KRUK experts. The company also maintains a register of certificates and similar documents provided by contractors which guarantee the reliability and transparency of their services.

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. In 2019, automation was implemented to control the quality of goods (understood as its suitability for sale) withdrawn from the traditional channel, and ultimately directed to the Internet channel. The shipment of goods purchased in on-line stores has also been optimized by improving the complementing processes, which significantly shortens the delivery time of e-commerce orders to customers. 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 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, Bytom 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. The Company and the Group make sure that all franchise stores (although they are not run directly by the Company and the Group) meet the standards by following the procedures and guidelines regarding the acquisition of new franchisees. As a result of the dynamic development of the retail network, the number of cities in which the Group's stores are located increased from 98 in 2018 to 104 in 2019. At the end of 2019, the Capital Group network included 590 stores (compared to 568 at the end of 2018). The area of the Capital Group was 54,378 m2 (compared to 51,626 m2 at the end of 2018, an increase of 5% YoY). This increase was organic - the Bytom brand area (acquired on November 30, 2018) was consolidated at the end of 2018.

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 2019 reached 5.2 years compared to 5.1 in 2018 (for own stores) at the Capital Group level. For VRG S.A. analogical values reached 5.0 for 2019 and 2018.

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	2018	2019
VRG S.A. Capital Group	17%	19%
Apparel segment	20%	22%
Jewellery segment	7%	8%
VRG S.A.	20%	22%

% of internet in revenues	Including Bytom for XII 2018	Bytom pro-forma for 2018
VRG S.A. Capital Group	2018: 12.0% 2019: 13.6%	2018: 11.4% 2019: 13.6%
Apparel segment	2018: 15.6% 2019: 17.9%	2018: 13.7% 2019: 17.9%
Jewellery segment	2018: 6.7% 2019: 7.5%	2018: 6.7% 2019: 7.5%
VRG S.A.	2018: 16.5% 2019: 18.4%	2018: 14.2% 2019: 18.4%

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 2019 some 17.6m people visited the Capital Group's stores (excluding Bytom stores), up 4% YoY, despite dynamic on-line sales growth (without Bytom in 2018 and 2019, due to changes in meters gathering data).

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 2019 The Men's World Club had 1.7m users, up 10% YoY. Bytom brand has a dedicated loyalty programme called Bytom Klub, which gathered 0.7m of loyal customers at the end of 2019 (up 15% 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 some 45 ths of members at the end of 2019 (up 6% YoY). W.KRUK's loyalty programme Klub Dla Przyjaciół W.KRUK is also a popular one. At the end of 2019 there were 1.3m people registered in it, up 6% 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 3.7m people, up 9% YoY.

2.2.2. Dependencies and usage of capitals

In its value chain both the Company and the Capital Group use several types of capitals and affect these. Key dependencies have been presented on the following graph.

What we put into VRG S.A. and VRG S.A. Capital Group	VRG S.A. and VRG S.A. Capital Group	What VRG S.A. and VRG S.A. Capital Group give the surroundings
Financial capital Sources of Group financing in the form of own equity, generated cash flows, bank loans	Processes:	**Financial capital** Generating cash flows, which can be reinvested into the Company and the Group
Manufactured capital Group production facility and the facilities of its suppliers, inventory in stock	ideas for new collections in the apparel and Jewellery segments, brand creation,	**Manufactured capital** Supporting our suppliers, as a result maintaining and supporting creation of new jobs and products; introduction of Code of Conduct for Suppliers and Contractors
Intellectual capital Group's brands and their trademarks, recognisable all over Poland, possessed procedures and systems	ordering goods, delivery of goods to stores,	**Intellectual capital** Development of Group's brands, attractive collections, ethical marketing
Human capital Group employees both in HQs and in stores and production, their knowledge and experience	everyday contact with customers in stores,	**Human capital** Development of employees through trainings, implementation of Diversity Policy, Code of Ethics together with Group values
Social capital Group's brands reputation, Group's relations with the outside world	contacts with suppliers, relations with employees,	**Social capital** Strengthening relations with customers, support for local societies
Natural capital Natural resources used to obtain fabrics and precious metals for jewellery	back-office maintenance (finance and administration)	**Natural capital** Actions aiming at minimising the Group's impact on environment, Sustainable Development Strategy

2.3. Group's strategy and its results

2.3.1. Mission and Vision of the Capital Group

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.

MISSION

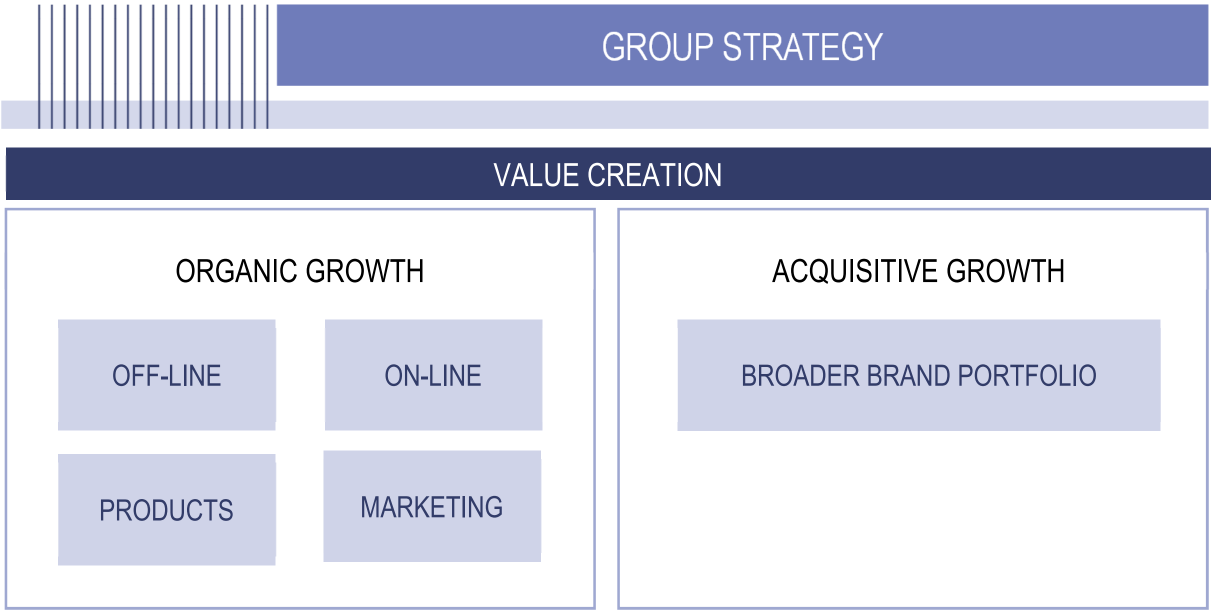
VRG mission is to creatively pursue perfection by offering its Customers high quality products and services with a special emphasis on their uniqueness and aesthetics.

VRG vision is creation of House of Brands and assuring development of each of our brands by respecting their identity and independence and building value added.

VISION

2.3.2. Strategy of the Capital Group

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.



The Capital Group plans to continue medium-term network development domestically by adding new locations for own stores of key brands as well as development of franchise floorspace. It will be possible once the situation related to coronavirus stabilises. The Capital Group's aim is to continue to benefit from internet sales popularisation (which at the moment of Report publication is the Group's sole sales channel, due to closing down of shopping malls). 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 (in the short-term the goal is set at minimisation of fixed costs).

At the same time, along with the Group's vision, the Management follows 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 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 non-food 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 2020 target is to maintain a stable liquidity position of the Company and the Group in light of uncertainties related to coronavirus.

A significant distinguishing feature of the Capital Group's actions will continue to be 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 modem chic, while in jewellery maintaining manufacturing tradition in modern designs.

	Creation	Tradition
75 years SUITS	Innovative fabrics Modern technologies in the production process Suits dynamised via sports	Natural fabrics Cultivation and prestige of clothing tailoring and constructor jobs Traditional tailoring, classical and timeless patterns
180 years JEWELLERY	Unique design alluding to global trends Jewellery collections with a personalised message from their ambassadors	Traditional manufacturing techniques and human labour combined with modern technology

2.3.3. Sustainable Development Strategy of the Capital Group

In order to meet the expectations of its stakeholders, the Management Board of the VRG Group also created the Sustainable Development Strategy for 2020-2022. This three-year strategy is the first strategy of social responsibility created by the VRG S.A. Capital Group. Its purpose is to signal the importance of sustainability issues to both external and internal stakeholders. It is important for both the Group and the Company that future generations, which will represent both its clients, employees and suppliers, can realize their dreams, goals and needs.

Products	People	Places
Our products We want our products to be safe, eco-friendly and ethical. We promote responsible consumption.	**Our employees** We want to provide our employees with the best workplace in which they can develop.	**Our places** We want our stores to be more and more ecological and our activities have a positive impact on the local community.
Permanent ecological lines in the offer of all brands. Emphasis on the use of modern and eco fabrics or raw materials, which should represent some 10% of apparel collections. Implementation of the Code of Conduct for Suppliers and Contractors and stronger control over the supply chain. Emphasis on environmental matters.	More training opportunities for employees, in particular on responsible design and ethics. Greater work flexibility, easier remote working. New perspectives for young people - wider cooperation with universities and vocational colleges.	Introduction of new greener concepts for stores of all brands. Promotion of eco-friendly attitudes among employees. Reducing environmental impact in key places of the group (Cracow, Poznań, Warsaw, Ostrowiec Świętokrzyski).

The strategy is based on the Group's achievements to date in the form of implementing internal policies and the Code of Ethics. It is also the starting point for the next steps towards the Group's social responsibility and supporting sustainable development. This strategy is not an environmental or climate strategy. The Group and the Company have begun collecting data and activities that will allow to formulate such a strategy in the future.

2.3.4. UN Sustainable Development Goal

Currently, the key operational activities of VRG S.A. and the VRG S.A. Capital Group are limited to Poland, but the Management Board is not indifferent to global challenges regarding sustainable development. The VRG Capital Group and VRG S.A. with their activities described in this Report contribute to the implementation of the UN Sustainable Development Goals for 2015-2030. The implementation of the Capital Group Sustainable Development Strategy should additionally contribute to the conduct of the UN objectives described below.

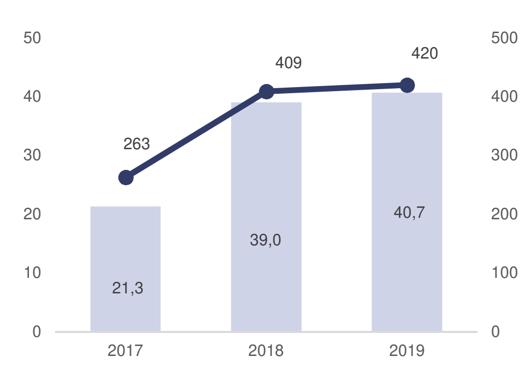
UN Sustainable Development Targets	Actions of VRG S.A. and VRG S.A. Capital Group
4 QUALITY EDUCATION	1. Support for educational programmes related with the job of clothes constructor and jewellery craft. 2. Company's employees supporting high school education. 3. Organisation of thematic workshops for pupils and students related to clothing at the Company's perimeters.
8 DECENT WORK AND ECONOMIC GROWTH	1. Support for the country's economic development due to comprehensive operations (from production to sales, store network all over the country, e-stores of all brands). 2. Emphasis on decent and fair treatment of employees and dignified treatment of workers of subcontractors implementation of Code of Conduct for Suppliers and Contractors). 3. Favourable employment terms in all Group.
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	1. Usage of the latest production methods, both in Poland as well as at foreign subcontractors. 2. Offer including innovative solutions both in terms of fabrics in the apparel segment and in terms of ores in the jewellery segment (e.g. lab-grown diamonds).
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	1. Promotion of responsible consumption – sale of high-quality clothing and jewellery for years. 2. Eco-friendly materials and collections in offer. 3. None of the brands uses natural furs since Spring/Summer 2020.
13 CLIMATE ACTION	1. Led lightning in an increasing number of stores. 2. Rental agreements with environmental clauses. 3. New more ecological location of W.KRUK manufacturing capacity.

2.3.5. Financial results of the Company and the Group

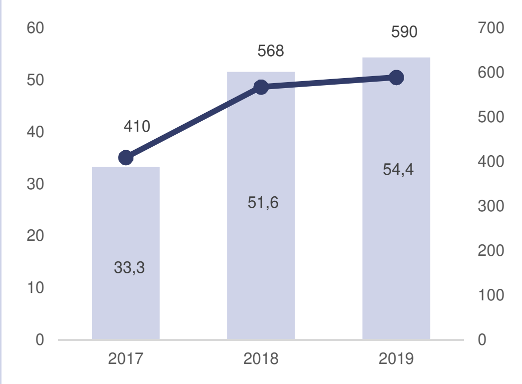
Financial results of the last couple of years show that the strategy pursued by the Management of the Company and the Capital Group has been a proper one. Both the Company and the Capital Group consistently develop

Number of stores and floorspace (ths m2)

VRG S.A.



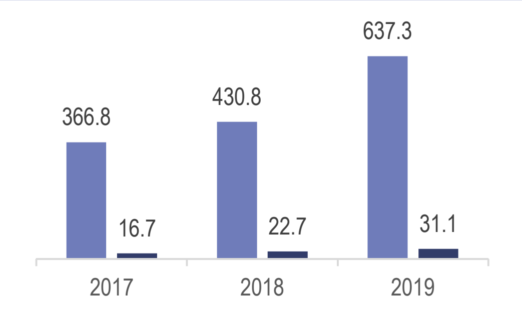
VRG S.A. Capital Group .



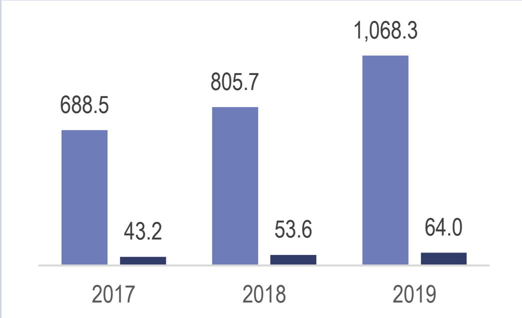
The increase in the number of stores and floorspace results from the good perception of the Company's and Capital Group's brands among customers, an offer tailored to their expectations and needs as well as the financial stability of the Company and the Group, which finances this development.

Revenues and earnings (PLN m)

VRG S.A.



VRG S.A. Capital Group



Higher revenues in addition to development of traditional network, also result from consistent development of the internet channel. Strong position of the Company's and Capital Group brands combined with their better price segmentation allows for a higher gross margin on sales. As a result, both the Company and the Group achieve better YoY results ensuring employment to a significant number of employees.

2.4. Awards and achievements

The Group's brands have obtained several awards and designations from their customers. Below are selected ones achieved in 2018 and 2019:

- In 2019 Vistula brand obtained a Twój Styl editorial award of Fashion Perfection for „Vistula with passion" project initiated in 2018.
- In 2019 Vistula brand achieved a Twój Styl editorial award of Fashion Perfection for collection Vistula and Prosto.
- In 2018 Vistula brand obtained a Twój Styl editorial award of Fashion Perfection for Robert Lewandowski Collection 2017.
- In 2019 Wólczanka brand ranked third in Top Avanti contest for women collections.
- In 2018 Wólczanka brand ranked third in clothing category in Top Avanti contest organised by AVANTI.
- 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 W.KRUK BLACK perfumes.
- In 2019 W.KRUK collected the Twój Styl editorial award of Fashion Perfection for Chopard brand (as the brand's distributor).

- In 2019 W.KRUK obtained Top Avanti 2019 prize in the Jewellery category for OHELO collection.
- In 2018 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 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.
- 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.

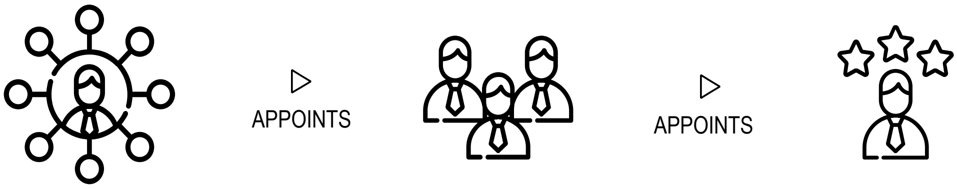
2.5. Organisations and societies

VRG S.A. Capital Group via its parent company is a member and supports actions of several 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.
- Chamber of Cotton in Gdynia - associated with the cotton industry since 1935 the Chamber of Cotton in Gdynia is an international professional association, not-for-profit, not conducting commercial activity, with membership amounting to almost 100 companies and organizations from 11 countries from around the world. The mission of the Chamber of Cotton in Gdynia is to create an economically and organisationally strong cotton sector in Poland and internationally by supporting the activities of its members and institutions, authorities and organizations interested in cotton and other fibres.
- The Chamber of Commerce and Industry in Cracow, which represents the economic interests of member companies towards public administration and European Union bodies, and supports them in raising their competitiveness, innovation and promotion of economic activity in the country and abroad.
- The Polish Council of Shopping Centres (PRCH) is the largest organization in Poland that brings together companies related to the industry of shopping malls and highstreets. PRCH is a not-for-profit association of over 240 companies operating in the commercial real estate industry. The Polish Council of Shopping Centres is an international partner of the International Council of Shopping Centres (ICSC) and has been operating in Poland since 2003.
- Association of Polish Trade and Service Employers - an association of Polish companies from the retail sector established in 2020 due to the negative impact of the coronavirus epidemic on the results of Polish clothing, footwear and accessory brands. The goal is to undertake joint activities that will support these companies in the difficult period of closed shopping malls. The union has made its demands regarding state support to state administration bodies.

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.



GENERAL SHAREHOLDER MEETING	SUPERVISORY BOARD	MANAGEMENT BOARD
▪ Ordinary General Shareholder Meeting takes place once a year ▪ Extraordinary General Shareholder Meeting takes place in special situations ▪ GM can be convened by the Management from its own initiative, initiative of the Supervisory Board or shareholders with 1/20 of equity ▪ appoints Supervisory Board, grants discharge to Supervisory and Management Boards, approves financial statements and profit distribution	▪ consists of 5 to 7 members ▪ 3 year term ▪ supervises the operations of the Company and the Group ▪ appoints the Management Board and approves selected most important decisions ▪ meets at least once a quarter ▪ the Audit Committee consists of independent members ▪ there is also a Remuneration and Nomination Committee	▪ consists of 3 to 6 people ▪ 3 year term ▪ represents the Company and the Capital Group ▪ takes the most important decisions ▪ prepares organic growth strategy, is responsible for M&A ▪ documents need signature of 2 members

DETAILS

Ipopema TFI	15.32%
PZU OFE and DFE	15.16%
NN OFE and DFE	14.13%
Jerzy Mazgaj with related party	8.31%
Forum TFI	6.69%
Free-float	40.39%

Jerzy Mazgaj, Chairman of the Supervisory Board
Grzegorz Janas
Piotr Kaczmarek
Piotr Nowjalis
Piotr Stępniak
Andrzej Szumański
Paweł Tymczyszyn

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

2 Committees in the Supervisory Board

86% of Supervisory Board are independent members

There are 21 directors under the Management Board. 11 of them are women.

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 59.61% 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, 6 out of 7 Supervisory Board members are independent. The Supervisory Board is a diverse one in terms of business experiences of its representatives. 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 currently consists of four 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.

	Jerzy Mazgaj (P)	Grzegorz Janas	Piotr Kaczmarek
Independent		✓	✓
Audit Committee		✓	✓
Nomination and Remuneration Committee	✓	✓	

P – Chairman

	Piotr Nowjalis	Piotr Stępniak	Andrzej Szumański	Paweł Tymczyszyn
Independent	✓	✓	✓	✓
Audit Committee	✓ (P)	✓		
Nomination and Remuneration Committee		✓ (P)	✓	✓

4. Stakeholders

Stakeholder analysis conducted for the purpose of this Non-financial Report showed that stakeholder groups have not been altered compared to 2017 and 2018 (merger with Bytom S.A.). For the purpose of 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. Overall, 353 stakeholders participated in the survey (321 in survey conducted in 2017 for the first Non-financial Statement and 32 Bytom's stakeholders for the 2018 Non-financial Statement). 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.

CUSTOMERS
are in the centre of our attention

PUBLIC INSTITUTIONS
we pay taxes and social security

SUPPLIERS
we focus on long-term relations

LOCAL SOCIETY
cooperation with artistic schools in cities where are offices are located

CAPITAL GROUP

EMPLOYEES
we offer stable employment and development opportunities

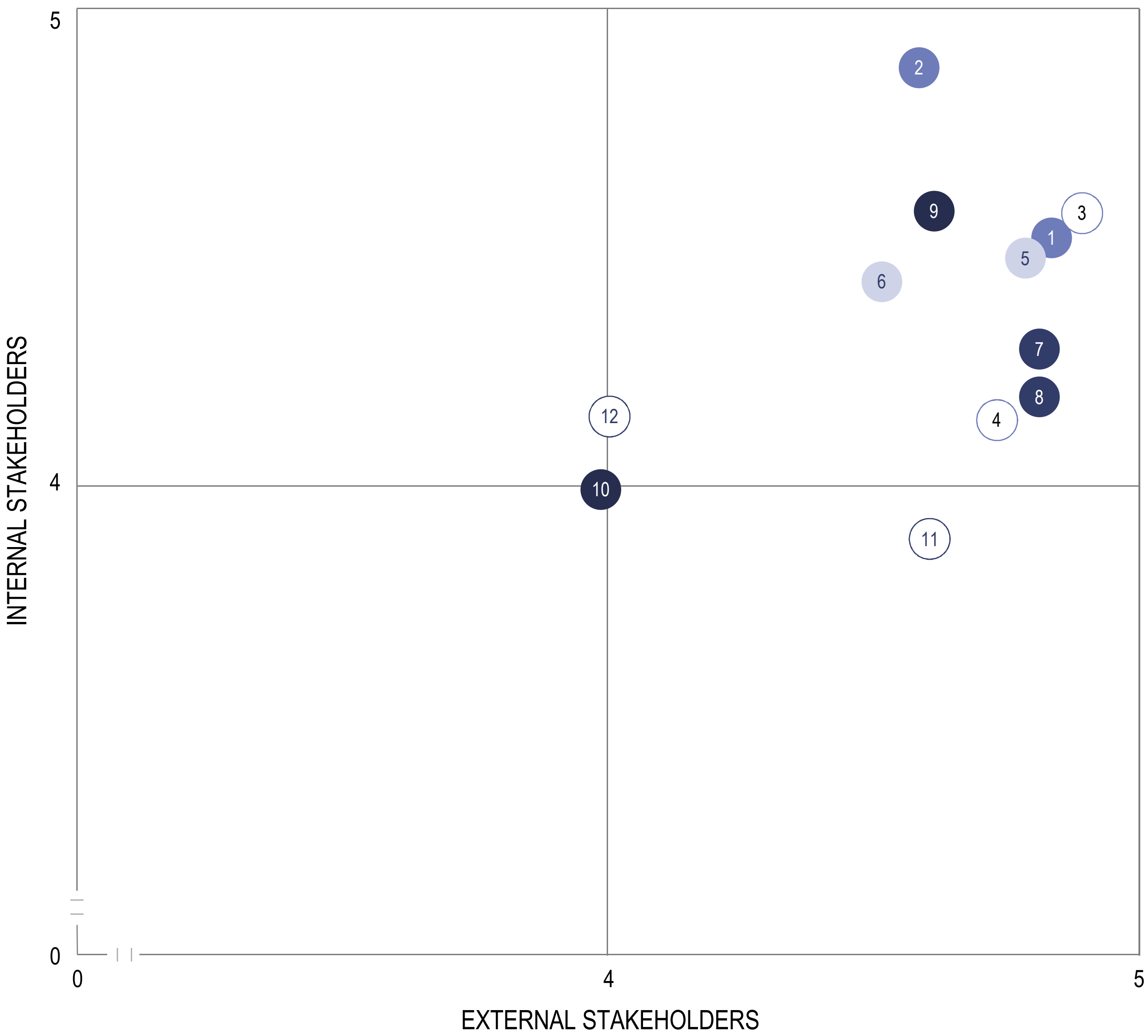
SHAREHOLDERS AND FINANCING INSTITUTIONS
transparent reports and presentations, frequent contact

BUSINESS PARTNERS
we focus on transparency, openness and long-term relations

VRG S.A. and VRG S.A. Capital Group stakeholders

	Who are they?	Why are they important to us?	How we engage?	Which matters are important for them?
Shareholders and financing institutions	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.	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.	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.	Value creation, growth of revenues and earnings, transparent periodical reports, detailed quarterly presentations, regular meetings with the Management.
Suppliers	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.	Suppliers are an important part of our value chain. They deliver goods and products that we resell in our stores.	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 45 to 49 days, due to changes in the sourcing structure and reverse factoring used by Bytom.	Long-term relations, possibility to plan production ahead, transparency of the ordering process, as well as timely payments.
Customers	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.	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.	The Group's aim is to deliver high quality customer experience. Vistula, 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.	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.
Business partners	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.	Thanks to its business partners the Group can reach its customers and offer them products in brick-and-mortar and e-stores.	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.	Long-term relations, transparency and favourable cooperation terms, timely payments and stores replenishment and stocking (franchisees).
Employees	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..	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.	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.	Stability of employment, flexible working hours, favourable working conditions, competitive remuneration, transparent career path and training opportunities.
Public institutions	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.	Both the Company and the Group are entities registered in Poland, conducting their business and paying taxes in Poland. We want to be perceived as a transparent entity whose taxes are used to benefit the country's development.	The Group delivers financial statements and tax fillings in a timely manner, pays social security and tax liabilities. Group's representatives participate in a dialogue with public institutions on various levels.	Obeying the law, taxes maximisation, increase in employment, paying social and tax charges on time, antibribery policy, securing a safety workplace for employees.
Local society	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).	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.	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.	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.

Materiality matrix of VRG S.A. and VRG S.A. Capital Group stakeholders



Capital market participants and financing institutions

1 Value creation

2 Growth in revenues and earnings

Suppliers

3 Long-term relations

4 Timely payments

Customers

5 Competent and friendly store personnel

6 Care for customer relations

Business partners

7 Long-term relations

8 Transparency of cooperation terms

Employees

9 Stability of employment

10 Flexible working time

Local society

11 Impact on environment

12 Important and desired employer

5. Social and employee matters

5.1. 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 2019 the Capital Group employed 2,541 persons, stable YoY. Employment contracts were the primary form of employment. In 2019 these constituted 91% of all contracts at the Capital Group level compared to 90% in 2018. 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 1,190 people, stable YoY at the end of 2019. In 2019 the Capital Group took 852 new people on board (indicated in FTEs, full-time equivalent), down 11% YoY excluding the impact of Bytom S.A. The Company hired 408 people in 2019, 11% fewer YoY. 852 FTEs left the Capital Group in 2019, down 4% YoY. The highest attrition was recorded among employees in stores and below 30 years old. 400 FTEs left the Company in 2019, down 11% YoY.

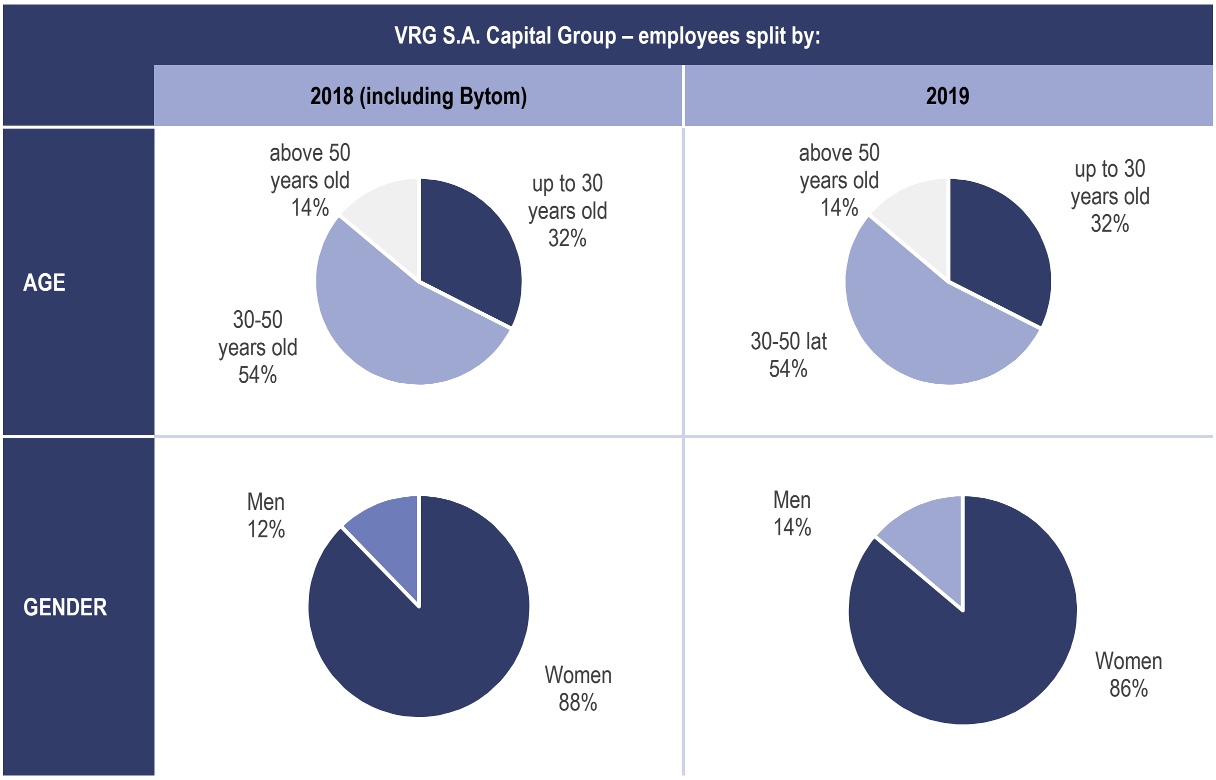
EOP employment (people)	2018 (excl. Bytom)	2018 (Bytom for XII 2018)	2019
VRG S.A. Capital Group	2,513	2,549	2,541
Apparel segment	1,560	1,596	1,571
Jewellery segment	953	953	970
VRG S.A.	1,153	1,189	1,190

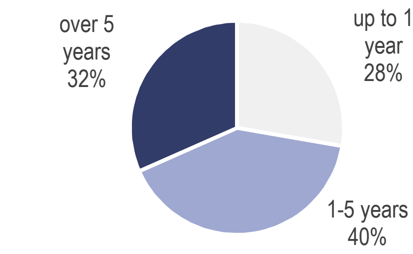
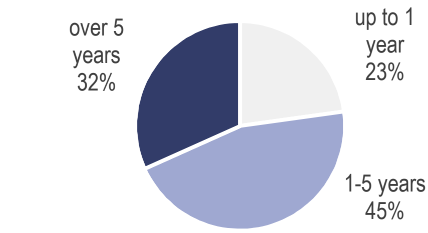
The reason why merger with Bytom S.A. has not caused a sizeable increase in headcount is a different way of store management. In Vistula, Wólczanka, Deni Cler and W.KRUK store personnel has employment contracts. Bytom stores are run by entrepreneurs who cooperate with the Company based on civil law type of agreements. Based on cooperation agreements these entrepreneurs are obliged to employ personnel based on employment contracts. Data presented for Bytom (both end of period 2019, 2018 and December 2018 used for average employment level calculation) only encompasses 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 and 2019.

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, Code of Ethics, Anti-bribery procedure, whistleblowing procedures. 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. In particular, the Regulations of the Company Social Benefits Fund specify the rules for allocating funds from the Fund for individual purposes and types of social activities, as well as the rules and conditions for using these benefits. Funds from the Company Social Benefits Fund are allocated to co-finance the holidays of employees and their families and to provide financial assistance in the event of random accidents, e.g. loss of health, difficult family, life or material situation. At the same time, both the Company and the Capital Group allow employees to associate in trade unions. Both in 2019 and 2018, there was one trade union in the Company, and three unions in the Capital Group. In 2019, the company union had 23 people (28 years ago), and 190 people at the Capital Group level (211 people a year earlier). Both in 2019 and 2018, there were no collective disputes with employees at the level of the Company or 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 believes, 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 (45% of employees have been with the Group between 1 to 5 years). The Capital Group also employs disabled persons. In 2019 there were 84 disabled employees, stable YoY, while 8 at the Company level, double YoY.



<table>
<tr><th colspan="3">VRG S.A. Capital Group – employees split by:</th></tr>
<tr><th></th><th>2018 (including Bytom)</th><th>2019</th></tr>
<tr><td>SENIORITY</td><td>
</td><td>
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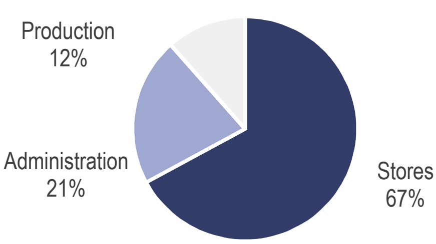
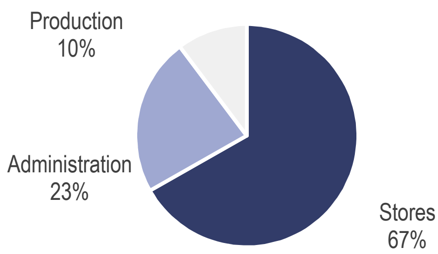
<tr><td>AREA OF EMPLOY-MENT</td><td>
</td><td>
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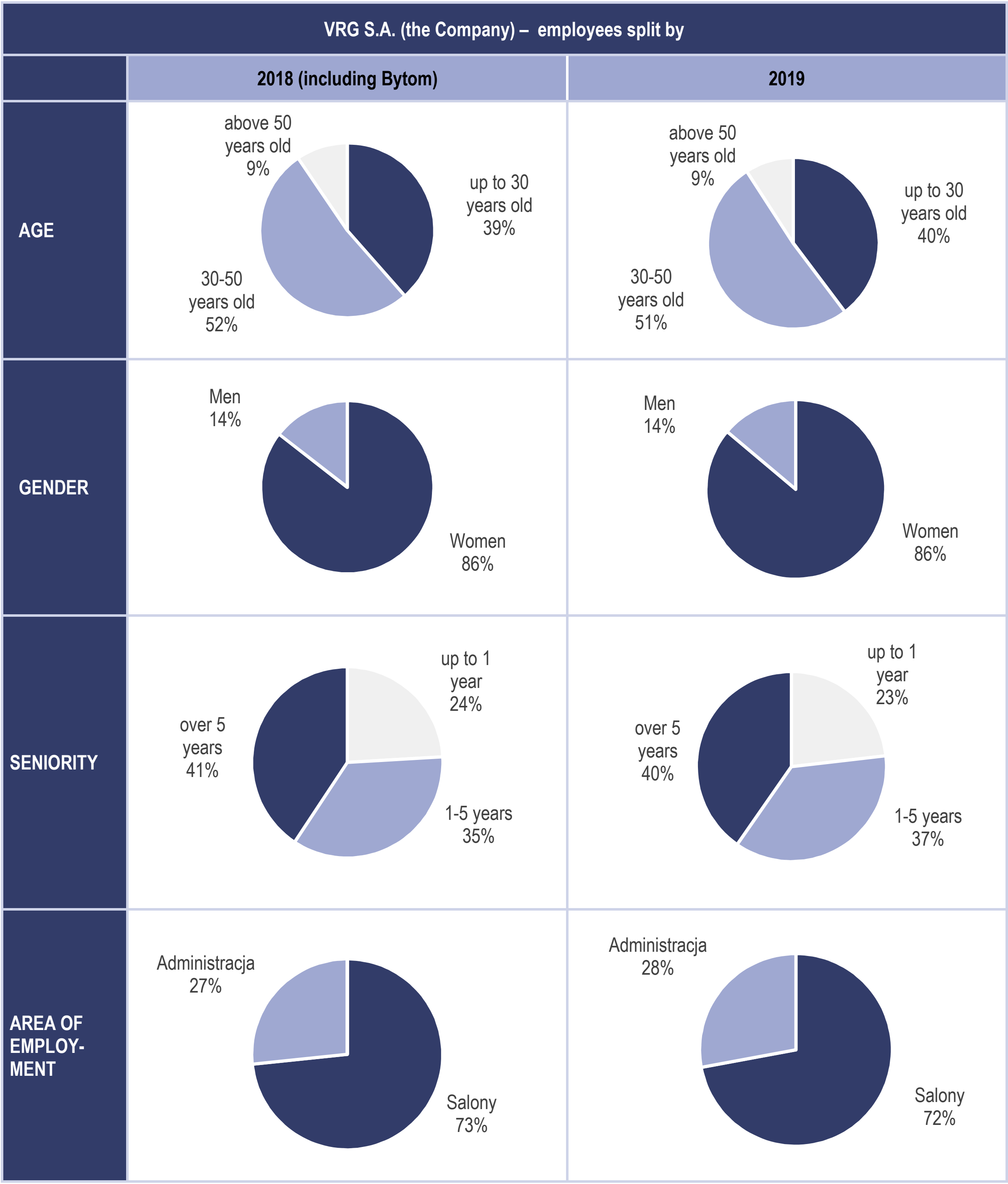
The aim behind creation and implementation of our Group Diversity Policy is creation of such a place and working environment where each employee feels respected, accepted and appreciated in which he/she can realise his/her full potential, develop and as a result contribute to the success of the organisation 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 loosing 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 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 con-fined 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.



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) 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 staring 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 headquarter 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 occupational safety trainings). The increase in the number of trained employees (and co-workers since 2019) and the number of trainings results from the addition of Bytom in 2019 (trainings of people working in stores who are not employees of the Company and the Group are now included). In addition, both the Company and the Group conducted trainings on the Code of Ethics and Anti-Corruption Procedure implemented in 2019.

Number of employees and co-workers who participated in trainings	2018	2019
VRG S.A. Capital Group	1,359	2,622
Apparel segment	1,203	1,948
Jewellery segment	156	674
VRG S.A.	1,154	1,603
Number of training days	**2018**	**2019**
VRG S.A. Capital Group	744	1,077
Apparel segment	432	445
Jewellery segment	312	632
VRG S.A.	319	374

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 2019 the Company continued cooperation with sportsmen. After cooperation with Robert Lewandowski, Kamil Stoch, Piotr Żyła and Dawid Kubacki in the previous years, the brand continues to engage in actions promoting a healthy lifestyle and valuable attitudes of men, engaged in various sports. Continuously since 2016 Vistula has been an Official Partner 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 partner 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 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), Arnold Rutkowski (opera singer), Karol Kłos (one of the best Polish volleyball player, representative of the Polish national volleyball team), Przemysław Świercz (captain of the Polish national team in AMP Futbol - a type of football played by players after unilateral amputation of the lower limb), Maciej Dreszer (racing driver) and Maciej Synówka (tennis coach). 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, VRG continues to support its sports presence. In 2019 seven teams participated in the action, taking high places 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. In 2019 this action was not repeated, as it is scheduled for 2020. 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 2019 the Company's employees recorded 5,496 of overtime, up 80% YoY (Bytom for the whole year in 2019, no Bytom data in 2018). In 2019 Group employees worked 11,252 overtime, up 16% YoY (the same situation with lack of comparable data as at the level of parent company). Due to differences in types of work, flexible working time application is not unified across the Group. In 2019 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 Mecwaldowski, Robert Więckiewicz, Maciej Stuhr or Janusz Gajos. This mission also includes cooperation with state institutions of culture and art. VRG S.A. 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 2019 Vistula became a partner of the "Doll" (originally Polish "Lalka") play, which was staged in the Juliusz Słowacki Theatre in Cracow, and dressed the actors for the performance.

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 (Jan Frycz and Kamil Nożyński, ambassadors of the Fall/Winter 2019/20 collection; Dawid Ogrodnik of the Spring/Summer 2019 collection; Jakub Gierszał, Andrzej Chyra, ambassadors of Bytom's collections for Autumn/Winter 2018/19), photographers, musicians (Spring/Summer 2019 campaign with Tomek Lipiński, Spring/Summer 2018 campaign with Wojciech Waglewski and his sons) and writers (Szczepan Twardoch, ambassador of the evening collection of Winter 2020). 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.

Projects conducted due to cooperation with

PIOT

The Sector Council for Fashion and Innovative Textile Competence was established in October 2016 as an initiative arising from the industry's needs to adapt knowledge, skills and competences to the requirements of a 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 project leader is the Association of Entrepreneurs of the Fashion Industry LEWIATAN and the partner of the project, which is to last in the years 2016-2023 is PIOT. In 2019, the following activities were carried out with the participation of VRG SA: (1) two more educational and informational films were developed for dedicated internet channels, (2) a guide for vocational counsellors for the clothing and textile sector was developed to transfer knowledge to vocational counsellors who are to convince young people to vocational education in secondary schools in industry-class classes, (3) a guide for vocational trainers for the clothing sector has been developed, aimed at standardizing the method of transferring knowledge and presenting a model of conducting classes by instructors educating staff for the sector in line with the expectations of enterprises, (4) an "Update of recommendations for current changes in the sector and legislative area" was developed. In the introductory part of the recommendation, VRG pointed to trends currently emerging in the fashion industry and affecting the competences sought by employers. In the detailed part, it identified the sector's needs in terms of competences, increasing the attractiveness of formal education, increasing the attractiveness of non-formal education, increasing the attractiveness of the fashion industry sector as a workplace; (5) April 2, 2019 in Sosnowiec VRG S.A. participated in a sector debate on establishing cooperation between schools and enterprises for the creation of a dual education system, (6) guidebooks for potential students of the textile and clothing sector were developed and printed, aimed at persuading primary school graduates to study in industry schools, (7) recommendations to PARP regarding the launch of support measures for enterprises for staff training and technical and technological consultancy. The result of the recommendation is the launch of the competition for enterprises in April 2020, (8) other areas of support: research and development in the clothing and textile sector, preparation and control of production in the clothing and textile sector, implementation of production works in the clothing and textile sector, management and implementation of support processes in the clothing and textile sector.

DG GROW and EASME Program " Sector Skills Cooperation Plan: Career Development in the Textile and Clothing Sector"

The project of the year 2019 was devoted to an information campaign and a series of events aimed at:
- restoring the sector's reputation as a good working environment with many opportunities,
- raising awareness about career opportunities in the sector,
- changing the stereotypical perception of the sector, showing its new development directions, digitization, robotics, sustainable development, international character, innovation,
- connecting schools and students with the industry, giving them a chance to acquire first-hand knowledge of the sector.

In 2019, the following activities with the participation of VRG S.A. took place:
- a nationwide press conference was prepared and conducted, presenting the sector's potential;
- regional workshops were organized with the participation of the Company, students of vocational schools and universities aimed at indicating the Company's development potential and characteristics of the competences and qualifications sought among employees, and on the other hand showing the graduates' expectations of the workplace to the entrepreneur.

The ENTeR project (CE 1136) financed by the European Union under the Interreg program for Central Europe

The ENTeR project focuses on reducing waste in the clothing and textile sector to prevent the depletion of non-renewable resources. This approach is based on cooperation between enterprises and regional innovation systems. The project is to find: new ecological outlets for sector waste, recycling possibilities for textile materials or alternative solutions for raw materials.

In 2019, VRG SA: as part of supporting project activities, participated in: (1) analysis of post-production waste, preparing the characteristics of its waste, (2) development of ecological strategy for the sector by describing its environment of suppliers and recipients and its ways of waste utilization or recovery, (3) took part in the creation and pilot use of the M3P Platform - Material Match Making Platform. It is an on-line platform, the so-called "One-stop shop" for industrial symbiosis services of cross-sectoral and trans-territorial coverage. It is useful for: identifying successful pilot cases between enterprises offering waste streams and those that need them as starting materials (secondary raw materials). Wólczanka Shirts Manufacturing Sp. z o.o. (a production company dependent on VRG S.A.) has entered this platform and offers post-production waste for potential customers from its clothing plant in Ostrowiec Świętokrzyski. Participation in the ENTeR Project is a demonstration of conscious corporate responsibility by the Company and a focus on circular economy which is part of social responsibility.

The W.KRUK brand invariably directs its communication mainly to women. In marketing activities, the brand speaks a language close to the values of contemporary Polish women. For several years, the brand has been presenting original jewellery collections designed in cooperation with well-known and influential women every year. These collections are inspired by values such as friendship or freedom (in the realization of dreams) and symbolize messages, such as motivating to persistent pursuit of personal goals. In marketing activities, W.KRUK devotes a lot of space to content and activations related to the above values and messages, of which the brand's jewellery remains a unique symbol. The oldest Polish jewellery company has also been a partner of the PANI Silver Apples poll for years. As a timeless brand and focused on emotions such as love, W.KRUK supports the PANI editorial in rewarding the unique love stories described every year in the magazine. Among the ambassadors of W.KRUK who created their own collection of jewellery are Ewa Chodakowska, Martyna Wojciechowska, Magdalena Cielecka, Maja Ostaszewska, Alicja Bachleda-Curuś, Kinga Rusin, Anna Maria Jopek.

We care for a safe 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 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). Data for 2019 includes Bytom for the whole year. Growth in 2019 results from the jewellery segment, in which there were no inabilities to work in 2018, yet these occurred in 2019.

Number of accidents at work	2018	2019
VRG S.A. Capital Group	10	11
Apparel segment	9	8
Jewellery segment	1	3
VRG S.A.	6	5

Accident frequency indicator	2018	2019
VRG S.A. Capital Group	3.9	4.3
Apparel segment	5.6	5.1
Jewellery segment	1.0	3.1
VRG S.A.	5.0	4.2
Number of days with inability to work	**2018**	**2019**
VRG S.A. Capital Group	679	870
Apparel segment	679	588
Jewellery segment	0	282
VRG S.A.	325	305
Accidents severity indicator	**2018**	**2019**
VRG S.A. Capital Group	67.9	79.1
Apparel segment	75.4	73.5
Jewellery segment	0	94.0
VRG S.A.	54.2	61.0

Low accident rate and severity ratios are also the result of regularly and scrupulously conducted health and safety trainings. The increase in the number of days with incapacity for work and as a result of the severity rate of accidents in 2019 resulted from the time period of incapacity for work resulting from treatment / rehabilitation after accidents and the occurrence of an event in W.KRUK. 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 2019, VRG S.A. trained a total of 750 people in the area of occupational health and safety (down 3% YoY), and the Capital Group 1,732 (up 12% YoY). Including Bytom data in the pro-forma mode does not change the trends. Fall in total number of trained personnel results from a lower number of initial trainings (fewer people taken on).

Number of trained employees in the initial work health and safety trainings	2018 (excl. Bytom)	2018 Bytom Pro-forma	2019
VRG S.A. Capital Group	998	1,004	856
Apparel segment	566	572	473
Jewellery segment	432	432	383
VRG S.A.	482	488	425

Number of trained employees in periodical work health and safety trainings	2018 (excl. Bytom)	2018 Bytom Pro-forma	2019
VRG S.A. Capital Group	542	551	876
Apparel segment	332	341	562
Jewellery segment	210	210	314
VRG S.A.	291	300	325

Overall number of trained employees in work health and safety trainings	2018 (excl. Bytom)	2018 Bytom Pro-forma	2019
VRG S.A. Capital Group	1,540	1,555	1,732
Apparel segment	898	913	1,035
Jewellery segment	642	642	697
VRG S.A.	773	788	750

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 2019, the Capital Group and the Company continued their cooperation with WOŚP (Great Orchestra of Christmas Charity), established in 2017. In 2018, support encompassed a possibility of designing a unique shirt, and in 2017, a one-day experience at work as a designer of the Wólczanka brand was auctioned, while in 2019 the Company actioned a full professional makeover and ability to take part in a photoshoot as a model. The latter auction took place for a month and ended up in PLN 8,600 price. 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. 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. Additionally, Bytom brand cooperated with WWF Poland, creating clothes that were signed WWF logo and were created from eco-friendly fabrics.

In 2019, the Company and the Capital Group, through the Wólczanka brand, continued to promote broadly understood professionalism. In the Autumn/Winter 2019 season, # Professionals became the faces of the Wólczanka brand, i.e. people who are both in professional and private life are enthusiastic, committed, professional and idea for themselves. The brand promotes professionalism among both men and women, and its faces are: painter Marcin Telega, lawyer Gabriela Lenarczyk, writer Max Czornyj, illustrator Paulina Kilera, florist Jacek Batko, personal trainer Adrianna Palka, and owners of the hat shop Karolina and Kasza and Boris Gall.

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.

We produce and sell responsibly

At the end of 2019, VRG S.A. joined the Open Cages program and thereby abandoned the use of natural fur in its collections from the Spring/Summer 2020 season. This is part of the activities the Group intends to undertake the Sustainable Development Strategy. Given the environmental issues and ethics in fashion, and the growing awareness of the issue of animal rights protection and customer expectations, all brands belonging to the Group decided to join the information campaign run by the Open Cages Association. The adopted fur-free policy confirms the commitment of VRG S.A. and the Group in efforts to offer ethical solutions and products that were done with respect for animals and the natural environment. Similar obligations were accepted by Deni Cler in collections of which from Spring/Summer 2020 will not be fur.

5.2. Risks

The most important risks identified by the Company and the Capital Group within the social and employee area are:

- rotation of employees,
- inability to attract proper employees,
- sizeable pressure on salaries.

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.

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.

6. Human rights matters

6.1. Policies

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 human rights

Respect for business partner employees' rights	Respect for employees' rights	Respect for customers' rights
Code of Conduct for Suppliers and Contractors	Labour Code, Code of Ethics	Ethical communication, GDPR introduction

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 (71% of applications to VRG SA headquarters in 2019 came from women, at W.KRUK S.A. this indicator is 77%). 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.

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.

C O O P E R A T I O N
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.

P R O F E S S I O N A L I S M
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.

R E S P E C T
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.

T R A N S P A R E N C Y
The Group cannot function without a bright and clear definition of requirements and rights. Informing employees about their statues, 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 implemented the Code of Ethics in 2019 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 above. 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.

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 not 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. That will change due to the recent application of Code of Conduct for Suppliers and Contractors. 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, W.KRUK suppliers take care for the ethics of their business – some 50% of foreign suppliers have international certificates or belongs to organisations supporting responsible entrepreneurs. Selected suppliers create their own Codes of Conduct. Many suppliers belongs to the RJC (Responsible Jewellery Council, extended name: Council for Responsible Jewellery Practices Ltd.), 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. Many suppliers conform to ISO norms: ISO 14001, ISO 9000 and ISO 9001, some belong to Sedex and as a result they undergo SMETA procedure (Sedex Members Ethical Trade Audit).

Code of Conduct for Suppliers and Subcontractors of VRG and VRG Capital Group –
below we present selected elements from the Code.
Full version is available on the webpage www.vrg.pl

1 **Legal requirements**

Apart from following local regulations, a Group supplier is also obliged to comply with all other industry norms and standards, as well as relevant conventions of the International Labour Organization (ILO), the United Nations (UN) and the provisions of the Universal Declaration of Human Rights, as well as OECD Guidance on due diligence in responsible supply chains in the textile and clothing and footwear sector.

2 **Employment conditions, voluntary and working conditions, underage workers**

A zero-tolerance policy for all forms of forced labour. The Group does not tolerate hiring children. As a result, suppliers and contractors should treat all their employees with due respect and observe their dignity. It is unacceptable for suppliers and subcontractors or other contractors of the Group to apply discriminatory practices to recruited persons, applying for promotion, employed by a given employer and they should not be a reason for terminating the employment contract. It is not allowed to employ employees in the absence of sufficiently clear conditions that would specify the remuneration and the rules for its granting, the foreseen duration of the contract, the scope of performed duties and working time.

3 **Employees' rights, freedom of association**

Suppliers and other contractors are required to comply with all labour laws. Suppliers are obliged to recognize and respect employees 'rights to conclude collective labour agreements and free membership in organizations such as works councils, trade unions or associations whose purpose is to represent employees' interests.

4 **Occupational health and safety**

Care for the employees' safety should be a priority for every employer, which is why suppliers cooperating with the Group are obliged to maintain the utmost diligence in order to provide employees with safe and hygienic conditions of the work they perform.

5 **Natural environment**

The Group expects suppliers and contractors to comply with legal provisions regarding the impact of their business on the environment. They should also assess their business in terms of the risk of negative impact on the environment, measure their impact on the environment and strive to prevent this risk.

6 **Production sites; Subcontracting production**

The Group's goal is to ensure compliance with the Code and legal provisions not only by the Group's direct suppliers and contractors, but also by subcontractors. Therefore, a Group Supplier should provide full information about the actual place of manufacture of the products for the Group, especially when acting as an agent or purchasing office. The Code applies to both the contractor and supplier of the Group, as well as their subcontractors actually carrying out manufacturing.

7 **Special rules for suppliers of W.KRUK jewellery segment**

Jewellery suppliers of W. KRUK S.A. should also comply with principles that relate to the industry's ethical practices as expressed in the Code of Practices formulated by RJC.

8 **Anti-Corruption Policy**

The Group does not accept any form of corruption. Group employees do not grant, accept or promise any personal or financial gains in connection with or in the course of their duties. These rules apply to relations with suppliers, subcontractors and other contractors. The Group expects suppliers, subcontractors and other contractors to implement effective mechanisms to counteract all forms of corruption.

9 **Compliance with international standards**

The Group does not stop in its policy towards suppliers at merely respecting basic legal regulations regarding employment, manufacture processes and environmental protection. Group suppliers are required to carry out and share due diligence processes in the clothing, footwear and jewellery segment, which includes procedures allowing enterprises to identify, prevent, minimize, as well as determine how to respond to actual and potential negative effects of their business.

10 **Implementation of the Code by suppliers and contractors**

The Group expects suppliers and contractors to exercise due diligence in complying with the provisions of the Code in their business, as well as to implement management systems that facilitate compliance with applicable regulations and support making improvements in relation to the expectations set out in this Code.

11 **Control of compliance with the provisions of the Code and corrective measures**

As part of the responsibility for the supply chain, the Group reserves the right to carry out unannounced visits to the factories and facilities of major suppliers at least once a year. The Group expects its suppliers and contractors to respect the standards contained in the Code and strives to cooperate on transparent principles, and the information and data provided by the suppliers shall not be intentionally changed and shall be honestly disclosed to the bodies of the Group companies and its auditors.

12 **Final provisions**

The current rules applicable to the Group's suppliers and business partners remain in force, provided they do not conflict with the provisions hereof.

In order to formalize the requirements for its suppliers and contractors, to exert more influence on them and to transfer the values of the VRG Group, the Management Board, as previously announced, created a Code of Conduct for Suppliers and Contractors of the VRG S.A. Capital Group. (hereinafter: the Code), which specifies the requirements of the Group towards its suppliers, their subcontractors and other contractors, both domestic and foreign. In the construction of the Code, the Capital Group used, among others OECD guidelines for the clothing segment and the requirements of RJC (Responsible Jewellery Council) in the jewellery segment as well as UNGC (United Nations Global Compact) principles for both segments. Its basic goal is to ensure safety in production plants, the best working conditions and the most comprehensive protection of the environment. The Code was implemented in the Company and in the Capital Group in March 2020. The next step on the part of the Company and the Group will be the implementation and its enforcement on suppliers and contractors of the Company and the Group. The key elements of the Code are contained in the table above.

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. To minimise the risk of an inappropriate marketing campaign the Company and the Group also have procedures relating to photoshoots, creating campaigns, media plans, cooperation with stylists, organisation of frame agreements with media as well as creation and sending out of newsletter. 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 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 stance 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. Finally, the conflict ended and the name at issue was changed by the opposing party.

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 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. A similar implementation was planned in Bytom stores for 2019, however it was shifted for 1H20. 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 DCG stores, the paper form is still in force. 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. For 2020 the Group scheduled e-learning platform implementation to teach current and future employees on GDPRD. In 2019, similarly to 2018, several incidents related to data protection were reported. In 2019, neither the Company not the Capital Group filed a motion on personal data protection infringement to the Office for Personal Data Protection (two such motions were filled in 2018).

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.

6.2. Risks

The key risks identified by the Company and the Capital Group include:

- respect for human rights at suppliers and business partners,
- respect for the rights of clients and employees,
- reputation risk.

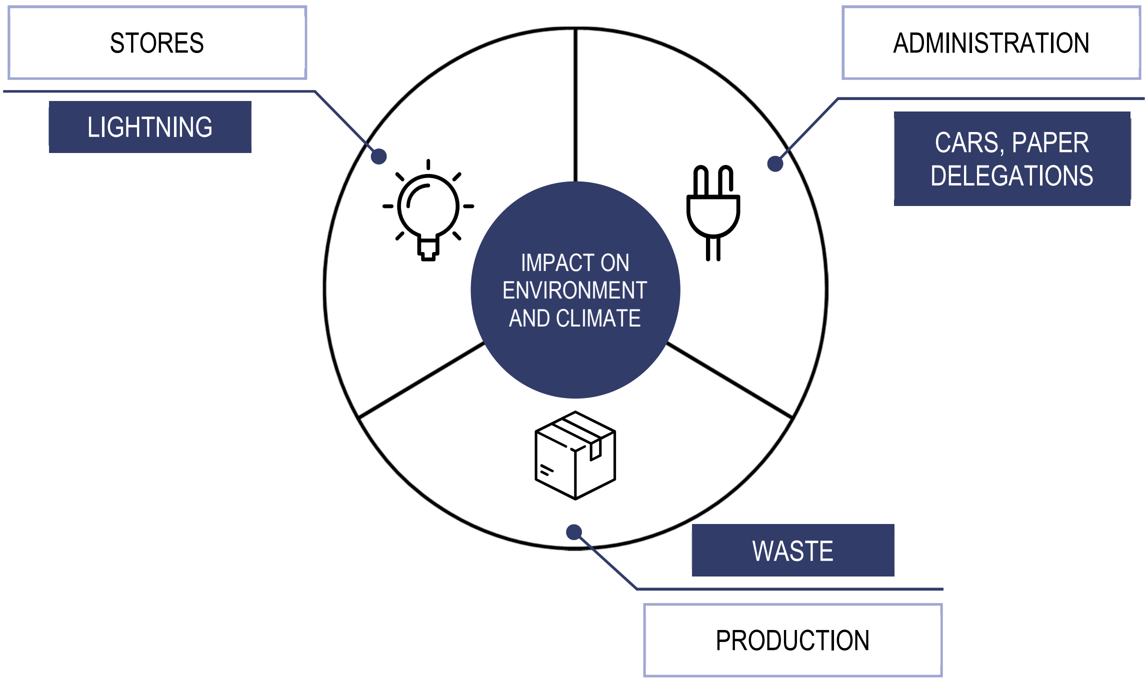
The risk of human rights is a wide-ranging risk for both the Company and the Capital Group, as it affects such key issue as the reputation of the Company and the Capital Group. Although VRG operates mainly in Poland, a country that is a member of the EU, where human rights regulate both national codes 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.

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.

7. Environment and climate matters

7.1. Policies

Environment and climate protection 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 and organic and acquisitive growth coupled with a gradual reduction of the environmental and climate impact. The Group started works on reducing its environmental and climate 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. 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 conducts 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 2018, VRG S.A. had 219 VRG S.A. stores (brands: Vistula, Wólczanka, Bytom) with LED lighting installed, which constituted 73% of its own stores (80% excluding Bytom). At the Capital Group level, the number of stores where LED lighting was installed reached 329 stores or 75% of the number of own stores (79% excluding Bytom). In 2019, the ratios were further improved. 224 stores of VRG S.A. (Vistula, Wólczanka and Bytom brands) had led lighting, which translates into 75% of VRG S.A.'s own stores. At the level of the Capital Group, this number amounted to 359 stores or 81% of the Group's own stores.

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 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 2018 at VRG S.A. 43% of company-owned store agreements (40% excluding Bytom stores) contained a clause regarding respect for the environment, while 41% at the level of Capital Group (38.5% excluding Bytom). In 2019 statistics improved, thanks to newly signed contracts. At VRG S.A. the percentage of contracts increased to some 45% of own stores, and at the level of the Capital Group it amounted to some 44%.

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, a significant part of the packaging for customers is made of paper (in selected brands their weight has been further reduced), and plastic packaging is being withdrawn from use by the Group's 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.

In the scope of company cars, both the Company and the Group allow three ways of their functioning: ownership, leasing and renting. Company cars are awarded to a few people in the organization. At the end of 2019, there were 75 at the level of the VRG S.A. Capital Group (stable YoY) and 40 at the level of VRG S.A. (slight decrease YoY). The data are comparable YoY, as the number of Bytom company cars was included at the end of 2018. A 15% YoY increase in the number of kilometres travelled at the Group level and 33% at the Company level results from differences in taking into account Bytom SA, which is shown for 1 month (December) in data for 2018, and throughout the year in data for 2019 (in accordance with the principles of the financial statements). Taking out the influence of Bytom S.A. both from 2018 and 2019 data, the number of kilometres driven remained stable YoY at the Group level and was 2.5% lower YoY at the Company level. The Company and the Group also have instructions on how to use company cars.

Business cars	2018 (Bytom for XII.2018)	2019 (Bytom for the whole year)
VRG S.A. Capital Group	76	75
Apparel segment	55	52
Jewellery segment	21	23
VRG S.A.	44	40
Number of driven km	**2018 (Bytom for XII.2018)**	**2019 (Bytom for the whole year)**
VRG S.A. Capital Group	1,998,913	2,306,783
Apparel segment	1,433,703	1,696,245
Jewellery segment	565,210	610,538
VRG S.A.	859,447	1,143,225

Although the Group does not have a written policy regarding business trips, rail transport is the preferred means of transportation. There is a procedure for settling domestic and foreign business trips in the Company and in the Group. 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.

Presented below is data on delegations understood as business trips of an employee of the Company or of the Capital Group. One delegation corresponds to two trips or flights, i.e. moving from the place of departure to the destination and back. Data regarding the Capital Group include all companies of the Group, i.e. VRG S.A., Deni Cler, WSM (apparel segment) and W.KRUK. The YoY decrease in the number of business trips in 2019 at VRG S.A. results from the Company being oriented at merging with Bytom and achieving the largest possible synergies as soon as possible. In addition, data for 2018 include Bytom data only for December 2018, while the brand impact took place throughout 2019. The increase in the number of trips in the jewellery segment (W.KRUK) is associated with the introduction of an extended product offer (lab-grown diamonds and perfumes). Railways (PKP) remained the most popular means of transport, followed by car journeys (shown as the sum of journeys by business and private cars).

Number of delegations	2018 (Bytom for XII.2018)	2019 (Bytom for the whole year)
VRG S.A. Capital Group	3,829	4,077
Apparel segment	2,381	2,247
Jewellery segment	1,448	1,831
VRG S.A.	1,949	1,817

Number of delegations by means of transportation	2018 (Bytom for XII.2018)	2019 (Bytom for the whole year)
VRG S.A. Capital Group	3,829	4,077
PKP (rail)	1,929	2,319
PKS (bus)	634	544
Airplane	209	137
Car	1,058	1,077
VRG S.A.	1,949	1,817
PKP (rail)	986	960
PKS (bus)	309	233
Airplane	111	49
Car	544	575

The number of kilometres driven is shown as the sum of kilometres driven in all delegations (from the workplace to the destination and back). The structure of the division of kilometres travelled by means of transport is different from the number of delegations. Although the most kilometres travelled by rail, in second place are flights that are made over considerable distances, including to Asia.

Number of km driven	2018 (Bytom for XII.2018)	2019 (Bytom for the whole year)
VRG S.A. Capital Group	2,829,859	2,846,975
Apparel segment	2,005,028	1,654,426
Jewellery segment	824,831	1,192,549
VRG S.A.	1,341,813	957,869

Number of km driven by means of transportation	2018 (Bytom for XII.2018)	2019 (Bytom for the whole year)
VRG S.A. Capital Group	2,829,859	2,846,975
PKP (rail)	900,173	1,166,466
PKS (bus)	139,282	159,869
Airplane	1,025,158	709,795
Car	765,246	810,845

Number of km driven by means of transportation	2018 (Bytom for XII.2018)	2019 (Bytom for the whole year)
VRG S.A.	1,341,813	957,869
PKP (rail)	450,500	461,691
PKS (bus)	80,720	61,977
Airplane	620,732	219,466
Car	189,861	214,735

The Capital Group supervises paper orders, which means that its consumption is monitored. The basic determinant is the cost of purchase. The multifunction devices used in the Company are configured by default for monochrome printing. The Group has introduced guidelines regarding the principles of selective collection, storage and transfer of waste. In addition, a system for electronic document circulation has been implemented in the companies of the Capital Group. In 2019, the Company used 23.98 tons of paper, and in addition W.KRUK used 12.11 tons.

To ensure equal access for each employee, the Company and the Group have also implemented a platform on which all policies are available, governing employees' use of official equipment. The Group also has: regulations on the use of business mobile phones, which regulate the hours during which business phones should be kept active, coverage of phone costs by the Company and quarterly cost limits.

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 (facility 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), (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) and (6) reduces heat consumption - the plant has an air supply and exhaust device equipped with an air recuperation module. The installed air exchanger is characterized by high heat recovery efficiency, thus reducing the amount of energy needed to heat the building.

In 2019, the W.KRUK Manufaktura production plant was moved from Poznań to Komorniki near Poznań. Two elements that decided for the change were: 1) urbanization issues - with the development of the city of Poznań, the previous location of the plant was replaced by residential buildings and 2) ecological inefficiency of the previous building, in particular when it comes to using energy to insulate the building from due to its outdated construction (no insulation on the facade, thermal bridges, uninsulated roof). In the new location, LED lights are installed throughout the building. It also purchased devices that use energy more efficiently (the furnace for melting metals with 30 kW rated power has been replaced with 10 kW, and the heating chamber for semi-finished products has been replaced with 20 kW power for 2.4 kW).

Combined impact on environment and climate

Since 2019, the Company and the Group have begun to analyse their impact on the environment and climate in the form of estimates of electricity, natural gas, heat, water and greenhouse gas emissions (in the form of CO_2 equivalent). All subsidiaries are included in the calculations and estimates below, as in the case of other non-financial data.

Consumption in 2019	Electricity (MWh)	Natural gas (GJ)	Thermal energy (GJ)	Water (m3)
VRG S.A. Capital Group	10,902	820	4,688	5,461
Apparel segment	8,010	671	3,673	3,712
Jewellery segment	2,892	149	1,014	1,749
VRG S.A.	7,110	0	817	1,187

The analysis and estimates regarding greenhouse gas emissions were based on the GHG Protocol A Corporate Accounting and Reporting Standard. This standard divides emissions into Scope 1 (direct), Scope 2 (indirect, but within the scope of the company) and Scope 3 (indirect, value chain). An analysis of the Company's and Group's operations showed that Scope 1 will include company cars and energy produced at the Group's production plant (W.KRUK). Scope 2 emissions are emissions related to energy consumption at locations under the control of the Company and the Group, which are considered leased administrative areas, warehouses and stores. Both the Company and the Capital Group did not have full values of electricity consumed in stores. Estimates for each network were made based on a representative sample of stores of each brand. Scope 2 emissions were calculated in accordance with the location-method. In the Scope 3 the Company and the Group show only data on employees' business trips (excluding company cars, which are included in Scope 1) for 2019. Depending on the scope for which CO_2 equivalent emissions were calculated, the emission factors publicly available on KOBiZE, URE, GHG Protocol and IPCC websites were used. The GWP (global warmining potential) coefficients used were derived from materials publicly available on the GHG Protocol pages. Biogenic emissions were not calculated.

GHG emissions (CO_2e) in tonnes 2019	VRG S.A. Capital Group	VRG S.A.
Scope 1	497.2	217.4
Scope 2	8,850.2	5,068.0
Scope 3 (delegations only)	223.9	87.5

In the next years, both the Company and the Group will work to expand and refine the process and method of calculating greenhouse gas emissions.

7.2. Risks

Below we present the most important according to the Management risks related to environment and climate matters:

- issues related with production,
- energy and raw material consumption,
- impact of everyday activities on environment.

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.

The Company and the Capital Group manage environmental risk by focusing on: reducing the consumption of raw materials and energy by stores of all brands (energy-saving light bulbs, emphasis on paper rather than plastic packaging). In addition, the Company and the Capital Group monitor the consumption of paper and fuel in administration, focusing on the use of public transport by employees. The Company and the Capital Group are also focusing on the implementation of selected efficiency measures suggested by the energy audit.

In connection with non-binding Guidelines for reporting in the field of non-financial information: Supplement for reporting climate-related information (2019/C209/01) issued by the European Commission in June 2019, the Management Board presents an analysis of the dependencies, possibilities and risks of the business model of the Company and the Group in in relation to selected climate issues. Due to the variety of factors and dependencies that affect the apparel and jewellery segment, they are presented separately, when material. The following tables show not only the impact of possible climate changes on natural, social and human capital, but also actions that the Management Board intends to take to minimize the impact of possible transition and physical risks.

At the same time, the Management Board also presents an analysis of two climate scenarios and the resilience of the business model (broken down into apparel and jewellery segments) to climate change. The scenarios come from publicly available and internationally recognized materials IPCC AR5 (Assessment Report). From the four available scenarios showing how the concentration of greenhouse gases in the atmosphere may behave and what effects can be caused by the so-called RCP (Representative Concentration Pathways) RCP2.6, RCP4.5, RCP6.0 and RCP8.5, RCP2.6 and RCP6.0 were selected. The RCP2.6 scenario assumes a strong reduction of the CO_2 equivalent in the atmosphere and that actions taken will allow the temperature to be maintained at a level not higher than 2°C above the pre-industrialization level (1850-1900). RCP8.5 is a scenario involving high greenhouse gas emissions. The RCP4.5 and RCP6.0 scenarios are scenarios showing pathways in between. The RCP6.0 and RCP8.5 scenarios show what will happen with the cumulative greenhouse gas levels if the appropriate reduction measures are not taken. The scenario analysis was carried out in a qualitative rather than a quantitative manner. The Management Board will continue and expand the following analysis regarding the resilience of the business model to climate change in the next quarters. The Management Board will also respond to climate change and adapt both the strategy and tactical and operational activities to ensure sustainable development in all conditions for the Company and the Capital Group.

Opportunities related to climate changes
Both VRG Group and VRG S.A. will adapt their offer to changing climatic conditions and customer preferences. Three key areas of opportunity are: 1) production location (shortening the way from producer to customer reduces the carbon footprint of the product) - in both segments, the Group has production assets (WSM and Manufaktura); currently only 11% of WSM production is made for VRG brands; 2) closed circuit, i.e. the resale of used clothing or jewellery and services related to its renewal and refining of products (metals) so that they can be reused - the Group companies do not rule out introducing similar solutions in the future, 3) for W.KRUK there may be an opportunity as gold or jewellery may be treated as a form of monetary exchange and security.

Risk related with negative impact on climate
VRG Group and VRG S.A. take action to count and reduce their impact on the environment and climate. Both the Company and the Capital Group through their daily activities affect the environment throughout their entire value chain.

VRG and VRG Group

Climate

Transition risks these are the risks for the Company resulting from the transition to a low-carbon and climate-resilient economy. Risks identified cover both the apparel and jewellery segment of VRG S.A. Group and VRG S.A. and are the following:

- **Risks related with policies** are the risks arising from growing energy efficiency requirements that can affect the profitability of products manufactured by the Group and VRG S.A. and affect the cost of goods purchased by the Group and the Company from external suppliers.
- **Legal risks** are risks related to regulation at the central level rather than at the client level. It cannot be ruled out that states will impose penalties on companies that do not show pro-environmental activities.
- **Technology risks** results from changing technologies that will be moving towards less emission intensive ones in the future. They may apply to suppliers of the Group and the Company, who may be forced to purchase more innovative machines, and this may require the purchase of more expensive purchases. The introduction of more stringent requirements may also mean closing down of some suppliers and thus higher prices. Introduction of more stringent requirements may also mean the closure of some suppliers and thus higher prices.
- **Market risk** is the risk resulting from changes in customer purchases. According to the Management Board, consumers wanting to minimize their carbon footprint may, for example, reduce the amount of apparel and jewellery purchased, or choose products that have the lowest impact on the climate.
- **The risk of loss of reputation** may occur if, due to too slow actions related to adaptation to climate change, the Group and the Company have problems not only in attracting and retaining customers, but also employees, business partners and investors.

According to the Management, among **physical risks** the chronic ones will be more important than the acute ones.

- **Acute risks** - that is risk of an impact on the Group's and Company's operations of such sudden weather phenomena as storms, floods, fires or heat waves. Although such phenomena may destroy production areas (e.g. cotton) or production plants, their impact on the disruption of the value chain should be limited by diversification of the Company's and the Group's suppliers (in particular geographical). However, it cannot be ruled out that e.g. flood or fire in a region important for production will delay delivery of a collection or result in failure to deliver some of goods ordered. Weather disasters can have a direct impact on means of transport and logistics. Shortages of water used in the production of clothing and mining of raw materials may have an adverse effect on the prices of raw materials, metals and precious stones.
- **Chronic risks** - resulting from long-term climate changes, such as temperature changes, rising sea levels, limited water availability, loss of biodiversity, and changes in land and soil productivity may have a more significant impact on the operations of the Company and the Group. Prolonged drought or loss of land for production of fabrics (e.g. cotton) can lead to a shortage of raw materials and, consequently, a significant increase in their price. They can also cause that the cost of mining metals and precious stones will increase significantly. In addition, climate change in the retail segment may mean a smaller share of the more valuable and higher margin Autumn / Winter collections, through lower demand for coats and jackets. Climate warming is also likely to affect the type of materials used to make suits or jackets and further changes towards more casual fashion. Progressing droughts, fires or floods can increase the prices of food and services, reducing the disposable income of consumers.

	Area of climate changes impact	Risks and possible range of climate change impacts	Impact on various types of capitals	Actions undertaken by the Company and the Group
Apparel segment	Availability and cost of raw materials and fabrics	There is a risk that, due to environmental protection, restrictive legal regulations will be introduced for manufacturers of clothing and accessories, which may apply to both the production of raw materials and their processing, as well as overall increase in the accountability of their business and implementation of sustainable development principles. Potentially higher requirements, new, more restrictive certificates, as well as their enforcement may not contribute to the growing production costs, and thus the prices of the products they offer. As a result, clothing segment companies may be forced to purchase materials and goods at higher prices, which may increase the prices of clothing offered and may not be acceptable to all customers. Increased costs of goods and materials can also be affected by adverse weather phenomena, both short- and long-term.	**Natural capital**: The use of technologies that are less harmful to the environment by our suppliers should have a positive impact on natural capital. Climate change alone can potentially lead to a decline in biodiversity and a lack of water in some areas, which can contribute to a reduction in the surface area of raw materials for crops. Climate change can lower soil fertility, promote pest resistance and lead to increased consumption of raw materials, e.g. cotton. Droughts, fires and floods can threaten plantations, and thus can increase prices and reduce the availability of raw materials for fabrics.	Constant search for new suppliers that meet the criteria of the Code of Conduct for Suppliers and Contractors, producing responsibly and offering modern and ecological products. The Management Board will continue to work on geographical diversification of supplies.
	Changes in customer behaviour	There is a risk that the trend of responsible buying will intensify, causing customers to make more informed purchases. They can prefer the purchase of products that have a transparent supply chain and provide information on the origin of the material, place of production, or certificates possessed by the manufacturer and materials. In addition, customers can start to choose brands that are more environmentally friendly, declare significant reductions in their carbon footprint, or even have a climate neutral goal. This can also translate into customer preferences regarding clothing made from recycled materials or more natural materials that allow customers to "breathe" during high temperatures. In addition, increasing awareness of the carbon footprint can have a negative impact on on-line sales, which is associated with more deliveries than to stores. There is a risk that customers will use their clothes longer and be less susceptible to fashion trends, which may have a negative impact on the sale of the Company and the Group.	**Human and social capital:** As customers become more aware of climate change, they can start looking for goods in terms of their quality, not quantity, and in terms of the environmental qualities of materials. With increase in consumer awareness, the need for knowledge and information about products offered by brands may also increase. The Company and the Group, in order not to lose social capital in the form of clients and their trust, and human capital in the form of employees and their ideas, may be forced to meet these expectations. Increasing pressure from various stakeholders can be placed on taking measurable activities, and not just a marketing message.	Together with Spring/Summer 2020, VRG will offer ecological collections under the Vistula brand. All of the Group's brands have also joined the fur-free campaign and will not offer natural fur clothing. As part of the Sustainable Development Strategy, the Management Board has committed that a minimum of 10% of each clothing brand's collection will come from ecological and modern fabrics. The Management Board has started activities aimed at measuring the carbon footprint of the Company and the Group, which will be developed in the following quarters.
	Changes in seasons and collections	The possible further blurring of the seasons and the severity of unpredictable weather anomalies may affect the changes in the structure of the collection, increasing the demand for all-season, casual and inter-seasonal clothes. Typical winter offer e.g. warm jackets may be less and less popular, and its ordering may be include and increasingly high risk of not being sold at the first price. Climate change, and in particular climate warming, can affect not only the structure of goods ordered, but also the stocking cycle of stores. Clothing made of natural fibres, which in the era of climate change give a greater sense of comfort, can be more and more popular.	**Financial capital:** The Autumn/Winter collection is more important in the apparel segment than Spring/Summer. VRG S.A. revenues for 2019 for the second half were 20% higher than for the first half. In addition, jackets and coats are an important assortment of the Autumn / Winter collection for the Vistula and Bytom brands (some 4% and some 7% of the Company's and Group sales in 2019, respectively). The narrowing of the differences between the seasons may result in lower demand for this category, and thus a possible negative impact on sales and profits (these are product categories with high unit prices). The increase in demand for cotton may cause an increase in the purchase prices of this raw material, and thus clothing companies are faced with the decision to increase their selling prices or reduce their margins.	VRG with each season Autumn / Winter is rational about ordering clothes that can only be sold this season. The Company monitors demand every year and, if needed modifies orders from the previous years. The Management Board will also strive for the Company and the Group to offer a new range that follows the tastes and expectations of customers.

	Area of climate changes impact	Risks and possible range of climate change impacts	Impact on various types of capitals	Actions undertaken by the Company and the Group
Jewellery segment	Availability and cost of raw materials	Because diamond and precious metal mines are located in a certain areas for a long time, mainly due to the time it takes to explore, design, issue permits, construction, production and mine life cycle after closure, climate change can have a significant impact on mines. Rainwater, sewage treatment and collection systems, as well as buildings and infrastructure as well as biodiversity - all these elements are geared to the impact of extreme weather conditions caused by climate change. One of the risks for the jewellery segment may be rising prices of ores used in industry as part of environmental protection activities. The growing demand for selected ores in completely different industries affects the prices of ores in all markets. This applies to palladium (used in the automotive industry, for catalysts in gasoline cars) and platinum (used in catalysts for diesel cars).	**Natural capital**: Possible problems with e.g. water resources may affect the process of mining metals and precious stones in terms of the efficiency of mining machinery or transport infrastructure, as well as the inability to obtain ores (e.g. due to flooded mines, changing conditions preventing mining, typhoons preventing diamonds from grinding or their distribution). However, global warming may open up areas for mining that could not be exploited until now, giving the jewellery segment a chance for further development.	W.KRUK, as the first jewellery company in Poland, introduced to the market on a large scale (full jewellery collection) lab-grown diamonds. This novelty complements the diamond offer of the brand and an alternative for customers looking for stones not obtained directly from the earth. The Management Board will continue to diversify its offer in the jewellery segment.
	Changes in customer behaviour	Due to the growing awareness of consumers, there is a risk that also in the jewellery segment consumers will be increasingly aware and sensitive to the issue of ecology and will want to support producers who respond to the problem of climate change. Customers may be willing to pay more for environmentally friendly items. Future sales results may also be affected by the trend of reducing consumption or looking for alternatives to buy new jewellery or watches on the secondary market.	**Human and social capital**: Possible greater legal requirements or social pressure (increasingly aware consumers and investors) may contribute to the necessity of introducing new technologies having less harmful impact on the environment. The consequence for companies from the jewellery industry may be the high costs of implementing changes. The time needed to replace existing technologies can also contribute to this. The time to learn how to use them, train employees and the period of reaching full potential will generate additional costs. A pro-environmental approach may be required not only by partners but also by W.KRUK employees.	In the field of obtaining diamonds used for production, W.KRUK cooperates with suppliers who are members of RJC, subject to the same rigorous audits. The Responsible Jewellery Council essentially gathers companies that comply with the Code of Conduct running a business with a responsible and morally faultless model. W.KRUK offers timeless and durable products that thanks to their quality will last for generations.
			Financial capital: The risk of reducing jewellery purchases in conjunction with higher jewellery prices (if the increase in costs would be passed on to the customer) may negatively impact the profitability of the jewellery segment.	Searching for new sources of income and emphasizing the quality of W.KRUK products and their longevity, as well as the importance as a means of storing value.

	Scenario description	Business model resilience analysis
In each of the selected climate scenarios presented by IPCC, world temperatures in the 21st century will rise. According to IPPC, it is almost certain that there will be more extremely warm temperatures and fewer extremely cold temperatures. It is likely that heat waves will appear more often and last longer, as well as heavy rainfall. The oceans will be warmer and more acidic, and their level will rise. Arctic areas will warm up faster than the average of the globe. In 2016-2035, in each scenario, the temperature rise is similar and is between 0.3°C and 0.7°C compared to 1986-2005.		
Scenario RCP2.6	The RCP2.6 IPCC scenario assumes a strong reduction of the CO_2 equivalent in the atmosphere and that the actions taken will allow the temperature to be maintained at a level not higher than 2°C above the pre-industrialization level. The scenario assumes that the median temperature increase is 1°C (possible range of temperature increase is 0.4°C to 1.6°C in 2046-65 and 0.3°C to 1.7°C in 2081-2100). According to IPCC, measures to reduce CO_2e may have a negative impact on consumption.	**Apparel segment:** It is possible that the need to significantly reduce emissions in the next several years would entail significant changes, in particular for suppliers. It would mean the necessity of the Company to choose only those suppliers that meet high environmental and climate requirements and would change the offer of the Company and the Group, forcing the use of only such fabrics and materials that come from organic farming. There is a risk, therefore, that this would involve an increase in prices of raw materials and products. In addition, for suppliers to be able to meet the requirements in a relatively short time, they would probably need to receive funding from their governments or international institutions. Transport is another issue. There is a risk that, striving to reduce greenhouse gas emissions as soon as possible, selected governments would impose a tax on CO_2 emissions, which could increase fuel prices and thus the cost of supplying goods from the manufacturer. Therefore, there is a possibility that in this scenario the Company would have to reduce the use of Asian suppliers and transfer production either to the country or to neighbouring countries (currently part of the apparel segment's production takes place in Poland). Another element is the possible reaction of consumers. Assuming that the multitude of actions aimed at reducing greenhouse gas emissions in many respects would lead to a decrease in disposable income, and hence the purchase of clothes. Probably in this scenario customers would be looking for things that would be more ecological and durable. VRG and Deni Cler offer good quality products which durability can be counted on in years. It seems that in this scenario, the Company would have to speed up the implementation of the ecological offer and change the communication regarding the quality of its products and the offer regarding the recycling of its products. If this scenario is implemented, the Management Board will take all necessary actions.
		Jewellery segment: The need to implement quickly changes reducing the sector's emissions would probably be associated with the need for changes at W.KRUK suppliers. The use of less emissive fuel for mining machinery and less chemicals in mining would increase the need for investment in new machinery and technologies. This could increase the cost of raw materials, which could also increase in price due to their use in other industry segments. Similarly, higher transport costs would probably have to be reflected by W.KRUK in higher prices for customers. As in the apparel segment, decreasing disposable income could have a negative impact on jewellery purchases (in particular impulsive). The company will continue its marketing message based on the longevity of its products, and may also further diversify its offer in the future.
Scenario RCP6.0	The RCP6.0 IPCC scenario shows what will happen with the cumulated greenhouse gas levels if the appropriate reduction measures are not taken. For this reason, in this scenario it is likely that the world temperature will rise by more than 2°C above pre-industrialization levels. The scenario assumes that the median of changes will be 1.3°C in 2046-65 (range 0.8°C to 1.8°C) and 2.2 °C in 2081-2100 (range 1.4°C to 3.1°C). Delaying activities related to the reduction of CO_2 equivalents will hinder activities in the future.	**Apparel segment:** The scenario assumes that no significant measures will be taken to reduce greenhouse gas emissions in the next several years. This does not mean that climate issues will not be relevant to consumers. The topics of slow fashion and sustainable development can be increasingly important, especially for younger generations. In this scenario, it is customers and their choices that will continue to slowly force changes on producers and suppliers, and the apparel segment will move towards more organic raw materials and fewer chemicals. In this scenario, the Company will continue its activities aimed at extending the ecological offer and adapting, in particular, the offer of Autumn/Winter collections to changing climate conditions. The lack of quick measures to reduce greenhouse gas emissions would, however, lead to a significant intensification of adverse weather changes over a dozen years and a faster increase in temperature in particular after 2035, which could have a negative impact on both the cost of raw materials and demand. In further years, intensification of physical risks in this scenario Is possible.
		Jewellery segment: A similar situation would take place in the jewellery segment. Climate change together with the growing public awareness would probably cause a gradual change in the consumers' approach to buying jewellery and watches. Also on the suppliers' side, adaptations to the changing environment would probably start. Lack of quick measures to reduce greenhouse gas emissions would, however, lead to a significant intensification of adverse weather changes over several years and a faster increase in temperature, especially after 2035, which could have a negative impact on the availability of metals and precious stones. High temperatures or floods could threaten the areas where these raw materials are extracted. The Management Board will respond and adapt its offer and supply sources.

8. Anti-bribery and anti-corruption measures

8.1. Policies

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.

In 2019, there were no submissions received in the email address przeciwdziałanie-korupcji@vrg.pl. In 2019, one notification of irregularities took place (via the on-line form). It concerned dissatisfaction with the fact that VRG had signed a contract with another tailoring company. After verification with the persons involved in the decision-making process of choosing the service provider, it was clarified that the decision to change the contractor was due to low quality of services rendered. After ending the contract with the person reporting the alleged irregularity, a contract was signed with another company providing similar services at a higher level of quality. The proceedings in this case were therefore discontinued.

8.2. Risks

The most important areas of risks in this field identified by the Company and the Group include:

- obtaining job for an advantage,
- unfair wining of tender,
- dishonest choice of supplier or business partner.

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 for new positions, when selecting business partners.

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.

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 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 report.

Additionally, as part of the Supervisory Board of VRG S.A. from May 2012, there is an internal Audit Committee, currently consisting of four persons. 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 to identify and prevent or reduce 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.

In addition, the Company and the Group include: Information Security Policy (personal data protection policy), which defines the manner and principles of data processing and information obligations related to the GDPR, implementation of the rights of persons affected by data processing. The Company and the Group also have Inside Information Flow Regulations.

RISK MANAGEMENT PROCESS

Risk identification

Risk assessment – determining the possible effects, probabilities and significance of occurrence of a given risk

Determination of an acceptable level of risk

Determining the response to risk and indicating actions to reduce the risk to an acceptable level

Providing risk control mechanisms

Implementation of preventive and corrective measures and monitoring and reporting

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 best possible way in the apparel and jewellery segments. Actions undertaken include: development of on-line sales channel, adapting on-line store pages to customer expectations, implementing solutions dedicated to mobile devices and reducing order processing time.
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.
Ryzyka operacyjne			
Inventory management	●●○○○	●●●●○	A quantitative and qualitative analysis of inventory is carried out periodically. On its basis, the Group decides on rebate campaigns, the amount of sell-offs and any possible write-downs. In addition, based on the analysis of the inventory held and sale of current collections, decisions are made as to the level of purchases for subsequent sales periods.
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

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 report. 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)	4,6,7,8,9
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	4,12
Number of suppliers	Number of suppliers with annual turnover exceeding PLN 10 ths	4
Number of loyal suppliers	Split of suppliers based on length of cooperation	10,11
Payment terms	Average payment period for suppliers in days	24
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	4,9,13
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 floorsapce of the segment / entity	4,13
Share of internet in revenues	Sales of e-stores in proportion to the total sales of the Company / Capital Group	4,13
Number of employees	The number of people employed under a contract of employment, excluding persons on maternity leave	4,26
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)	26
Number of disabled people	Number of persons employed with a recognized degree of disability	27
Diversity factors	Employees split by gender, age, seniority, place of work	4,27,28,29
Overtime	Number of hours worked over the standard working time by employees of the Company and the Capital Group in a given year	32
Trade unions	Number of trade unions and number of people who belong to them	27
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.	30,35,36

Non-financial indicator	Methodology	Page number
Number of accidents	Number of accidents among group employees and employees of subcontractors working on the premises.	34
Accident frequency indicator	Number of accidents at work per 1,000 employees	35
Days of incapacity for work	Total number of days of incapacity for work caused by accidents	35
Accident severity indicator	Number of days of inability to work / number of accidents	35
Percentage of stores with led lighting	Percentage of stores with led lighting	45
Percentage of stores with an environmental clause	Number of stores for which an environmental contract is signed in relation to number of own outlets	45
Business cars	Number of cars rented, leased or owned by the Company / Capital Group	46
Number of kilometres driven	Number of kilometres driven by rented, leased and owned vehicles in a given calendar year	46
Delegations	Number of delegations (business trips)	47
Number of km driven	Number of kilometres driven during delegations (business trips)	47
Energy and water consumption	Data on electricity, natural gas, thermal Energy and water consumption	49
Emissions	CO2 equivalent emissions in Scope 1, Scope 2 and Scope 3	49
Reported irregularities	Number of cases reported for inboxes related to corruption and irregularities	56

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 30, 2020

VRG S.A. and VRG S.A. Capital Group

Pilotów 10 St., 31-462 Cracow

www.vrg.pl

VISTULA WÓLCZANKA BYTOM SZTUKA KRAWIECTWA OD 1945 W.KRUK 1840 DENI CLER MILANO

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 30, 2020 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 2019, 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 2019, 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 2019 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 2019 (extract from Resolution No. 4 of the Supervisory Board of VRG S.A. in Cracow of March 30, 2020)

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.