

VISTULA

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VRG
VISTULA RETAIL GROUP

CONSOLIDATED FINANCIAL STATEMENTS

of VRG S.A. Capital Group
for 12 months ending December 31, 2020
prepared in accordance with IFRS approved by the European Union

Cracow, April 16, 2021

TABLE OF CONTENTS

| | |
|---|----|
| CONSOLIDATED FINANCIAL STATEMENTS..... | 3 |
| CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME..... | 4 |
| CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME..... | 5 |
| CONSOLIDATED STATEMENT OF FINANCIAL POSITION..... | 6 |
| CONSOLIDATED STATEMENT OF CHANGES IN EQUITY..... | 8 |
| CONSOLIDATED STATEMENT OF CASH FLOWS..... | 9 |
| SUPPLEMENTARY INFORMATION TO CONSOLIDATED FINANCIAL STATEMENTS..... | 11 |
| 1. GENERAL INFORMATION..... | 11 |
| 2. PRINCIPLES FOR PREPARATION OF FINANCIAL STATEMENTS..... | 18 |
| 3. ACCOUNTING PRINCIPLES..... | 23 |
| 4. SUPPLEMENTARY NOTES TO FINANCIAL STATEMENTS..... | 39 |
| Note 1. Revenues from continuing operations..... | 39 |
| Note 2 Segments by type of activity and geographical breakdown..... | 39 |
| Note 3 Operating expenses and other operating costs..... | 42 |
| Note 4 Remuneration and employee benefits..... | 42 |
| Note 5 Financial income..... | 43 |
| Note 6 Financial costs..... | 43 |
| Note 7 Income tax..... | 44 |
| Note 8 Earnings per share..... | 45 |
| Note 9 Goodwill..... | 45 |
| Note 10 Other intangible assets..... | 47 |
| Note 11 Fixed assets..... | 48 |
| Note 11a Right of use assets..... | 49 |
| Note 12 Investment property..... | 50 |
| Note 13 Shares and stakes..... | 51 |
| Note 14 Other long-term investments..... | 52 |
| Note 15 Inventory..... | 52 |
| Note 16 Long-term receivables..... | 52 |
| Note 17 Trade and other receivables..... | 52 |
| Note 18 Cash and cash equivalents..... | 55 |
| Note 19 Bank loans and borrowings..... | 55 |
| Note 20 Fair value of financial instruments..... | 59 |
| Note 20a Financial instruments by type..... | 60 |
| Note 20b Financial instruments - revenues and costs, gains and losses from change in value..... | 60 |
| Note 21 Other non-current assets..... | 61 |
| Note 21a Other current assets..... | 61 |
| Note 22 Deferred income tax..... | 61 |
| Note 23 Finance lease liabilities..... | 62 |
| Note 24 Trade and other liabilities..... | 64 |
| Note 24a. Finance liabilities by maturity..... | 65 |
| Note 25 Provisions..... | 65 |
| Note 26 Share capital..... | 66 |
| Note 27 Reserve capital..... | 68 |
| Note 28 Retained earnings..... | 68 |
| Note 29 Contingent receivables and liabilities..... | 69 |
| Note 30 Share-based compensation..... | 69 |
| Note 31 Significant events in 2020..... | 70 |
| Note 31a Events after the balance sheet date..... | 70 |
| Note 32 Related party transactions..... | 74 |
| Note 33 Comparable data - previous years adjustments and presentation changes..... | 76 |
| Note 34 Settlement of the merger of VRG S.A. and Bytom S.A. and the subsidiary BTM 2 Sp. z o.o..... | 77 |
| 5. ISSUANCE, REDEMPTION AND REPAYMENT OF DEBT AND CAPITAL SECURITIES..... | 77 |
| 6. PAID AND DECLARED DIVIDENDS..... | 77 |
| 7. PENDING COURT OR PUBLIC ADMINISTRATION PROCEEDINGS..... | 77 |
| 8. CREDIT OR LOAN GUARANTEES GRANTED..... | 77 |
| 9. REMUNERATION OF PARENT COMPANY MANAGEMENT AND SUPERVISORY BOARD FOR 2020..... | 77 |
| 10. SIGNIFICANT RISK FACTORS..... | 79 |
| 11. OTHER INFORMATION RELEVANT TO ASSESSMENT OF GROUP'S SITUATION..... | 81 |

CONSOLIDATED FINANCIAL STATEMENTS

FOR 12 MONTHS ENDING DECEMBER 31, 2020

SELECTED FINANCIAL DATA TO CONSOLIDATED FINANCIAL STATEMENTS

| | PLN ths | | EUR ths | |
|--|--|--|--|--|
| | 2020 January 1, 2020 to December 31, 2020 | 2019 January 1, 2019 to December 31, 2019 | 2020 January 1, 2020 to December 31, 2020 | 2019 January 1, 2019 to December 31, 2019 |
| Revenues | 853,714 | 1,068,266 | 190,810 | 248,322 |
| Profit (loss) from operations | - 11,923 | 87,492 | - 2,665 | 20,339 |
| EBITDA | 98,422 | 198,483 | 21,327 | 46,140 |
| Pre-tax profit (loss) | - 48,074 | 79,357 | - 10,745 | 18,448 |
| Net profit (loss) | - 48,170 | 63,993 | - 10,766 | 14,876 |
| Net cash flows from operating activities | 143,207 | 108,615 | 32,008 | 25,249 |
| Net cash flows from investing activities | - 16,143 | - 16,806 | - 3,608 | - 3,907 |
| Net cash flows from financing activities | - 103,505 | - 100,052 | - 23,134 | - 23,258 |
| Total net cash flows | 23,559 | - 8,243 | 5,266 | - 1,916 |
| | 31.12.2020 | 31.12.2019 | 31.12.2020 | 31.12.2019 |
| Total assets | 1,457,995 | 1,431,314 | 315,939 | 336,108 |
| Liabilities and provisions | 642,879 | 568,028 | 139,308 | 133,387 |
| Long-term liabilities | 305,988 | 242,234 | 66,306 | 56,882 |
| Short-term liabilities | 325,796 | 313,578 | 70,598 | 73,636 |
| Total equity | 815,116 | 863,286 | 176,631 | 202,721 |
| Share capital | 49,122 | 49,122 | 10,644 | 11,535 |
| 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) | - 0.21 | 0.27 | - 0.05 | 0.06 |
| Diluted earnings (loss) per share (in PLN/EUR) | - 0.20 | 0.26 | - 0.04 | 0.06 |
| Book value per share (in PLN/EUR) | 3.48 | 3.68 | 0.75 | 0.86 |
| Diluted book value per share (in PLN/EUR) | 3.38 | 3.57 | 0.73 | 0.84 |
| Declared or paid dividend per share (in PLN/EUR) | - | - | - | - |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR 12 MONTHS ENDING DECEMBER 31, 2020

| | Note | PLN ths | | | |
|--|------|--|--|--|--|
| | | 2020 January 1, 2020 to December 31, 2020 | 2019 January 1, 2019 to December 31, 2019 | 4Q20 October 1, 2020 to December 31, 2020 | 4Q19 October 1, 2019 to December 31, 2019 |
| Revenues | 1, 2 | 853,714 | 1,068,266 | 232,004 | 332,462 |
| Cost of sales | 3 | 436,370 | 512,192 | 113,114 | 153,968 |
| Gross profit on sales | | 417,344 | 556,074 | 118,890 | 178,494 |
| Other operating income | 1 | 15,456 | 5,384 | 6,945 | 4,016 |
| Profit from sale of non-financial non-current assets | 1 | - | 477 | - | - |
| Selling costs | 3 | 339,794 | 383,061 | 101,659 | 107,980 |
| Administrative expenses | 3 | 77,046 | 86,118 | 20,227 | 24,083 |
| Other operating costs | 3 | 27,209 | 5,264 | 6,489 | 2,642 |
| Loss from sale of non-financial non-current assets | | 674 | - | 353 | 250 |
| Profit (loss) from operations | | - 11,923 | 87,492 | - 2,893 | 47,555 |
| Financial income | 1, 5 | 2,060 | 3,056 | 7 | 9,815 |
| <i>incl.: lease liabilities related to retail and office space</i> | | - | 2,357 | - | 7,315 |
| Profit from sale of subsidiaries | 6 | 38,211 | 11,191 | 13,834 | 3,506 |
| Financial costs | | 30,451 | 4,249 | 12,841 | 1,062 |
| <i>incl.: lease liabilities related to retail and office space</i> | | - 48,074 | 79,357 | - 16,720 | 53,864 |
| Loss from sale of subsidiaries | 7 | 96 | 15,364 | 2,150 | 9,516 |
| Net profit (loss) for the period | | - 48,170 | 63,993 | - 18,870 | 44,348 |
| Attributed to dominating entity | | - 48,170 | 63,993 | - 18,870 | 44,348 |
| Attributed to non-controlling interest | | - | - | - | - |
| Earnings (loss) per share: | | | | | |
| - basic | | - 0.21 | 0.27 | - 0.08 | 0.24 |
| - diluted | | - 0.20 | 0.26 | - 0.08 | 0.23 |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR 12 MONTHS ENDING DECEMBER 31, 2020

| | Note | PLN ths | | | |
|--|------|--|--|--|--|
| | | 2020 January 1, 2020 to December 31, 2020 | 2019 January 1, 2019 to December 31, 2019 | 4Q20 October 1, 2020 to December 31, 2020 | 4Q19 October 1, 2019 to December 31, 2019 |
| Net profit for the period | | - 48,170 | 63,993 | - 18,870 | 44,348 |
| Other comprehensive income, including: | | - | - | - | - |
| Revaluation of financial assets available for sale | | - | - | - | - |
| Income tax related to other comprehensive income | | - | - | - | - |
| Total comprehensive income | | - 48,170 | 63,993 | - 18,870 | 44,348 |
| Attributed to dominating entity | | - 48,170 | 63,993 | - 18,870 | 44,348 |
| Attributed to non-controlling interest | | - | - | - | - |



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2020

| | Note | PLN ths | |
|------------------------------|-------|------------------|------------------|
| | | 31.12.2020 | 31.12.2019 |
| ASSETS | | | |
| Non-current assets | | 889,789 | 847,036 |
| Goodwill | 9 | 302,748 | 302,748 |
| Other intangible assets | 10 | 196,242 | 196,956 |
| Fixed assets | 11 | 60,626 | 67,482 |
| Investment property | 12 | 874 | 874 |
| Assets held for sale | 11a | 312,690 | 270,546 |
| Right-of-use assets (IFRS16) | 16 | 295 | 664 |
| Long-term receivables | 13 | 27 | 27 |
| Shares and stakes | 14 | 4 | 4 |
| Other long-term investments | 22 | 16,283 | 7,707 |
| Deferred tax assets | 21 | - | 28 |
| Current assets | | 568,206 | 584,278 |
| Inventory | 15 | 505,584 | 535,539 |
| Trade and other receivables | 17,21 | 13,332 | 23,459 |
| Cash and cash equivalents | 18 | 48,839 | 25,280 |
| Other short-term assets | | 451 | - |
| Total assets | | 1,457,995 | 1,431,314 |

| | Note | PLN ths | |
|--|------|------------------|------------------|
| | | 31.12.2020 | 31.12.2019 |
| EQUITY AND LIABILITIES | | | |
| Dominating entity's equity | | 815,116 | 863,286 |
| Share capital | 26 | 49,122 | 49,122 |
| Agio | | - | - |
| Other reserves | 27 | 14,333 | 14,333 |
| Retained earnings | 28 | 751,661 | 799,831 |
| Non-controlling interest | | - | - |
| Long-term liabilities and provisions | | 307,227 | 243,356 |
| Liabilities due to purchase of fixed assets | | 438 | 271 |
| Lease liabilities | 23 | 258,354 | 186,112 |
| <i>incl.: lease liabilities related to retail and office space</i> | | <i>256,974</i> | <i>183,915</i> |
| Loans and borrowings | 19 | 47,196 | 55,851 |
| Long-term provisions | 25 | 1,239 | 1,122 |
| Short-term liabilities and provisions | | 335,652 | 324,672 |
| Lease liabilities | 23 | 98,839 | 86,308 |
| <i>incl.: lease liabilities related to retail and office space</i> | | <i>97,510</i> | <i>84,424</i> |
| Trade and other liabilities | 24 | 199,240 | 182,552 |
| Corporate income tax liabilities | | 3,345 | 9,150 |
| Loans and borrowings | 19 | 11,289 | 21,340 |
| Short-term part of long-term loans and borrowings | 19 | 13,083 | 14,228 |
| Short-term provisions | 25 | 9,856 | 11,094 |
| Total liabilities and provisions | | 642,879 | 568,028 |
| Total equity and liabilities | | 1,457,995 | 1,431,314 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR 12 MONTHS ENDING DECEMBER 31, 2020

| | PLN ths | | | |
|---|---------------|------------------|-------------------|----------------|
| | Share capital | Capital reserves | Retained earnings | Total equity |
| Balance at 01.01.2019 | 49,122 | 13,968 | 742,007 | 805,097 |
| Changes in equity in 2019 | | | | |
| Merger of VRG S.A. and BTM 2 Sp. z o.o. | - | - | - 6,169 | - 6,169 |
| 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 |
| Balance at 01.01.2020 | 49,122 | 14,333 | 799,831 | 863,286 |
| Changes in equity in 2020 | | | | |
| Net profit (loss) for the period | - | - | - 48,170 | - 48,170 |
| Stock-option program valuation | - | - | - | - |
| Share issuance | - | - | - | - |
| Stock options issued | - | - | - | - |
| Balance at 31.12.2020 | 49,122 | 14,333 | 751,661 | 815,116 |

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, 2020

| | Note | PLN ths | |
|---|------|--|--|
| | | 2020 January 1, 2020 to December 31, 2020 | 2019 January 1, 2019 to December 31, 2019 |
| Cash flows from operating activities | | | |
| Pre-tax profit (loss) | | - 48,074 | 79,357 |
| Adjustments: | | | |
| Amortization and depreciation | | 110,345 | 110,991 |
| Profit (loss) on investing activities | | 645 | - 495 |
| Income tax paid | | - 14,505 | - 12,635 |
| Interest costs | | 8,201 | 9,136 |
| Change in provisions | | - 1,121 | 278 |
| Change in inventories | | 29,955 | - 74,758 |
| Change in receivables | | 10,496 | 1,437 |
| Change in short-term liabilities, excluding bank loans and borrowings | | 47,962 | - 1,949 |
| Other adjustments | | - 697 | - 2,747 |
| Net cash flows from operating activities | | 143,207 | 108,615 |
| Cash flows from investing activities | | | |
| Interest received | | 18 | 9 |
| Disposal of intangibles | | - | - |
| Disposal of fixed assets | | 937 | 9,155 |
| Disposal of investment property | | - | - |
| Purchase of intangible assets | | - 168 | - 972 |
| Purchase of fixed assets | | - 16,930 | - 24,998 |
| Purchase of financial assets in other entities | | - | - |
| Net cash flows from investing activities | | - 16,143 | - 16,806 |

| Cash flows from financing activities | | | |
|---|-----------|------------------|------------------|
| Proceeds from issuance of shares and other capital instruments and additional payments to capital | | - | - |
| Inflows from loans and borrowings | | 3,671 | 14,809 |
| Repayment of bank loans and borrowings | | - 22,251 | - 19,499 |
| Finance lease payments | | - 2,004 | - 2,085 |
| Interest paid, other | | - 2,966 | - 4,887 |
| Interest paid due to lease liabilities related to retail and office space | | - 5,235 | - 4,249 |
| Lease payments due to lease liabilities related to retail and office space | | - 74,720 | - 84,141 |
| Related to other financing liabilities | | - | - |
| Net cash flows from financing activity | | - 103,505 | - 100,052 |
| Change in cash and cash equivalents in the balance sheet | | 23,559 | - 8,243 |
| Opening balance of cash | | 25,280 | 33,523 |
| change in cash due to foreign currency translation | | - | - |
| Closing balance of cash | 18 | 48,839 | 25,280 |

| Value shown under "Other adjustments" consists of: | w tys. zł. | w tys. zł. |
|--|--------------|----------------|
| - capital reserves increase – valuation of stock options | - | 364 |
| - fixed assets - impairment - liquidation | - 679 | - 3,102 |
| - interest received | - 18 | - 9 |
| Total | - 697 | - 2,747 |

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.

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 | ▪ Issuer's debut on the Warsaw Stock Exchange S.A. |
| 2001 | ▪ Registration of a new company name: Vistula Spółka Akcyjna |
| 2005 | ▪ 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

As at the end of 2020 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 in design, manufacturing and retail sales of brand luxury products such as jewellery, watches and accessories.

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

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%

Consolidated financial statements for 2020 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..

Changes in the structure of the Capital Group in 2020:

There were no changes in VRG S.A. Capital Group structures in 2020.

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

The Management Board

As at 31 December 2020, the composition of the Management Board of VRG S.A. was the following:

| | | | | |
|-------------------------|--|--|--|--|
| Management Board | Andrzej Jaworski President of the Management Board | Radosław Jakociuk Executive Vice-President of the Management Board | Michał Zimnicki Executive Vice-President of the Management Board | Erwin Bakalarz Management Board Member |
|-------------------------|--|--|--|--|

Within 2020 there have been the following changes in the Management Board of the Parent Company:

- On December 30, 2019, Mr. Mateusz Żmijewski, Executive Vice-President of the Management Board, resigned from his position in the Management Board of the Company with effect as of March 31, 2020. On March 30, 2020, Mr. Mateusz Żmijewski submitted a declaration of withdrawal of his resignation. The Supervisory Board of the Company, in the resolution of March 30, 2020, consented to the withdrawal of the resignation of Mr. Mateusz Żmijewski and further performance of the function of the Executive Vice-President of the Management Board of the Company until the end of the current term of office of the Management Board of the Company.

- The Supervisory Board of the Company, at the meeting held on May 25, 2020, elected the Management Board of the Company for a new joint term of office starting on the day following the date of the Ordinary General Meeting approving the financial statements of the Company for the financial year 2019. According to the content adopted resolutions of the Supervisory Board, the following were appointed to the Management Board of the Company for the period of a new, joint term of office:

- Mr. Michał Wójcik for the position of the President of the Management Board;

- Mr. Michał Zimnicki for the position of the Executive Vice-President of the Management Board as of September 1, 2020;

- Mr. Erwin Bakalarz for the position of Management Board Member.

- On June 2, 2020, the Supervisory Board of the parent company adopted a resolution on the appointment of Mr. Mateusz Żmijewski to the Management Board of the Company for a new joint term of office until August 31, 2020 and entrusted him with the function of the Vice-President of the Management Board during this period.

- Rada Nadzorcza Spółki dominującej w dniu 13 lipca 2020 roku dokonała następujących zmian w składzie Zarządu:

- The Supervisory Board of the Company on July 13, 2020 made the following changes in the composition of the Management Board:

1) called off Mr. Michał Wójcik from the composition of the Management Board and the position of the President of the Management Boards;

2) called off Mr. Mateusz Żmijewski from the composition of the Management Board and the position of Executive Vice-President of the Management Board;

3) appointed Mr Andrzej Jaworski to the composition of the Management Board of the current term in office for the position of President of the Management Board;

4) based on Article 383 par. 1 of the Code of Commercial Companies, delegated Mr. Ernest Podgórski, Member of the Supervisory Board of the Company, to temporarily perform the duties of Executive Vice-President of the Management Board responsible for financial matters; the appointment is for a period of up to three months;

5) appointed Mr. Radosław Jakociuk to the composition of the Management Board for a joint term in office for the position of Executive Vice-President of the Management Board.

- the Supervisory Board of the Parent Company, at the meeting held on August 17, 2020, adopted a resolution to shorten the time of delegation of Mr. Ernest Podgórski, Member of the Supervisory Board of the Company, to temporarily perform the duties of the Executive Vice-President of the Management Board responsible for financial matters; by September 14, 2020;

- on September 11, 2020, Mr. Ernest Podgórski, Member of the Supervisory Board of the Company, submitted a declaration of resignation with effect as of September 13, 2020 from delegation for Executive Vice-President of the Management Board for financial matters to temporarily perform the duties.

In the period from December 31, 2020 to the date of approval of these financial statements, the composition of the Management Board of VRG S.A. has changed as follows:

- on January 11, 2021, Mr. Erwin Bakalarz resigned from the position of a Member of the Company's Management Board, effective January 11, 2021.

- On January 11, 2021, the Supervisory Board of the Company appointed two members of the Management Board of the Company for the current joint term of office. Pursuant to the adopted resolutions of the Supervisory Board, the following were appointed to the Management Board of the Company:

Mr. Ernest Podgórski, PhD for the position of the Member of the Management Board responsible for IT and e-commerce;

Olga Lipińska-Długosz, PhD for the position of a Member of the Management Board.

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

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

| | | | | | |
|-------------------------|--|--|--|--|---|
| Management Board | Andrzej Jaworski President of the Management Board | Radosław Jakociuk Executive Vice-President of the Management Board | Michał Zimnicki Executive Vice-President of the Management Board | Ernest Podgórski Management Board Member | Olga Lipińska-Długosz Management Board Member |
|-------------------------|--|--|--|--|---|

Supervisory Board Member

As at December 31, 2020, the composition of the Supervisory Board of VRG S.A. was as follows:

| | | | | | | |
|--------------------------|--|--|---|--|---|--|
| Supervisory Board | Jerzy Mazgaj Chairman of the Supervisory Board | | Piotr Kaczmarek Member of the Supervisory Board | | Jan Pilch Member of the Supervisory Board | |
| | Ernest Podgórski Member of the Supervisory Board | | Piotr Stępiak Member of the Supervisory Board | | Wacław Szary Member of the Supervisory Board | |
| | | | | | Andrzej Szumański Member of the Supervisory Board | |

In 2020, the following changes took place in the composition of the Company's Supervisory Board:

- on February 19, 2020, Mrs. Grażyna Sudzińska-Amroziewicz submitted a declaration of resignation from the function of a member of the Supervisory Board of VRG S.A. and, consequently, membership in the 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 Supervisory Board of the Company of the current joint term of office:

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

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

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

d) pursuant to Resolution No. 06/02/2020 of the General Shareholder Meeting on changes in the composition of the Supervisory Board of the Company, Mr. Piotr Stępiak was appointed to the composition of the Supervisory Board of the Company.

e) pursuant to Resolution No. 07/02/2020 of the General Shareholder Meeting on changes in the composition of the Supervisory Board of the Company, Mr. Grzegorz Janas was appointed to the composition of the Supervisory Board of the Company.

- on June 29, 2020, Mr. Grzegorz Janas submitted a declaration of resignation from the function of a member of the Supervisory Board of VRG S.A.

- on June 29, 2020, Mr. Paweł Tymczyszyn submitted a declaration of resignation from the function of a member of the Supervisory Board of VRG S.A.

- on June 29, 2020; The Ordinary General Meeting of VRG S.A. adopted the following resolutions regarding changes in the composition of the Supervisory Board of the Company of the current joint term of office:

a) pursuant to Resolution No. 22/06/2020 of the General Meeting on changes in the composition of the Supervisory Board of the Company, Mr. Piotr Nowjalis was dismissed from the composition of the Supervisory Board of the Company.

b) pursuant to Resolution No. 23/06/2020 of the General Meeting on changes in the composition of the Supervisory Board of the Company, Mr. Ernest Podgórski was appointed to the composition of the Supervisory Board of the Company.

c) pursuant to Resolution No. 24/06/2020 of the General Meeting on changes in the composition of the Supervisory Board of the Company, Mr. Wacław Gray was appointed to the composition of the Supervisory Board of the Company.

d) pursuant to Resolution No. 25/06/2020 of the General Meeting on changes in the composition of the Supervisory Board of the Company, Mr. Jan Pilch was appointed to the composition of the Supervisory Board of the Company.

In the period from December 31, 2020 to the date of approval of these financial statements, the composition of the Supervisory Board of the parent company changed as follows:

- on January 11, 2021, Mr. Ernest Podgórski resigned from the position of a Member of the Company's Supervisory Board with effect on January 11, 2021.

- On January 19, 2021, the Supervisory Board of the parent company adopted a resolution to supplement the composition of the Supervisory Board by co-option provided for in paragraph 22 sec. 3 of the Company's Articles of Association.

The Supervisory Board appointed Mr. Mateusz Kolański to the Supervisory Board of the parent company of the current joint term of office. Mr. Mateusz Kolański was appointed Vice-Chairman of the Supervisory Board with effect from February 17, 2021.

As at the date of approval of 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 | Mateusz Kolański Vice-Chairman of the Supervisory Board | | Piotr Kaczmarek Member of the Supervisory Board |
| | Jan Pilch Member of the Supervisory Board | Piotr Stępnik Member of the Supervisory Board | Wacław Szary Member of the Supervisory Board | Andrzej Szumański 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 April 16, 2021.

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 2020. In the opinion of the Management Board of the Parent Company, as at the date of approval of these separate financial statements, there are no premises or circumstances that would indicate a threat to going continuation of the Group's operations in the foreseeable future.

Due to the occurrence in 2020 of the situation related to the coronavirus pandemic - i.e. shopping malls being closed from March 14, 2020 to May 4, 2020, the Management Board of the Parent Company, in its report for 2019, drew attention to the occurrence in this matter of a significant uncertainty resulting from events taking place after the balance sheet date, which in the long run could threaten the going concern of the Capital Group's companies.

However, based on the sales results achieved in 2020 and until the date of publication of the consolidated financial statements for 2020, the current liquidity situation and available sources of financing, despite the repeated ban on trading in the retail operations of the Capital Group companies in majority of traditional stores until April 25, 2021, in the opinion of the Management Board of the Company, there is no uncertainty as to the continuation of the operations of the Capital Group companies.

In 2020, the Management Board of the Company undertook steps to limit the impact of the epidemic on the financial situation of the Group companies. In 2020, which was burdened with closings of shopping malls several times, measures were taken to secure the Group's liquidity situation: annexes were signed to the agreements with financing banks, i.e. PKO BP and mBank for the next two years, and the available credit lines were increased, the value of orders for 2020, payment terms to commodity suppliers were extended, terms of lease agreements with shopping malls were renegotiated, salary costs were reduced and the focus was on increasing sales through online channel. The Group also applied for co-financing to remuneration costs, which was granted in the amount of PLN 7.8 million (in total for all companies of the Capital Group).

The above activities contributed to a significant optimization of net working capital, which decreased in the Capital Group by PLN 55.3 million year on year. The Group's financial indebtedness also decreased from PLN 91.3 million (under the previously applicable IAS 17 standard) at the end of 2019 to PLN 53.7 million at the end of 2020. The net debt / EBITDA at the end of 2020, was relatively secure level of 2.3x, significantly below the levels defined in loan agreements concluded by the companies of the Capital Group.

In 2021, the Capital Group once again faced temporary closing down of shopping malls. In this period, the Group companies re-negotiated the terms of rental agreements in the period of closed traditional stores and lowered their salaries for this period. In the opinion of the Management Board of the Company, there is no threat to going concern

and the Group is prepared for the current lockdown and continues to sell through the well-developed on-line channel in the Group's companies.



2. PRINCIPLES FOR PREPARATION OF FINANCIAL STATEMENTS

The consolidated financial statements for 2020 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, 2020 and December 31, 2019, the results of its operations for the 12 months ended December 31, 2020 and December 31, 2019 and cash flows for the 12 months ended December 31, 2020 and December 31, 2019.

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).

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 2020 have been prepared in Polish zloty, rounded up to full thousands (ths).

The consolidated financial statements are presented for the period from January 1, 2020 to December 31, 2020 and as of December 31, 2020. The fiscal year is the calendar year. Comparable financial data are presented for the period from January 1, 2019 to December 31, 2019 and as of December 31, 2019.

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, 2020 and for the twelve-month period ended with that date, were audited by a certified auditor (until the date of this publication of these financial statements of VRG S.A. Capital Group auditor's opinions on statements of subsidiaries have not been received). 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, 2019 contained in these financial statements were audited for the purpose of 2019 report.

The entity authorized to audit financial statements in the scope of the separate and consolidated financial statements for 2020 was Mazars Audyty 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 2019 was also Mazars Audyty Sp. z o.o. The total remuneration resulting from contracts concluded for the review and audit of separate financial statements for 2020 amounted to PLN 105 ths and for 2019 amounted to PLN 105 ths. Total remuneration resulting from contracts concluded for review and audit of subsidiaries for 2020 amounted to PLN 71 ths and for 2019 at PLN 71 ths.

In 2020, Mazars Audyty 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 2021, Mazars Sp. z o.o. was appointed to perform an attestation service related to the assessment of the Management Board and

Supervisory Board report on remuneration for the years 2019-2020. The total remuneration will be 8 thousand PLN.

The consolidated financial statements for 2020 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 | 11a | Right of use assets |
| 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 2020, i.e. in which no merger took place.

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.

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, 2020 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, 2020

- Amendments to IFRS 3 "Business Combinations" - the amendment clarifies the definition of a business and aims to more easily distinguish business acquisitions from groups of assets for the purpose of business combination settlement.
- Amendments to IAS 1 "Presentation of financial statements" and IAS 8 "Accounting principles (policy), changes in accounting estimates and error correction" - clarify the definition of materiality and increase the consistency between the standards.
- Changes in the reference to the Conceptual Framework in IFRS.
- Amendments to IFRS 9 and IAS 39 and IFRS 7 - reform of the IBOR interest rate benchmark.
- Amendments to IFRS 16 "Leases", effective for annual periods beginning on or after June 1, 2020 - change in the scope of leasing modification, the purpose of which is to ensure the possibility of withdrawing from the evaluation of leasing modification, in a situation where the change in leasing payments is a direct consequence of the COVID-19 pandemic (eg: "leasing holidays" or temporary suspension / reduction of leasing payments).

In the Group's opinion, the above-mentioned standards, interpretations and amendments to the standards did not have a significant impact on the financial statements in the period of their first application (due to the scope of modification of lease agreements caused by COVID-19, which exceeded the conditions imposed by the annex to IFRS16, the Group did not use from the so-called practical solutions).

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

When approving these consolidated financial statements, the Group did not apply the following standards, amendments to standards and interpretations that were published by the IASB but have not yet been approved for use in the EU. The Group intends to apply them for the periods for which they are applicable for the first time to the extent that they apply to it:

- Amendments to IFRS 4 "Insurance Contracts" - the main changes include: deferment of the first application of IFRS 17 by two years for annual reporting periods beginning on or after January 1, 2023, extension of the temporary exemption from IFRS 9 application by two years. As a result, qualifying entities will be required to apply IFRS 9 for annual reporting periods beginning on or after 1 January 2023.
- Amendments to IFRS 9 "Financial Instruments", IFRS 7 "Financial Instruments: Disclosures", IFRS 17 (amendment) "Insurance contracts", IFRS 16 (amendment) "Leasing" - the main changes include:
 - a) settlement of modifications of financial assets, financial liabilities and lease liabilities required as a direct consequence of the reform of interest rate indices and made on an economically equivalent basis, by updating the effective interest rate,
 - b) the reform of interest rate indicators does not directly result in the cessation of the application of hedge accounting. The hedging relationships (and related documentation) must be changed to reflect the modification of the hedged item, the hedging instrument and the hedged risk. The changed hedging relationships should meet all criteria qualifying for the application of hedge accounting, including the requirements related to effectiveness,
 - c) to enable users to understand the nature and extent of the risks arising from the reform of the interest rates to which the entity is exposed, and how the entity manages those risks, and the entity's progress in moving from interest rates to alternative rates and how the entity manages this transition, the changes require disclosure of:
 - information on how to manage the transition from interest rate benchmarks to alternative benchmarks, the progress made at the reporting date and the risks arising from the transition,
 - quantitative information on non-derivative financial assets, non-derivative financial liabilities and derivatives that are still subject to the reformed interest rate benchmarks, broken down by significant interest rate benchmarks,

- information on the extent to which the reform of interest rate ratios has resulted in changes to the entity's risk management strategy, a description of these changes and how the entity manages these risks.

Effective date - an annual period beginning on or after January 1, 2021.

New standards, interpretations and amendments to published standards that have been published by the International Accounting Standards Board (IASB) and are pending approval by the European Union

- IFRS 17 "Insurance Contracts" - effective date - an annual period beginning on or after January 1, 2023.
- Amendments to IAS 1 "Presentation of Financial Statements" - effective date - the annual period beginning on or after January 1, 2023.
- Amendments to IFRS 3 "Business Combinations" - effective date - annual period beginning on or after January 1, 2022.
- Amendments to IAS 16 "Property, plant and equipment" - effective date - annual period beginning on or after January 1, 2022.
- Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" - effective date - annual period beginning on or after January 1, 2022.
- Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - effective date - annual period beginning on or after January 1, 2023.
- Amendments to IFRS 16 "Leases" - effective date - the period beginning on or after April 1, 2021.

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.



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.

Foreign 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. Foreign exchange differences arising on borrowing costs are recognized in the value of assets if the borrowing costs on which they arise are also capitalized.

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.



3.14. Equity

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

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

| Debt ratio | PLN ths | |
|--|-------------|-------------|
| | 31.12.2020 | 31.12.2019 |
| Equity | 815,116 | 863,286 |
| Long-term debt | 60,279 | 70,079 |
| Long-term debt and borrowings | 47,196 | 55,851 |
| Short-term part of long-term debt and borrowings | 13,083 | 14,228 |
| Long-term debt / Equity | 7.4% | 8.1% |

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.

Financial liabilities subject to IFRS 9 (including liabilities due to credits, loans, see also for supplies and services) and included in the measurement at amortized cost are initially recognized at fair value, taking into account any possible transaction costs. As at the reporting date, such liabilities are measured at amortized cost.

Financial liabilities classified according to IFRS 9 as measured at fair value through profit or loss (including derivative instruments) are initially recognized at fair value, and as at the reporting date, they are revalued to 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

Operating 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.

Other revenues, including financial income

Interest

Revenue from interest is recognised on an accrual basis using the effective interest rate method.

| | |
|---|--|
| <p>Dividends</p> <p>-----</p> <p>Dividends are recognized when the right to receive them is granted.</p> | <p>Rental income</p> <p>-----</p> <p>Revenue from lease of investment property is recognized on a straight-line basis over the lease period in relation to ongoing contracts.</p> |
|---|--|

3.19. Costs

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

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

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

| |
|--|
| <p>Costs of external financing</p> <p>-----</p> <p>Costs of external financing (interest and other costs related to the financing obtained) are recognised in costs of the period to which they relate.</p> |
|--|

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 payment (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.

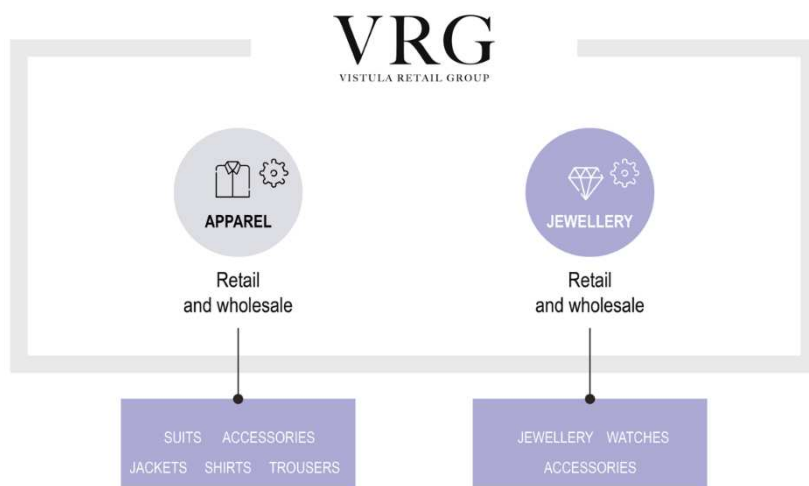
The fair value of the options granted is recognized in the profit or loss statement in correspondence with reserve capital. The options fair value is measured as of the grant date and is recognized in the vesting period. This value is measured based on Monte Carlo valuation model, which is an extension 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, Wólczanka, Lambert, Bytom, W.KRUK (via a subsidiary) and Deni Cler (via a subsidiary). From the second quarter of 2015, following a divestiture of an organised business unit related to W.KRUK brand, the jewellery activities are carried out by Issuer's a subsidiary, i.e. W.KRUK S.A. based in Cracow. From November 30, 2018, 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 |  | Operating on the Polish market since 1967, Vistula is the basic line of men formalwear. The brand offers a wide range of suits, jackets, trousers, shirts and other complementary accessories. |
| |  | The brand was launched in 1998. Its signature products are associated with apparel of French origins. Introduction of the Lantier brand was aimed at broadening the Company's offer to include products aimed at the most demanding customers, using the latest global fashion trends and the highest quality fabrics. Apart from classic suits, Lantier collections, similarly to Vistula brand collections, also include knitwear, shirts, jackets, coats and a wide range of complementary items. |
| |  | A brand introduced in 2009, which offers fashionable and smart casual products. The Vistula Red branded products are characterized by high quality and design consistent with global fashion trends. The brand is addressed at younger customers looking for bolder and more casual outfits. |

Leading brands of the Bytom business line:

| | | |
|-------|---|---|
| Bytom |  | <p>BYTOM is a Polish brand with a history dating back to 1945, in which tradition meets the modern vision of tailoring and men's fashion. Basing on a dozen of years long heritage, the brand offers men formalwear with a flagship product in the form of suits, made from finest Italian fabrics in Polish sewing facilities.</p> <p>BYTOM is not just the art of tailoring. The brand refers to the Polish cultural heritage by creating limited collections inspired by the work of outstanding personalities, inviting people with a significant influence on the development of Polish culture and art.</p> |
|-------|---|---|

Leading brands of the Wólczanka business line:


| | | |
|-----------|---|---|
| Wólczanka |  | The brand exists since 1948. The offer of this brand is made of men's shirts, and from the Autumn-Winter 2014 season also women's formal and casual shirts. The complementary assortment of the Wólczanka brand are sweaters, polo shirts and, from Spring/Summer 2019, men's chinos. |
| |  | 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 |  | <p>The brand's clothing is dedicated to the upper segment of the women fashion. The brand's products were introduced to the Polish market in the early 90's.</p> <p>Deni Cler offering is sewn from Italian fabrics, with the majority of accessories used being of Italian origins as well. Fabrics used to make branded clothes are mostly cashmere and wool with silk. The brand's assortment includes mostly: skirts, jackets, pants, blouses, coats and dresses.</p> <p>The owner of the Deni Cler brand originating in Milan is DCG S.A. based in Warsaw (the Company's subsidiary). The main activity of DCG S.A. focuses on the design, production and distribution of exclusive women's clothing.</p> |
|-----------------|---|--|

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 |  | <p>W. KRUK is the oldest jewellery brand in Poland with over 180 years of tradition. W.KRUK's offer includes gold and platinum jewellery, in particular jewellery with diamonds and precious stones. W.KRUK also creates the highest quality collections made of silver and other precious metals.</p> <p>W.KRUK offers many original jewellery lines with a unique character. The distinctive style of W.KRUK products is the result of the work of designers, projects inspired by ambassadors (including the Freedom collection by Martyna Wojciechowska) and an expert and innovative approach to jewellery. A significant part of the collections presented every year is made in the Manufaktura of the brand near Poznań, which is one of the few in Europe that still uses traditional manufacturing techniques. In the studios of the W.KRUK brand, handicraft is combined with the latest technologies. In 2019, the W.KRUK brand was the first in Poland to introduce a new category of man-made diamonds in laboratory conditions to the offer in its chain of stores under the name New Diamond by W.KRUK. They have parameters identical to diamonds mined with traditional methods and are classified according to the same parameters, using the same standards of expert assessment. The collection decorated with New Diamond by W.KRUK includes rings called Perfect®, earrings and pendants with man-made diamonds in the colors: white and, for the first time on the Polish market, pink and blue. Since 2016, the brand's range has been complemented by a selection of W.KRUK-branded accessories, such as leather bags and accessories, silk scarves, sunglasses and fragrances for women and men.</p> |
| | ZEGARKI | <p>Sprzedawane w salonach W.KRUK zegarki renomowanych marek zajmują silną pozycję na polskim rynku, a wartość ich sprzedaży systematycznie wzrasta.</p> <p>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. At the end of 2020, Patek Philippe considered the most prestigious worldwide, was included into the offer.</p> <p>Watches of renowned brands sold in W.KRUK stores occupy a strong position on the Polish market, and their sales value is systematically increasing.</p> |

Manufacturing operations

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

Seasonality and cyclicity of operations

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

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

3.23. 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, 2020 announced by the National Bank of Poland, which was 4.6148 PLN/EUR. Individual items of the profit and loss account were converted into EURO at the exchange rate of 4.4742 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: 31.01.20 – 4.3010 PLN/EUR, 29.02.20 – 4.3355 PLN/EUR, 31.03.20 – 4.5523 PLN/EUR, 30.04.20 – 4.5424 PLN/EUR, 29.05.20 – 4.4503 PLN/EUR, 30.06.20 – 4.4660 PLN/EUR, 31.07.20 – 4.4072 PLN/EUR, 31.08.20 – 4.3969 PLN/EUR, 30.09.20 – 4.5268 PLN/EUR, 30.10.20 – 4.6188 PLN/EUR, 30.11.20 – 4.4779 PLN/EUR, 31.12.20 – 4.6148 PLN/EUR.

Comparable individual items of assets and liabilities were converted into EURO at the average exchange rate announced by National Central Bank, as at the last day of the reporting periods, i.e. 31.12.2019 which was 4.2585 PLN/EURO. Comparable individual items of the profit and loss account were converted into EURO at the exchange rate 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, i.e. from January 1, 2019 until December 31, 2019, which amounted to 4.3018 PLN/EURO.

The lowest rate in the reporting period amounted to 4.2279 PLN/EURO.

The highest rate in the reporting period amounted to 4.6330 PLN/EURO.



4. SUPPLEMENTARY NOTES TO FINANCIAL STATEMENTS

Note 1. Revenues from continuing operations

| Analysis of the Group's revenues | PLN ths | | | |
|---|---|---|---|---|
| | 2020 period from 01-01-2020 to 31-12-2020 | 2019 period from 01-01-2019 to 31-12-2019 | 4Q2020 period from 01-10-2020 to 31-12-2020 | 4Q2019 period from 01-10-2019 to 31-12-2019 |
| Revenues from the sale of products, goods and materials | 853,591 | 1,068,048 | 231,983 | 332,448 |
| Revenue from property lease | 123 | 218 | 21 | 14 |
| Revenue from lease of other fixed assets | - | - | - | - |
| Total revenue | 853,714 | 1,068,266 | 232,004 | 332,462 |
| Result on the sale of fixed assets | - | 477 | - | - |
| Other operating income, including: | 15,456 | 5,384 | 6,945 | 4,016 |
| - reversal of provisions | 4,363 | 145 | 4,275 | 7 |
| Financial income | 2,060 | 3,056 | 7 | 9,815 |
| Total | 871,230 | 1,077,183 | 238,956 | 346,293 |

Fall in revenues was mainly related to the regulation issued on March 13, 2020 by the Minister of Health on the announcement of an epidemic threat in the territory of the Republic of Poland, imposing restrictions on the operation of commercial facilities with a sales area of over 2,000 m². This regulation meant that from March 14, 2020 to May 3, 2020, nearly 100% of traditional stores were not operating. Restrictions in the operation of the above-mentioned commercial facilities due to the state of epidemic threat, which influenced the decrease in sales, occurred in the period from November 7 to November 29, 2020 and from December 27 to December 31, 2020.

The main item of other operating income is the co-financing received by the Company from the Guaranteed Employee Benefits Fund in connection with COVID-19 for the period of 3 months (April, May and June) in the amount of PLN 7,830 thousand PLN.

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:

| 2020 / from 01-01-2020 to 31-12-2020 | PLN ths | | |
|--------------------------------------|-----------------|-------------------|---------|
| | Apparel segment | Jewellery segment | Total |
| External sales | 501,378 | 352,336 | 853,714 |
| Gross profit on sales | 236,599 | 180,745 | 417,344 |

| 2020 / from 01-01-2020 to 31-12-2020 | PLN ths | | |
|---|-----------------|-------------------|-----------------|
| | Apparel segment | Jewellery segment | Total |
| Segmental operating costs | 272,596 | 144,244 | 416,840 |
| <i>of which depreciation</i> | 70,578 | 39,767 | 110,345 |
| Other operating income and costs | - 13,807 | 1,380 | - 12,427 |
| Financial income and costs | - 21,926 | - 14,225 | - 36,151 |
| <i>of which interest income and costs</i> | - 4,627 | - 3,576 | - 8,203 |
| Income tax | - 7,762 | 7,858 | 96 |
| Net profit | - 63,968 | 15,798 | - 48,170 |

| 2019 / from 01-01-2019 to 31-12-2019 | 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 |
| <i>of which depreciation</i> | 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 |
| <i>of which interest income and costs</i> | - 4,967 | - 4,209 | - 9,176 |
| Income tax | 7,125 | 8,239 | 15,364 |
| Net profit | 31,814 | 32,179 | 63,993 |

| 4Q 2020 / okres od 01-10-2020 do 31-12-2020 | PLN ths | | |
|---|-----------------|-------------------|-----------------|
| | Apparel segment | Jewellery segment | Total |
| External sales | 117,752 | 114,252 | 232,004 |
| Gross profit on sales | 58,103 | 60,787 | 118,890 |
| Segmental operating costs | 77,279 | 44,607 | 121,886 |
| <i>of which depreciation</i> | 15,858 | 9,840 | 25,698 |
| Other operating income and costs | 526 | - 423 | 103 |
| Financial income and costs | - 8,417 | - 5,410 | - 13,827 |
| <i>of which interest income and costs</i> | - 1,586 | - 1,092 | - 2,678 |
| Income tax | - 1,521 | 3,671 | 2,150 |
| Net profit | - 25,546 | 6,676 | - 18,870 |

| 4Q 2019/ from 01-10-2019 to 31-12-2019 | 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 |
| <i>of which depreciation</i> | 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 |
| <i>of which interest income and costs</i> | - 1,247 | - 1,071 | - 2,318 |
| Income tax | 5,138 | 4,378 | 9,516 |
| Net profit | 24,791 | 19,557 | 44,348 |

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

- for the apparel segment, PLN 1,106 ths for 2020 (PLN 2,096 ths for 2019),
- for the jewellery segment, PLN 1,525 ths for 2020 (PLN 2,565 ths for 2019).

Financial income and expenses also include interest and exchange rate differences (surplus of positive to negative) relating to leases for retail and office floorspace, which were:

- for the apparel segment, interest amounted to PLN 3,219 ths for 2020 (PLN 2,657 ths for 2019), while exchange rate differences (surplus of negative over positive) amounted to PLN 15,273 ths for 2020 (surplus of positive to negative amounted to PLN 1,467 ths for 2019),
- for the jewellery segment, interest amounted to PLN 2,016 ths for 2020 (PLN 1,592 for 2019), while exchange rate differences (surplus of negative over positive) amounted to PLN 9,943 for 2020 (surplus of positive to negative amounted to PLN 891 ths for 2019).

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 2020 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 revenue in various markets by geographic location | PLN ths | | | |
|---|---|---|---|---|
| | 2020 period from 01-01-2020 to 31-12-2020 | 2019 period from 01-01-2019 to 31-12-2019 | 4Q2020 period from 01-10-2020 to 31-12-2020 | 4Q2019 period from 01-10-2019 to 31-12-2019 |
| Poland | 851,878 | 1,065,949 | 231,199 | 331,794 |
| EURO area | 1,449 | 2,215 | 544 | 585 |
| USD area | - | 102 | - | 83 |
| CHF area | 387 | - | 261 | - |
| Total | 853,714 | 1,068,266 | 232,004 | 332,462 |

Segmental assets and liabilities as at December 31, 2020 are as follows:

| Current year 2020 | PLN ths | | |
|-------------------|-----------------|-------------------|-----------|
| | Apparel segment | Jewellery segment | Total |
| Assets | 784,476 | 673,178 | 1,457,654 |
| Liabilities | 374,649 | 267,027 | 641,676 |

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

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

Note 3 Operating expenses and other operating costs

| Costs of continuing operations | PLN ths | | | |
|---|---|---|---|---|
| | 2020 period from 01-01-2020 to 31-12-2020 | 2019 period from 01-01-2019 to 31-12-2019 | 4Q2020 period from 01-10-2020 to 31-12-2020 | 4Q2019 period from 01-10-2019 to 31-12-2019 |
| Depreciation of fixed assets | 110,345 | 110,991 | 25,698 | 28,574 |
| Materials and energy | 65,199 | 102,952 | 15,941 | 25,628 |
| Costs of goods sold | 412,119 | 485,794 | 108,128 | 147,531 |
| Change in products and work in progress | - 77,434 | - 109,670 | - 17,239 | - 22,918 |
| Inventory write-offs | 12,863 | 1,147 | - 1,616 | 1,064 |
| Remuneration and employee benefits | 131,758 | 146,951 | 32,889 | 36,717 |
| Other costs by type | 38,492 | 44,498 | 10,762 | 15,807 |
| Third party costs | 172,731 | 199,855 | 58,821 | 54,694 |
| Other operating costs | 15,020 | 4,117 | 8,458 | 1,828 |
| Total costs of products sold, goods and materials, distribution, general and administrative expenses and other operating costs | 881,093 | 986,635 | 241,842 | 288,923 |

Note 4 Remuneration and employee benefits

| The average number of employees in persons (including the management) | In persons | | | |
|--|---|---|---|---|
| | 2020 period from 01-01-2020 to 31-12-2020 | 2019 period from 01-01-2019 to 31-12-2019 | 4Q2020 period from 01-10-2020 to 31-12-2020 | 4Q2019 period from 01-10-2019 to 31-12-2019 |
| Employees in persons by categories: | 2,453 | 2,539 | 2,405 | 2,545 |
| White-collar employees | 2,278 | 2,155 | 2,229 | 2,161 |
| Blue-collar employees | 175 | 384 | 176 | 384 |

| General remuneration divided into wages, insurance and other (value): | PLN ths | | | |
|---|---|---|---|---|
| | 2020 period from 01-01-2020 to 31-12-2020 | 2019 period from 01-01-2019 to 31-12-2019 | 4Q2020 period from 01-10-2020 to 31-12-2020 | 4Q2019 period from 01-10-2019 to 31-12-2019 |
| Total remuneration, including: | 131,758 | 146,951 | 32,889 | 36,717 |
| Salaries | 110,505 | 122,640 | 27,647 | 30,885 |
| Social security and other benefits | 21,253 | 24,311 | 5,242 | 5,832 |

Note 5 Financial income

| Continuing operations | PLN ths | | | |
|---|---|---|---|---|
| | 2020 period from 01-01-2020 to 31-12-2020 | 2019 period from 01-01-2019 to 31-12-2019 | 4Q2020 period from 01-10-2020 to 31-12-2020 | 4Q2019 period from 01-10-2019 to 31-12-2019 |
| Interest on bank deposits and loans granted | 19 | 14 | - | 1 |
| Result on forward transactions | 543 | - | - | - |
| FX gains | - | 2,413 | - | 9,231 |
| <i>incl. leases of retail and office floorspace</i> | - | 2,357 | - | 7,314 |
| Valuation of loans at amortized cost | 1,271 | 525 | - | 525 |
| Other | 227 | 104 | 7 | 58 |
| Total | 2,060 | 3,056 | 7 | 9,815 |

Note 6 Financial costs

| Continuing operations | PLN ths | | | |
|--|---|---|---|---|
| | 2020 period from 01-01-2020 to 31-12-2020 | 2019 period from 01-01-2019 to 31-12-2019 | 4Q2020 period from 01-10-2020 to 31-12-2020 | 4Q2019 period from 01-10-2019 to 31-12-2019 |
| Interest on overdrafts and bank loans | 2,631 | 4,661 | 500 | 1 193 |
| Interest on factoring | 221 | 72 | 71 | 16 |
| Interest on finance lease liabilities | 135 | 208 | 24 | 48 |
| Interest on leases of retail and office floorspace | 5,235 | 4,249 | 2,083 | 1,062 |
| Fees on bank loans and guarantees, letters of credit and factoring | 2,049 | 1,748 | 536 | 477 |
| Loss on foreign exchange rate differences | 26,988 | - | 10,059 | - |
| <i>incl. leases of retail and office floorspace</i> | 25,216 | - | 10,757 | - |
| Valuation of forward transactions | - | 100 | 87 | 642 |
| Valuation of loans at amortized cost | - | - | 451 | - |
| Other | 952 | 153 | 23 | 84 |
| Total | 38,211 | 11,191 | 13,834 | 3,506 |

Note 7 Income tax

| Continuing operations | PLN ths | | | |
|----------------------------------|---|---|---|---|
| | 2020 period from 01-01-2020 to 31-12-2020 | 2019 period from 01-01-2019 to 31-12-2019 | 4Q2020 period from 01-10-2020 to 31-12-2020 | 4Q2019 period from 01-10-2019 to 31-12-2019 |
| Corporate income tax | 96 | 15,364 | 2,150 | 9,516 |
| Income tax in in other countries | - | - | - | - |
| Deferred income tax (note 22) | - 8,576 | - 1,438 | - 2,988 | 64 |
| Current year | 8,672 | 16,802 | 5,138 | 9,452 |

| Reconciliation of tax base and pre-tax profit shown in the profit or loss statement | PLN ths | | | |
|---|---|---|---|---|
| | 2020 period from 01-01-2020 to 31-12-2020 | 2019 period from 01-01-2019 to 31-12-2019 | 4Q2020 period from 01-10-2020 to 31-12-2020 | 4Q2019 period from 01-10-2019 to 31-12-2019 |
| Profit before tax | - 48,074 | 79,357 | - 16,720 | 53,864 |
| According to the statutory rate 19% (since 2008: 19%) | - 9,134 | 15,078 | - 3,177 | 10,234 |
| Non-taxable income | - 32,057 | - 11,458 | - 22,533 | - 8,811 |
| Costs not constituting tax deductible costs | 110,294 | 14,111 | 44,893 | 6,180 |
| Research and development relief | - | - 1,149 | - | - 1,149 |
| Tax loss to be settled in future periods | - 29,656 | - | - 744 | - |
| Tax loss carryforward | - | - | 4,936 | - |
| Tax base | 507 | 80,861 | 11,320 | 50,084 |
| Income tax charge | 96 | 15,364 | 2,150 | 9,516 |
| Effective tax rate | - 0.20% | 19.36% | - 12.86% | 17.67% |

The income tax liability in 2020 in the amount of PLN 96 thousand PLN mainly consists of:

- income tax liability in the Company in the amount of PLN (-) 6,756 thousand PLN, which includes change in deferred tax (mainly due to the created deferred tax asset from the tax loss for 2020 in the amount of PLN 4,441 thousand and write-downs on inventories in the amount of PLN 2,108 thousand)
- income tax liability in the subsidiary W.KRUK S.A. in the amount of (+) 7 858 thousand PLN, which includes current income tax in the amount of PLN 8 576 thousand PLN and change in deferred tax in the amount of (-) 718 thousand PLN.

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.

Note 8 Earnings per share

| Continuing operations | PLN ths | | | |
|--|---|---|---|---|
| | 2020 period from 01-01-2020 to 31-12-2020 | 2019 period from 01-01-2019 to 31-12-2019 | 4Q2020 period from 01-10-2020 to 31-12-2020 | 4Q2019 period from 01-10-2019 to 31-12-2019 |
| Net profit attributable to the shareholders of the dominating entity | - 48,170 | 63,993 | - 18,870 | 44,348 |
| Profits from continuing operations for the purpose of calculating earnings per share after excluding discontinued operations | - 48,170 | 63,993 | - 18,870 | 44,348 |
| Weighted average number of ordinary shares | 234,455,840 | 234,455,840 | 234,455,840 | 234,455,840 |
| Diluted weighted average number of ordinary shares | 241,505,840 | 241,505,840 | 241,505,840 | 241,505,840 |
| Earnings per share | | | | |
| – basic | - 0.21 | 0.27 | - 0.08 | 0.19 |
| – diluted | - 0.20 | 0.26 | - 0.08 | 0.18 |

| Calculation of the weighted average number of shares | PLN ths | |
|---|---|---|
| | 2020 period from 01-01-2020 to 31-12-2020 | 2019 period from 01-01-2019 to 31-12-2019 |
| Number of shares as at 01.01.2020 | 234,455,840 | 234,455,840 |
| Change during the year (issuance) | 0 | 0 |
| Number of shares as at 31.12.2020 | 234,455,840 | 234,455,840 |
| Number of days with increased equity | - | - |
| Ratio (number of days with increased equity / number of days in the period) | - | - |
| Weighted average number of shares | 234,455,840 | 234,455,840 |
| Scale of potential dilution (ordinary shares) | 7,050,000 | 7,050,000 |
| Diluted weighted average number of ordinary shares | 241,505,840 | 241,505,840 |

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, 2019 | 324,033 |
| Adjustment disclosure at the moment of acquisition of Bytom | - 21,285 |
| Balance at December 31, 2019 | 302,748 |
| Balance at January 1, 2020 | 302,748 |
| Adjustment disclosure at the moment of acquisition | - |
| Balance at December 31, 2020, including: | 302,748 |

| | PLN ths |
|--|---------|
| 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, 2019 | - |
| Losses due to impairment in the current year | - |
| Derecognition at the moment of disposal | - |
| Balance at December 31, 2019 | - |
| Balance at January 1, 2020 | - |
| Losses due to impairment in the current year | - |
| Derecognition at the moment of disposal | - |
| Balance at December 31, 2020 | - |
| BOOK VALUE | |
| At December 31, 2019 | 302,748 |
| At December 31, 2020 | 302,748 |

As at December 31, 2020 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 5.8% for Wólczanka and Bytom and 10.5% for W.KRUK, respectively. An increase in the adopted discount rate by 3 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.

Note 10 Other intangible assets

| | PLN ths | | | |
|--|----------------------------|------------|----------------------|---------|
| | Costs of development works | Trademarks | Patents and licenses | Total |
| GROSS VALUE | | | | |
| 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 |
| Balance at January 1, 2020 | 1,219 | 194,116 | 24,851 | 220,186 |
| Additions | | | 168 | 168 |
| Decreases | | | | - |
| Balance at December 31, 2020 | 1,219 | 194,116 | 25,019 | 220,354 |
| AMORTISATION | | | | |
| 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 |
| Balance at January 1, 2020 | 1,219 | 23 | 18,841 | 20,083 |
| Amortization for the period | | | 882 | 882 |
| Disposal | | | | - |
| Balance at December 31, 2020 | 1,219 | 23 | 19,723 | 20,965 |
| IMPAIRMENT | | | | |
| Balance at January 1, 2019 | - | - | 3,147 | 3,147 |
| Additions | | | | - |
| Decreases | | | | - |
| Balance at December 31, 2019 | - | - | 3,147 | 3,147 |
| Balance at January 1, 2020 | - | - | 3,147 | 3,147 |
| Additions | | | | - |

| | PLN ths | | | |
|------------------------------|----------------------------|------------|----------------------|---------|
| | Costs of development works | Trademarks | Patents and licenses | Total |
| Decreases | | | | - |
| Balance at December 31, 2020 | - | - | 3,147 | 3,147 |
| BOOK VALUE | | | | |
| Balance at December 31, 2019 | - | 194,093 | 2,863 | 196,956 |
| Balance at December 31, 2020 | - | 194,093 | 2,149 | 196,242 |

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 2020, 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.

As at December 31, 2020, 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, 2020, 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, 2019 | 119,981 | 6,092 | 103,459 | 229,532 |
| Merger of VRG S.A. and Bytom S.A. | - 93 | | | - 93 |
| Additions | 6,275 | 23,624 | 16,369 | 46,268 |
| Disposal | - 7,178 | - 26,116 | - 1,576 | - 34,870 |
| Balance at December 31, 2019 | 118,985 | 3,600 | 118,252 | 240,837 |
| Balance at January 1, 2020 | 118,985 | 3,600 | 118,252 | 240,837 |
| Merger of VRG S.A. and Bytom S.A. | | | | |
| Additions | 5,261 | 15,570 | 9,461 | 30,292 |
| Disposal | - 6,826 | - 15,886 | - 7,985 | - 30,697 |
| Balance at December 31, 2020, incl.: | 117,420 | 3,284 | 119,728 | 240,432 |
| — at purchase price/production cost | 117,420 | 3,284 | 119,728 | 240,432 |
| ACCUMULATED DEPRECIATION AND IMPAIRMENT | | | | |

| | PLN ths | | | |
|-----------------------------------|--------------------|---------------------------------|----------------------------------|----------|
| | Property and plant | Fixed assets under construction | Equipment and other fixed assets | Total |
| Balance at January 1, 2019 | 80,744 | - | 74,914 | 155,658 |
| Merger of VRG S.A. and Bytom S.A. | - 54 | | - 39 | - 93 |
| Depreciation for the period | 8,978 | | 11,082 | 20,060 |
| Disposal | - 2,899 | | - 1,202 | - 4,101 |
| Balance at December 31, 2019 | 86,769 | - | 84,755 | 171,524 |
| Balance at January 1, 2020 | 86,769 | - | 84,755 | 171,524 |
| Depreciation for the period | 8,676 | | 11,844 | 20,520 |
| Disposal | - 6,492 | | - 7,817 | - 14,309 |
| Balance at December 31, 2020 | 88,953 | - | 88,782 | 177,735 |
| IMPAIRMENT | | | | |
| 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 |
| Balance at January 1, 2020 | - | 1,636 | 195 | 1,831 |
| Additions | 183 | 57 | | 240 |
| Decreases | | | | |
| Balance at December 31, 2020 | 183 | 1,693 | 195 | 2,071 |
| BOOK VALUE | | | | |
| Balance at December 31, 2019 | 32,216 | 1,964 | 33,302 | 67,482 |
| Balance at December 31, 2020 | 28,284 | 1,591 | 30,751 | 60,626 |

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

In 2020, PLN 240 ths of new write-offs were created, there were no indications to reverse the write-offs created.

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

As at 31 December 2020, there were no contractual obligations regarding the purchase of fixed assets.

Note 11a Right of use assets

| Right of use assets | PLN ths | | |
|------------------------------|---|---------------------------|---------|
| | Assets due to right of use of retail and office floor-space | Other right of use assets | Total |
| GROSS VALUE | | | |
| Balance at January 1, 2019 | 299,584 | 9,695 | 309,279 |
| Additions | 55,785 | 510 | 56,295 |
| Decreases | - 1,563 | - 99 | - 1,662 |
| Balance at December 31, 2019 | 353,806 | 10,106 | 363,912 |

| Right of use assets | PLN ths | | |
|------------------------------|---|---------------------------|----------|
| | Assets due to right of use of retail and office floor-space | Other right of use assets | Total |
| Balance at January 1, 2020 | 353,806 | 10,106 | 363,912 |
| Additions | 136,174 | 633 | 136,807 |
| Decreases | - 13,879 | - 217 | - 14,096 |
| Balance at December 31, 2020 | 476,101 | 10,522 | 486,623 |
| AMORTIZATION | | | |
| Balance at January 1, 2019 | - | 3,692 | 3,692 |
| Additions | 87,401 | 2,281 | 89,682 |
| Decreases | - | - 8 | - 8 |
| Balance at December 31, 2019 | 87,401 | 5,965 | 93,366 |
| Balance at January 1, 2020 | 87,401 | 5,965 | 93,366 |
| Additions | 87,382 | 1,561 | 88,943 |
| Decreases | - 8,376 | | - 8,376 |
| Balance at December 31, 2020 | 166,407 | 7,526 | 173,933 |
| BALANCE SHEET VALUE | | | |
| Balance at December 31, 2019 | 266,405 | 4,141 | 270,546 |
| Balance at December 31, 2020 | 309,694 | 2,996 | 312,690 |

Increase in the rights of use assets in 2020 relates mainly to the renegotiated lease agreements for store premises.

In connection with the situation related to COVID-19 in 2020, companies from VRG S.A. Capital Group started negotiating lease agreements for most of the rented store premises. Until the balance sheet date, the terms of the change were agreed, as a result of which the companies of the Capital Group recalculated the impact on the assets due to the right to use and lease liabilities in accordance with IFRS 16, which was reflected in the statement of financial position.

The Group has no rights-of-use assets off-balance sheet.

Note 12 Investment property

| | PLN ths |
|--|---------|
| PURCHASE PRICE OR FAIR VALUE | |
| Balance at January 1, 2019 | 874 |
| Additions | |
| Decreases | |
| Balance at December 31, 2019 | 874 |
| Balance at January 1, 2020 | 874 |
| Additions | |
| Decreases | |
| Balance at December 31, 2020 incl.: | 874 |
| – at purchase price/manufacturing cost | 874 |

| | PLN ths |
|--|---------|
| – at revalued amount | - |
| ACCUMULATED DEPRECIATION AND IMPAIRMENT | |
| Balance at January 1, 2019 | - |
| Depreciation for the period | |
| Disposals | |
| Balance at December 31, 2019 | - |
| Balance at January 1, 2020 | - |
| Depreciation for the period | |
| Disposals | |
| Balance at December 31, 2020 | - |
| BALANCE SHEET VALUE | |
| Balance at December 31, 2019 | 874 |
| Balance at December 31, 2020 | 874 |

In 2020, the Group did not generate revenues and did not incur costs related to investment properties.

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, 2020 | | | | | | | |
|---|------------------|-----------|-------------------|-----------------|-----------------------------------|-----------------------|------------|
| 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 | |
|--------------|------------|------------|
| | 31.12.2020 | 31.12.2019 |
| Other | 4 | 4 |
| Total | 4 | 4 |

Note 15 Inventory

| | PLN ths | |
|--|----------------|----------------|
| | 31.12.2020 | 31.12.2019 |
| Materials (at purchase price) | 25,751 | 32,249 |
| Work in progress (at production cost) | 7,048 | 8,523 |
| Finished products (at production cost) | 54,965 | 50,790 |
| Trade goods (at purchase price) | 435,851 | 451,545 |
| Total inventory, at the lower of two values: purchase price (production cost) and net realizable value | 523,615 | 543,107 |
| Inventory write-offs | - 18,031 | - 7,568 |
| Total | 505,584 | 536,130 |

Write-offs created in the amount of PLN 12,795 thousand were charged to other operating costs, while reversed write-offs in the amount of PLN 2,334 thousand were charged to cost of goods sold. The reversal of inventories write-offs is related to sale of inventories that had been written-off earlier.

In 2020, the Group created write-offs of PLN 12.8 million. This write-off concerns:

- wholesale goods in the amount of PLN 5.2 million,
- goods from collections older than AW2020 in the amount of PLN 6.5 million,
- raw materials in the amount of PLN 1.1 million.

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 335,432 thousand.

Note 16 Long-term receivables

| | PLN ths | |
|---|------------|------------|
| | 31.12.2020 | 31.12.2019 |
| - receivables from deposits paid for store leases | 295 | 664 |
| Total | 295 | 644 |

Note 17 Trade and other receivables

| Trade and other receivables | PLN ths | |
|--|------------|------------|
| | 31.12.2020 | 31.12.2019 |
| Trade receivables from third parties (gross) | 15,562 | 23,024 |
| minus: write-off of trade receivables from third parties | - 8,216 | - 8,323 |

| Trade and other receivables | PLN ths | |
|--|---------------|---------------|
| | 31.12.2020 | 31.12.2019 |
| Trade receivables from third parties (net) | 7,346 | 14,701 |
| Trade receivables from related parties (gross)-(note 32) | 2,030 | 2,030 |
| minus: write-off of trade receivables from related parties | - 2,020 | - 2,030 |
| Trade receivables from related parties (net) | - | - |
| Receivables from taxes, subsidies, customs, social security and other benefits | 1,294 | 380 |
| Other receivables from third parties (gross) | 45,043 | 47,540 |
| minus: write-off of other trade receivables from third parties | - 42,840 | - 42,635 |
| Other receivables from third parties (net) | 2,203 | 4,905 |
| 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) | - | - |
| Other current assets | 2,489 | 3,473 |
| Total short-term receivables (gross) | 70,718 | 80,747 |
| minus: total write-off of receivables | - 57,386 | - 57,288 |
| Total short-term receivables (net) | 13,332 | 23,459 |

Analysis of other current assets can be found in Note 21a.

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 | |
|--|---------------|---------------|
| | 31.12.2020 | 31.12.2019 |
| a) up to 1 month | 372 | 984 |
| b) above 1 month up to 3 months | 161 | 1,192 |
| c) above 3 months up to 6 months | 76 | 1,046 |
| d) above 6 months up to 1 year | 131 | 900 |
| e) above 1 year | 11,310 | 12,254 |
| Total overdue trade receivables (gross) | 12,050 | 16,376 |
| f) total write-off of overdue receivables | - 10,243 | - 10,326 |
| Total overdue trade receivables (net) | 1,807 | 6,050 |

Most of the remaining receivables have been written down, the net value of other receivables are current receivables.

| Change in short-term receivables write-offs | PLN ths | |
|---|------------|------------|
| | 31.12.2020 | 31.12.2019 |
| Balance at the beginning of period | 57,288 | 56,048 |
| a) increases (due to) | 1,204 | 1,666 |
| deconsolidation of related parties | | - |
| write-offs creation | 1,204 | 1,665 |
| foreign exchange rate differences | | 1 |

| Change in short-term receivables write-offs | PLN ths | |
|--|---------------|---------------|
| | 31.12.2020 | 31.12.2019 |
| b) decreases (due to) | 1,106 | 426 |
| receipt of payment | 423 | 343 |
| receivables write-off | 159 | - |
| cessation of the reason behind the write-off | - | - |
| foreign exchange rate differences | 524 | 83 |
| Balance of short-term receivables write-offs at the end of period | 57,386 | 57,288 |

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 | |
|--|---------------|---------------|
| | 31.12.2020 | 31.12.2019 |
| a) PLN | 58,148 | 67,598 |
| b) in foreign currencies (by currency and after conversion into PLN) | 12,570 | 13,149 |
| b1. in EURO thousands | 1,845 | 1,962 |
| PLN thousands | 8,518 | 8,356 |
| b2. in USD thousands | 839 | 1,095 |
| PLN thousands | 3,155 | 4,154 |
| b3. in CHF thousands | 102 | 66 |
| PLN thousands | 434 | 259 |
| Other currencies in PLN thousands | 463 | 380 |
| Total short-term receivables (gross) | 70,718 | 80,747 |

| Receivables from loans granted | PLN ths | |
|--|--------------|--------------|
| | 31.12.2020 | 31.12.2019 |
| Loan receivables from third parties (gross) | 1,952 | 1,953 |
| minus: write-off of loan receivables from third parties | - 1,952 | - 1,953 |
| Loan receivables from third parties (net) | - | - |
| Loan receivables from third parties (gross) | 227 | 227 |
| minus: write-off of loan receivables from related entities | - 227 | - 227 |
| Loan receivables from related entities (net) | - | - |
| Total loan receivables (gross) | 2,179 | 2,180 |
| minus: total write-off of loan receivables | - 2,179 | - 2,180 |
| Total loan receivables (net) | - | - |

For loans receivable that were deemed uncollectible, an impairment loss was created at the level of 100% of the value.

| Change in short-term loan receivables write-offs | PLN ths | |
|--|------------|------------|
| | 31.12.2020 | 31.12.2019 |
| Balance at the beginning of period | 2,180 | 2,179 |
| a) increases (due to) | - | 1 |
| write-offs created | | |

| Change in short-term loan receivables write-offs | PLN ths | |
|--|--------------|--------------|
| | 31.12.2020 | 31.12.2019 |
| foreign exchange rate differences | | 1 |
| b) decreases (due to) | 1 | |
| receipt of payment | | |
| decision of the management board to recognize as a loss | | |
| foreign exchange rate differences | 1 | |
| Balance of short-term receivables write-offs at the end of period | 2,179 | 2,180 |

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

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

Note 18 Cash and cash equivalents

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

| | PLN ths | |
|------------------------|---------------|---------------|
| | 31.12.2020 | 31.12.2019 |
| cash and bank accounts | 41,313 | 20,233 |
| short-term deposits | 7,526 | 5,047 |
| Total | 48,839 | 25,280 |

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

| | PLN ths | |
|------------------------|---------------|---------------|
| | 31.12.2020 | 31.12.2019 |
| cash and bank accounts | 41,313 | 20,233 |
| short-term deposits | 7,526 | 5,047 |
| Total | 48,839 | 25,280 |

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 | |
|------------|------------|------------|
| | 31.12.2020 | 31.12.2019 |
| Overdrafts | 11,289 | 16,540 |
| Bank loans | 60,279 | 74,879 |

Amounts payable according to bank loan agreements

| | | |
|---|--------|--------|
| On demand or up to 1 year | 24,372 | 35,568 |
| From 2 to 5 years | 47,196 | 55,851 |
| 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 | PLN ths | | | |
|--------------------------|---------------|---------------|---|----|
| | Total | zł | € | \$ |
| December 31, 2020 | 71,568 | 71,568 | - | - |
| Overdrafts | 11,289 | 11,289 | - | - |
| Bank loans | 60,279 | 60,279 | - | - |
| Loans | - | - | - | - |
| December 31, 2019 | 91,419 | 91,419 | - | - |
| Overdrafts | 16,540 | 16,540 | - | - |
| Bank loans | 74,879 | 74,879 | - | - |
| Loans | - | - | - | - |

Bank loans

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 | zł | | | | |
| Bank PKO BP S.A. | Warsaw | 92,000,000 | PLN | - | PLN | - | Limit enabling the use of overdraft facility up to PLN 37,000,000 and execution of guarantees and letters of credit up to PLN55,000,000 | N/D | July 1, 2022 | 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 |
| | | 47,600,000 | PLN | 24,840,000 | PLN | 23,894,131 | Investment loan | 3.63% | December 31, 2024 | 6. Registered pledge on shares of W.KRUK SA and DCG SA 7. Fixed charge on shares of Wólczanka Shirts Manufacturing Sp. z o.o. and VG Property Sp. z o.o. 8. Trilateral agreement on card transactions payments |

| | | | | | | | | | | |
|----------------------|----------|------------|-----|------------|-----|------------|--|--------|-------------------|--|
| | | | | | | | | | | 9. Transfer of rights from insurance policy 10. BGK guarantee 11. Civil law surety of the subsidiary W.KRUK S.A. |
| mBank S.A. | Warsaw | 19,000,000 | PLN | - | PLN | - | Limit enabling the use of overdraft facility and execution of guarantees and letters of credit | N/D | April 18, 2022 | 1. Assignment of receivables, 2. Five blank promissory notes, 3. Fixed charge on selected locations under Bytom brand |
| | | 11,500,000 | PLN | - | PLN | - | Limit for reverse factoring | N/D | July 15, 2022 | 4. BGK guarantee (relates to reverse factoring) |
| ING Bank Śląski S.A. | Katowice | 45,000,000 | PLN | - | PLN | - | Limit enabling the use of overdraft facility and execution of guarantees and letters of credit and reverse factoring | N/D | 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 7. BGK guarantee |
| Bank PKO BP S.A. | Warsaw | 85,000,000 | PLN | 4,462,318 | PLN | 4,462,318 | Limit enabling the use of overdraft facility up till PLN 52,000,000 and execution of guarantees and letters of credit up till PLN 33,000,000 | 11.20% | July 6, 2022 | 1. Blank promissory note, along with a promissory note declaration 2. Declaration of submission to enforcement 3. Contractual right to deduct receivables 4. Fixed charge on "W.KRUK" trademark 5. Floating charge on Company's inventory 6. Guarantee of VRG S.A. |
| | | 71,400,000 | PLN | 36,120,000 | PLN | 34,722,614 | Investment loan | 2.75% | December 31, 2024 | 7. Trilateral agreement on credit card payments 8. Assignment of rights from the insurance policy |
| | | 3,565,984 | PLN | - | PLN | - | Revolving overdraft | - | January 7, 2021 | 9. BGK guarantees 10. Civil law surety of the subsidiary W.KRUK S.A. |
| Bank PKO BP S.A. | Warsaw | 11,500,000 | PLN | 6,826,983 | PLN | 6,826,983 | Overdraft | 2.00% | July 14, 2022 | 1. Guarantee granted by VRG S.A. |
| Bank PKO BP S.A. | Warsaw | 4,500,000 | PLN | - | PLN | - | Overdraft, guarantees and letter of credit | N/D | July 14, 2022 | 2. Mortgage 3. Floating charge on inventory 4. Transfer of rights from insurance policy 5. BGK guarantee 6. Declaration of submission to enforcement |
| Bank PKO BP S.A. | Warszawa | 4,021,500 | PLN | 1,662,547 | PLN | 1,662,547 | Overdraft | 4.21% | March 31, 2023 | 1. Guarantee granted by VRG S.A. 2. Mortgage 3. Contractual right to deduct receivables 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 92,000 thousand authorizing the use of an overdraft facility up to the amount of PLN 37,000 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 and annex from July 2, 2020. The contract expires on 01.07.2022. 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, Bank Gospodarstwa Krajowego guarantee and Civil law surety of the subsidiary W.KRUK S.A.

- 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 45,000 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 5,500,000, yet total indebtedness resulting from usage of the above credit products cannot exceed the limit set at PLN 45,000,000. 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, declaration of submission to enforcement and Banku Gospodarstwa Krajowego guarantee.
- 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 (annex extended the agreement to 15.07.2022), the factoring limit cannot exceed PLN 11,500,000. The agreement is secured by: blank promissory note, floating charge on inventory in selected Bytom's locations, assignment of claims, transfer of rights from insurance policy and liquidity guarantee of Bank Gospodarstwa Krajowego within the factoring limit.
- a multi-purpose credit line in the amount of PLN 85,000 thousand entitling to use the overdraft facility up to PLN 52,000 thousand and execution of bank guarantees up to PLN 25,000 thousand and letters of credit up to PLN 8,000 thousand. The multi-purpose agreement was signed on 09.03.2015. The agreement expires on July 6, 2022. 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, liquidity guarantee of Bank Gospodarstwa Krajowego for overdraft facilities and surety of VRG S.A. in relation to multi-purpose credit line.
- 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 3,566 thousand initiated in 07.01.2020 in frames of multi-purpose credit line agreement signed 09.03.2015. Expiration will take place on 06.01.2021. 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 16,000 thousand entitling to use the overdraft facility up to PLN 11,500 thousand and execution of guarantees and letters of credit up to PLN 4,500 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 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 31.12.2020, 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-option instruments and option pricing models for optional instruments are applied.

In the period from January 1, 2020 to December 31, 2020, 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 31.12.2020, the balance in nominal value is EUR 5,720 thousand once translated at the exchange rate of the transaction the value comes at PLN 21,047 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 | | | |
|--|---|--|---|--|
| | 31.12.2020 | | 31.12.2019 | |
| | 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 | 13,627 | | 24,123 | |
| Cash and cash equivalents | 48,839 | | 25,280 | |
| Long-term loan and lease liabilities | | 305,550 | | 241,963 |
| <i>incl.:leases for retail and office floorspace</i> | | 256,974 | | 183,915 |
| Short-term loan and lease liabilities | | 123,211 | | 121,876 |
| <i>incl.:leases for retail and office floorspace</i> | | 97,510 | | 84,424 |
| Trade and other liabilities | | 199,678 | | 182,823 |
| Corporate income tax liabilities | | 3,345 | | 9,150 |
| Razem | 62,466 | 631,784 | 49,403 | 555,812 |

Financial instruments at fair value through profit or loss in 2020 amounted to PLN 451 thousand PLN and were charged to financial income (in 2019 they amounted to PLN 92 thousand and were charged to financial costs).

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 | | | | | |
|---|---|------------------|--|--------------|---------------------|--|
| | 2020 / period from 01-01-2020 to 31-12-2020 | | | | | |
| | 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 | 227 | | | 1,204 | 1,106 | 32 |
| Cash and cash equivalents | 19 | | | | | - 12 |
| Forward transactions | | | 543 | | | |
| Loan and lease liabilities | | 2,987 | 1,271 | | | |
| Lease liabilities to retail and office floorspace | | 5,235 | | | | - 25,216 |
| Trade and other liabilities | | 952 | | | | - 1,791 |
| Total | 246 | 9,174 | 1,814 | 1,204 | 1,106 | - 26,988 |

| Balance sheet items | PLN ths | | | | | |
|---|--|------------------|--|--------------|---------------------|--|
| | Rok 2019 / okres od 01-01-2019 do 31-12-2019 | | | | | |
| | 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 | 110 | - | - | 1,666 | 412 | 6 |
| Cash and cash equivalents | 8 | 4 | | | | 38 |
| Forward transactions | | | - 100 | | | |
| Loan and lease liabilities | | 4,937 | 525 | | | |
| Lease liabilities to retail and office floorspace | | 4,249 | | | | 2,357 |
| Trade and other liabilities | | 153 | | | | 11 |
| Total | 118 | 9,343 | 425 | 1,666 | 412 | 2,413 |

Note 21 Other non-current assets

| | PLN ths | |
|----------------------|------------|------------|
| | 31.12.2020 | 31.12.2019 |
| ISO and Energy Audit | - | 28 |
| Total | - | 28 |

Note 21a Other current assets

| | PLN ths | |
|------------------------------------|--------------|--------------|
| | 31.12.2020 | 31.12.2019 |
| Insurance | 168 | 210 |
| Fees and rental payments | 586 | 623 |
| Licenses | 56 | 29 |
| Prepayments for marketing services | 894 | 1,870 |
| ISO and Energy Audit | 758 | - |
| Consulting services | - | 695 |
| Other | 27 | 46 |
| Total | 2,489 | 3,473 |

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 | |
| | 31.12.2020 | 31.12.2019 | 2020 / period from 01-01-2020 to 31-12-2020 | 2019 / period from 01-01-2019 to 31-12-2019 |
| Deferred tax liabilities | 821 | 530 | 292 | - 788 |
| Balance sheet valuation - positive exchange rate differences | 126 | 143 | - 17 | 93 |
| Interest accrued on receivables | - | 7 | - 7 | - |
| Property valuation | - | - | - | - 295 |
| Net advances paid | 72 | 72 | - | - 13 |
| Valuation of loans at amortized cost | 446 | 204 | 242 | 100 |
| Valuation of Forward transactions | 86 | - | 86 | - 2 |
| Accelerated tax depreciation | - | - | - | - 687 |
| Fixed assets in lease | 83 | 101 | - 17 | 14 |
| Other | 8 | 3 | 5 | 2 |
| Allocated to financial result | 821 | 530 | 292 | - 788 |
| Allocated to goodwill | - | - | - | - |
| Deferred tax assets | 17,104 | 8,237 | 8,868 | 1,808 |
| Accelerated balance sheet depreciation | 2,305 | 2,237 | 67 | 797 |
| Post-employment benefits (severance pay) | 24 | 24 | - 1 | - 36 |
| Write-offs | 3,724 | 1,737 | 1,989 | 648 |
| Provisions, wages and social security | 2,287 | 1,866 | 422 | 141 |
| Balance sheet valuation - negative exchange differences | 190 | 18 | 172 | - 38 |
| Losses carryforward | 5,634 | - | 5,634 | - |
| Write-off of receivables from customers | 597 | 608 | - 11 | - 23 |
| Accrued interest | 1,569 | 969 | 600 | 150 |
| Provision for future liabilities | 459 | 357 | 102 | 357 |
| Provision for future returns | - | 18 | - 18 | 18 |
| Forward transaction valuation | 315 | 403 | - 88 | - 206 |
| Valuation of the loyalty program | 17,104 | 8,237 | 8,868 | 650 |
| Allocated to the financial result | - | - | - | 1,158 |

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, 2020.

Note 23 Finance lease liabilities

| Zobowiązania leasingowe według okresu wymagalności | PLN ths | |
|---|------------|------------|
| | 31.12.2020 | 31.12.2019 |
| Kwoty płatne zgodnie z umowami leasingu dot. umów lokali handlowych i powierzchni biurowych, w tym: | 354,484 | 268,339 |

| Zobowiązania leasingowe według okresu wymagalności | PLN ths | |
|---|----------------|----------------|
| | 31.12.2020 | 31.12.2019 |
| Up to 1 year | 97,510 | 84,424 |
| From year 2 to year 5 | 238,042 | 167,712 |
| Above 5 years | 18,932 | 16,203 |
| Amounts payable in accordance with finance lease agreements relating to other contracts | 2,709 | 4,081 |
| Up to 1 year | 1,329 | 1,884 |
| From year 2 to year 5 | 1,380 | 2,197 |
| Above 5 years | - | - |
| Discounted value of finance lease liabilities | 357,193 | 272,420 |
| The amounts due for settlement within 12 months (shown as short-term liabilities) | 98,839 | 86,308 |
| <i>incl.: leases of retail and office floorspace</i> | 97,510 | 84,424 |
| The value of payments after 12 months (shown under long-term liabilities) | 258,354 | 186,112 |
| <i>incl.: leases of retail and office floorspace</i> | 256,974 | 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.

The Group applied the exemption to the standard requirements with regard to short-term leases (up to 12 months) and leases of low-value assets. As at the balance sheet date, the Group did not have any significant low-value lease items.

The table below shows the impact on the Group's result in the reporting period for 2020, i.e. 01.01.2020 to 31.12.2020, between the recognition of commercial premises and office lease agreements in accordance with IFRS16 (implemented on January 1, 2019) and in accordance with IAS17 (valid until December 31, 2018).

| Item | PLN ths | | |
|--|--|---|--|
| | 2020 / period from 01-01-2020 to 31-12-2020 under IAS 17 | The effect of recognition of finance leases related to retail and office floorspace | 2020 / period from 01-01-2020 to 31-12-2020 published data |
| Gross profit on sales | 417,344 | - | 417,344 |
| Selling costs and general administrative costs | 404,177 | 12,663 | 416,840 |
| Other operating revenues | 15,014 | 442 | 15,456 |
| Other operating costs | 27,025 | 184 | 27,209 |
| EBITDA | 23,444 | 74,978 | 98,422 |
| Operating profit | 482 | - 12,405 | - 11,923 |
| Financial income | 2,060 | - | 2,060 |
| Financial costs | 7,760 | 30,451 | 38,211 |
| Net income | - 5,314 | - 42,856 | - 48,170 |

In 2020, depreciation for leases related to commercial premises and office space contracts amounted to PLN 87,382 thousand PLN.

The table below shows the impact on the Capital Group's result in the reporting period in Q4 2020, i.e. 01.10.2020 to 31.12.2020, between the recognition of commercial premises and office space lease contracts in accordance with IFRS16 (implemented on January 1, 2019) and in accordance with IAS17 (in force until December 31, 2018).

| Item | PLN ths | | |
|--|--|--|--|
| | 2020 / period from 01-01-2020 to 31-12-2020 under IAS 17 | The effect of recognition of finance leases related to retail and office floor-space | 2020 / period from 01-01-2020 to 31-12-2020 published data |
| Gross profit on sales | 118,890 | - | 118,890 |
| Selling costs and general administrative costs | 108,156 | 13,730 | 121,886 |
| Other operating revenues | 6,749 | 196 | 6,945 |
| Other operating costs | 6,305 | 184 | 6,489 |
| <i>EBITDA</i> | 16,393 | 6,412 | 22,805 |
| Operating profit | 10,825 | - 13,718 | - 2,893 |
| Financial income | 7 | - | 7 |
| Financial costs | 993 | 12,841 | 13,834 |
| Net income | 7,689 | - 26,559 | - 18,870 |

In the second quarter of 2020, depreciation due to leasing contracts for commercial premises and office space amounted to PLN 20,130 thousand PLN.

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 | |
|---|----------------|----------------|
| | 31.12.2020 | 31.12.2019 |
| Trade liabilities | 123,902 | 108,468 |
| Liabilities to related parties (note 32) | - | - |
| Tax, subsidies, customs, social security and other benefits liabilities | 18,099 | 25,899 |
| <i>of which income tax liabilities</i> | 28,285 | 21,127 |
| Financial liabilities (reverse factoring) | 12,458 | 10,875 |
| Deferred income liabilities | 16,496 | 16,183 |
| Other | 199,240 | 182,552 |

| Short-term liabilities (currency structure) | PLN ths | |
|--|----------------|----------------|
| | 31.12.2020 | 31.12.2019 |
| a) PLN | 148,935 | 142,243 |
| b) in foreign currencies (by currency and after conversion into PLN) | 50,305 | 40,309 |
| b1. in EURO thousands | 4,233 | 2,277 |
| PLN thousands | 19,532 | 13,959 |
| b2. in USD thousands | 6,636 | 5,218 |
| PLN thousands | 24,940 | 19,816 |
| b3. in CHF thousands | 1,087 | 1,544 |
| PLN thousands | 4,636 | 6,055 |
| Other currencies in PLN thousands | 1,197 | 479 |
| Total short-term liabilities | 199,240 | 182,552 |

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 1,654 thousand as at December 31, 2020 (as at December 31, 2019, PLN 2,122 thousand).

The time of fulfillment of obligations for the supply of raw materials, materials and goods is 30-150 days, and 10-21 days for the supply of services.

Liabilities due to taxes, customs, social and health insurance are fulfilled on the dates resulting from the Act on income taxes and social insurance, respectively, and do not exceed 30 days.

Liabilities to employees due to remuneration are realized within 10 days from the end of the month in which work was performed and other liabilities within a period not exceeding 30 days.

Note 24a. Finance liabilities by maturity

| Finance liabilities by maturity | PLN ths | |
|--|------------|------------|
| | 31.12.2020 | 31.12.2019 |
| Amounts payable in accordance with finance lease agreements relating to commercial premises and office space, including: | 366,229 | 272,955 |
| Up to 1 year | 98,181 | 87,225 |
| From year 2 to year 5 | 247,133 | 170,672 |
| Above 5 years | 20,915 | 15,058 |
| Amounts payable in accordance with finance lease agreements relating to other contracts | 2,889 | 4,425 |
| Up to 1 year | 1,419 | 2,049 |
| From year 2 to year 5 | 1,470 | 2,376 |
| Above 5 years | - | - |
| Amounts payable according to bank loan agreements | 76,588 | 98,800 |
| Up to 1 year | 26,351 | 37,949 |
| From year 2 to year 5 | 50,237 | 60,851 |
| Above 5 years | - | - |
| Amount payable from trade and other liabilities according to maturity | 181,141 | 156,653 |
| Up to 1 year | 181,141 | 156,653 |
| 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 subcontractors) | Returns from customers | Other | Total |
| Balance at January 1, 2019 | 6,106 | 4,023 | 1,281 | 516 | 7 | 11,933 |

| | | | | | | |
|--|--------------|--------------|--------------|------------|-----------|---------------|
| – 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 |
| Balance at January 1, 2020 | 6,247 | 3,877 | 1,557 | 516 | 19 | 12,216 |
| – provisions created during the financial year | 2,861 | 2,582 | - | 893 | 10 | 6,346 |
| – release / use of provisions | - 2,453 | - 3,847 | - 632 | -516 | - 19 | - 7,467 |
| Balance at December 31, 2020 | 6,655 | 2,612 | 925 | 893 | 10 | 11,095 |
| – allocated to short-term liabilities | 5,416 | 2,612 | 925 | 893 | 10 | 9,856 |
| – allocated to long-term liabilities | 1,239 | - | - | - | - | 1,239 |

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 31.12.2020 consists of:

| | | |
|--|---------------|---------------------|
| long-term provision for retirement benefits | PLN 1,239 ths | Total PLN 11,095 |
| short-term provision for retirement benefits | PLN 175 ths | |
| short-term provision for unused holidays | PLN 4,042 ths | |
| provision for bonuses | PLN 1,200 ths | |
| provision for returns from customers | PLN 893 ths | |
| short-term provision for sewing services | PLN 925 ths | |
| provision for legal disputes | PLN 2,612 ths | |
| other provisions | PLN10 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 1.25%, 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 | |

| 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 "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” | | 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” | | 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 | | | |
| 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, 2020, all shares issued were fully paid up.

| Share capital | PLN ths | |
|---|------------|------------|
| | 31.12.2020 | 31.12.2019 |
| 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 2020.

Note 27 Reserve capital

| | PLN ths |
|---|---------------|
| Balance at January 1, 2019 | 13,968 |
| Increases due to stock option program valuation | 365 |
| Balance at December 31, 2019 | 14,333 |
| Balance at January 1, 2020 | 14,333 |
| Increases due to stock option program valuation | - |
| Saldo na 31 grudnia 2020 | 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, 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 |
| Balance at December 31, 2019 | 799,831 |
| Balance at January 1, 2020 | 799,831 |
| Surplus from sale of shares above their nominal value (agio) | - |
| Net profit for the current year | - 48,170 |
| Balance at December 31, 2020 | 751,661 |

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

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

Note 29 Contingent receivables and liabilities

| OFF-BALANCE SHEET ITEMS | PLN ths | |
|--|---------------|---------------|
| | 31.12.2020 | 31.12.2019 |
| - bank guarantees for store rental payments and guarantees for timely payment of trade liabilities | 56,505 | 44,668 |
| – open letters of credit | 23,438 | 42,226 |
| – promissory notes to secure lease liabilities | 609 | 650 |
| Total contingent liabilities | 80,552 | 87,544 |

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

| | 31.12.2020 | 31.12.2019 |
|---------------------------|------------|------------|
| share price at grant date | 4.48 | 4.48 |
| exercise price | 4.22 | 4.22 |
| expected volatility | 25% | 25% |

| | | |
|---|-------|-------|
| expected life of the option (in months) | 36 | 36 |
| risk free rate | 1.7% | 1.7% |
| expected dividend yield | 0.00% | 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 2020, the conditions and criteria on which the launch of the second tranche of warrants depends are not met.

In 2020, the amount of PLN 0 thousand was charged to overheads due to the valuation of the incentive program (in 2019: PLN 364 thousand).

Note 31 Significant events in 2020

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

Note 31a Events after the balance sheet date

11.01.2021

Resignation of a member of the Management Board

In the current report No. 3/2021 of January 11, 2021, the Management Board of VRG S.A. informed that on January 11, 2021, Mr. Erwin Bakalarz resigned from the position of a Member of the Management Board of the Company, effective January 11, 2021.

In the current report No. 4/2021 of January 11, 2021, the Management Board of VRG S.A. informed that on January 11, 2021, Mr. Ernest Podgórski resigned from the position of a Member of the Company's Supervisory Board. The resignation took effect on January 11, 2021.

11.01.2021

Appointment of Members of the Management Board of the Company

In the current report No. 4/2021 of January 11, 2021, the Management Board of VRG S.A. informed that the Supervisory Board of the Company, at the meeting held on January 11, 2021, elected two members of the Management Board of the Company for the current joint term of office. In accordance with the resolutions of the Supervisory Board, the following were appointed to the Management Board of the Company: Dr. Ernest Podgórski, Member of the Management Board responsible for IT and e-commerce, and Dr. Olga Lipińska-Długosz, Member of the Management Board.

19.01.2021

Appointment to the Supervisory Board of VRG S.A. member of the Supervisory Board by co-option

In the current report No. 7/2021 of January 19, 2021, the Management Board of VRG S.A. informed that on January 19, 2021, the Supervisory Board of the Company adopted a resolution to supplement the composition of the Supervisory Board by co-option provided for in para-graph 22 sec. 3 of the Company's Articles of Association. The Supervisory Board appointed Mr. Mateusz Karol Kolański to the Supervisory Board of the current joint term of office.

19.01.2021

Withdrawal of a shareholder's request to convene an Extraordinary General Shareholder Meeting of VRG S.A. and announcement on the cancellation of the Extraordinary General Meeting of VRG S.A. convened on March 1, 2021.

In the current report No. 8/2021 of January 19, 2021, the Management Board of VRG S.A. informed that on January 19, 2021, it received a letter from the shareholder of IPOPEMA 21 Closed-End Investment Fund with its seat in Warsaw ("Fund") about the withdrawal of the application submitted by the Fund on October 28, 2020 to convene an Extraordinary General Meeting of the Company, about which the Company informed in the current report No. 69/2020. In connection with the receipt by the Company of the letter of the Fund referred to in point 1 above, the Management Board of the Company announced that, pursuant to the resolution of the Management Board adopted on January 19, 2021, the Extraordinary General Meeting of the Company convened for March 1, 2021 is canceled.

03.02.2021

Notification on a significant block of shares

In the current report No. 11/2021 of February 3, 2021, the Company announced that it had received from IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A. with its seat in Warsaw ("the Fund"), the information provided pursuant to Art. 69 sec. 2 point 1 lit. a of the Act on Public Offering and the Conditions for Introducing Financial Instruments to an Organized Trading System and on Public Companies (the "Act"), that as a result of the acquisition by the fund IPOPEMA 21 Closed-end Fund of Non-Public Assets ("Fund") in a transaction conducted on the regulated market on January 28, 2021, settled on February 1, 2021, the Fund's share in the total number of votes in the Company increased by more than 2% in the total number of votes in the Company.

Before the above-mentioned event, the Fund owned 28,492,901 shares of the Company, which constituted 12.15% of the share capital of the Company and gave 28,492,901 votes, which constituted 12.15% of the total number of votes at the General Meeting of the Company.

After the above-mentioned event, the Fund owned 28,793,943 shares of the Company, which constituted 12.28% of the share capital of the Company and gave 28,793,943 votes and constituted 12.28% of the total number of votes at the General Meeting of the Company. At the same time, the Society informed that the funds managed by the Society did not have the financial instruments referred to in Art. 69b paragraph. 1 of the Act.

17.02.2021

Extraordinary General Meeting of the Company on March 17, 2021.

In the current report No. 12/2021 of February 17, 2021, the Management Board of VRG S.A. announced the convening of the Extraordinary General Meeting of the Company on March 17, 2021 at 12.00 in Cracow in the conference room in the building MKS Cracovia SSA, ul. Józefa Kaluży 1, 30-111 Cracow, with the agenda including:

1. Opening of the General Meeting.
2. Election of the Chairman of the General Meeting.
3. Confirmation that the General Meeting has been properly convened and is capable of adopting resolutions.
4. Adoption of a resolution on the approval of the co-option to the Supervisory Board of Mr. Mateusz Kolański in accordance with the resolution of the Supervisory Board of January 19, 2021.
5. Changes in the composition of the Supervisory Board of the Company.
6. Adoption of a resolution on changing the Remuneration Policy for Members of the Management Board and Supervisory Board of VRG SA with its registered office in Krakow.
7. Closing of the General Meeting

The full text of the announcement on convening the Extraordinary General Meeting of the Company along with draft resolutions were, respectively, Annexes No. 1 and No. 2 to the current report No. 12/2021.

25.02.2021

A shareholder's request to include certain matters on the agenda of the Extraordinary General Shareholder Meeting of the Company convened for March 17, 2021, supplementing the agenda of the Extraordinary General Shareholder Meeting of the Company convened for March 17, 2021 and draft resolutions in connection with supplementing the agenda.

In the current report No. 13/2021 of February 25, 2021, the Management Board of VRG S.A. announced that on February 24, 2021, the shareholder IPOPEMA 21 FIZAN, representing not less than 1/20 of the Company's share capital, had received an application pursuant to Art. 401 par. 1 of the Code Commercial Companies to include on the agenda of the Extraordinary General Shareholder Meeting of the Company convened on March 17, 2021 at 12:00 (hereinafter: the "General Meeting") the following matter: changes to the Company's Articles of Association and extension of the agenda of the General Meeting by the following items:

1. Adoption of a resolution to amend the Articles of Association with regard to the resolution appointing a Supervisory Board member.
2. Adoption of a resolution on amendments to the Company's Articles of Association with regard to the obligation to convene a meeting of the Company's Supervisory Board.
3. Adoption of a resolution on amendments to the Company's Articles of Association as regards the lack of return of the vote by a member of the Company's Supervisory Board in the ordered vote.
4. Adoption of a resolution on amendments to the Company's Articles of Association with regard to voting with the use of means of direct remote communication.
5. Adoption of a resolution on amendments to the Company's Articles of Association with regard to the adoption of the regulations of the Supervisory Board of the Company.
6. Adoption of a resolution on amendments to the Company's Articles of Association in the scope of extending the catalog of activities for which the consent of the Company's Supervisory Board is required.
7. Adoption of a resolution on amendments to the Company's Articles of Association with regard to the management of the budget specified by the General Meeting.
8. Adoption of a resolution on amendments to the Company's Articles of Association in the scope of extending the competences of the General Meeting of Shareholders.
9. Adoption of a resolution authorizing the Supervisory Board to adopt the uniform text of the Company's Articles of Association.

Taking into account the shareholder's request pursuant to Art. 401 par. 2 of the Commercial Companies Code, the Management Board of the Company decided to extend the agenda of the General Meeting to include items included in the shareholder's request.

In connection with the above, the Management Board of the Company announced an extended agenda for the General Meeting.

1. Opening of the General Meeting.
2. Election of the Chairman of the General Meeting.
3. Confirmation that the General Meeting has been properly convened and is capable of adopting resolutions.
4. Adoption of a resolution on the approval of the co-option to the Supervisory Board of Mr. Mateusz Kolański in accordance with the resolution of the Supervisory Board of January 19, 2021.
5. Changes in the composition of the Supervisory Board of the Company.
6. Adoption of a resolution on changing the Remuneration Policy for Members of the Management Board and Supervisory Board of VRG SA with its seat in Cracow.
7. Adoption of a resolution on amendments to the Company's Articles of Association with regard to the resolution appointing a member of the Supervisory Board.
8. Adoption of a resolution on amendments to the Company's Articles of Association with regard to the obligation to convene a meeting of the Company's Supervisory Board.
9. Adoption of a resolution on amendments to the Company's Articles of Association with regard to the lack of return of the vote by a member of the Company's Supervisory Board in the ordered voting.
10. Adoption of a resolution on changes to the Company's Articles of Association with regard to voting by means of direct remote communication.
11. Adoption of a resolution on amendments to the Company's Articles of Association with regard to the adoption of the regulations of the Company's Supervisory Board.
12. Adoption of a resolution on amending the Company's Articles of Association with regard to extending the catalog of activities for which the consent of the Company's Supervisory Board is required.
13. Adoption of a resolution on amendments to the Company's Articles of Association with regard to the management of the budget specified by the General Meeting.
14. Adoption of a resolution to amend the Articles of Association in the scope of extending the competences of the General Meeting of Shareholders.
15. Adoption of a resolution authorizing the Supervisory Board to adopt the uniform text of the Company's Articles of Association.
16. Closing of the General Meeting.

Current report no. 13/2021 and appendix no. 1 hereto present the amendments to the Articles of Association of the Company along with draft resolutions proposed by the shareholder.

25.02.2021

Submission by a shareholder of draft resolutions for the Extraordinary General Meeting of the Company convened for March 17, 2021 pursuant to Art. 401 par. 4 of the Code of Commercial Companies.

In the current report No. 15/2021 of February 25, 2021, the Management Board of VRG SA announced that on March 10, 2021, the shareholder Jerzy Mazgaj had received a notification of draft resolutions for the Extraordinary General Meeting of the Company convened for 12:00 to points 8, 9, 12 and 14 of the agenda extended on February 25, 2021, about which the Company informed in the current report No. 13/2021 of February 25, 2021. Draft resolutions proposed by the shareholder are presented in the appendix No. 1 to the current report No. 15/2021.

17.03.2021

Resolutions adopted by the Extraordinary General Meeting of the Company on March 17, 2021

In the current report no. 16/2021 of March 17, 2021, the Company informed about the content of the resolutions of the Extraordinary General Meeting of the Company on March 17, 2021 regarding amendments to the Company's Articles of Association regarding §20 sec. 3, §20 section 5, §21 section 3, §21 section 4, §22 section 6, §30 section 1.

Detailed information on the above-mentioned changes to the Company's Articles of Association is presented in the attachment to the current report no.

07.04.2021

Notification on a significant block of shares

In the current report no. 21/2021 of April 7, 2021, the Company informed that on April 7, 2021, it had received from Powszechnie Towarzystwo Emerytalne PZU S.A. with its seat in Warsaw ("Fund") acting on behalf of the Open Pension Fund PZU "Złota Jesień" (hereinafter: "OFE PZU") notifications pursuant to Art. 69 sec. 1 point 1 of the Act of July 29, 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies, that as a result of a purchase transaction of 30,000 shares of the Company concluded on the regulated market on the Warsaw Stock Exchange on April 1 2021, as of the settlement date of April 7 this year, OFE PZU reached and exceeded the share of 15% of the total number of votes in the Company.

Before the above-mentioned event, OFE PZU held 35,145,632 shares of the Company, which constituted 14.999% of the share capital of the Company and gave 35,145,632 votes, which constituted 14.990% of the total number of votes at the General Meeting of the Company.

After the above-mentioned event, OFE PZU owned 35,175,632 shares of the Company, which constituted 15.003% of the share capital of the Company and gave 35,175,632 votes and constituted 15.003% of the total number of votes at the General Meeting of the Company.

At the same time, the Fund informed that OFE PZU did not have any subsidiaries holding the Company's shares, the situation indicated in Art. 69 sec. 4 point 6 of the above-mentioned of the Act, also does not have the financial instruments referred to in Art. 69b paragraph. 1 point 1) and point 2) of the above-mentioned the law.

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 | |
| | 2020 Period from 01-01-2020 to 31-12-2020 | 2019 Period from 01-01-2019 to 31-12-2019 | 2020 Period from 01-01-2020 to 31-12-2020 | 2019 Period from 01-01-2019 to 31-12-2019 | Balance at 31.12. 2020 | Balance at 31.12. 2019 | Balance at 31.12. 2020 | Balance at 31.12. 2019 |
| Vistula Market Sp. z o.o. | - | - | - | - | 1,983 | 1,983 | - | - |
| DCG SA | 35 | 24 | 1 | - | 164 | 19 | - | - |
| VG Property Sp. z o.o. | 14 | 4 | 280 | 168 | 35 | 3 | 82 | 39 |
| W.KRUK SA | 5,207 | 5,958 | 150 | 32 | 1,259 | 706 | 219 | - |
| Wólczanka Shirts Manufacturing Sp. z o. o. | 35 | 75 | 2,171 | 2,836 | 968 | 856 | 291 | 41 |
| BTM 2 Sp. z o. o | - | 7 | - | 561 | - | - | - | - |
| Total | 5,754 | 6,068 | 2,602 | 3,597 | 4,409 | 3,567 | 592 | 80 |
| Balance of write-offs | | | | | - 1,983 | - 1,983 | | |

| | 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 | |
| | 2020 Period from 01- 01-2020 to 31-12- 2020 | 2019 Period from 01- 01-2019 to 31-12- 2019 | 2020 Period from 01- 01-2020 to 31-12- 2020 | 2019 Period from 01- 01-2019 to 31-12- 2019 | Balance at 31.12. 2020 | Balance at 31.12. 2019 | Balance at 31.12. 2020 | Balance at 31.12. 2019 |
| Amounts due from related parties net | | | | | 2,426 | 1,584 | | |

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

The costs of products, goods and services sold amounted to PLN 681 thousand PLN. (2019: PLN 1,227 thousand)

Financial income amounted to PLN 992 thousand PLN. (2019: PLN 3 thousand) and financial costs amounted to PLN 219 thousand PLN (2019: PLN 0 thousand)

Other operating income amounted to PLN 0 thousand PLN (2019: PLN 0 thousand), and other operating costs amounted to PLN 23 thousand PLN. (2019: PLN 0 thousand).

The sale of goods to related entities was made at the prices specified in the Company's price list. Purchases were made at discounted market prices to reflect the amount of goods purchased and the relationship between the parties.

Receivables from loans granted from related parties as at December 31, 2020 amount to PLN 588 thousand PLN. (as at December 31, 2019: PLN 585 thousand), these receivables were covered by updating write-offs as at December 31, 2020 in the amount of PLN 227 thousand PLN (as at December 31, 2019: PLN 227 thousand).

Liabilities under loans received from related entities as at December 31, 2020 amount to PLN 0 thousand. PLN. (as at December 31, 2019: PLN 0 thousand).

Other receivables from related entities as at December 31, 2020 amount to PLN 4,300 thousand. PLN. (as at December 31, 2019: PLN 4,300 thousand), these receivables were covered by updating write-offs as at December 31, 2020 in the amount of PLN 4,300 thousand PLN (as at December 31, 2019: PLN 4,300 thousand).

The receivables are not secured and their repayment is to be made in cash. As at December 31, 2020, the impairment losses on receivables from related parties amounted to PLN 6,510 thousand in total (2019; PLN 6,510 thousand). In 2020, revaluation write-offs were created in the amount of PLN 0 thousand and dissolved for the amount of 0 thousand PLN.

Entities and persons related to the key management personnel of the Company as at December 31, 2020.

- 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.,

In 2020, 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.

- Cliffsidebrokers S.A., 2020 total gross turnover amounted to PLN 3 thousand,
- Doksa Sp. z o.o., 2020 total gross turnover amounted to PLN 697 thousand,
- Mazgaj Barbara – remuneration from W.Kruk supervisory board for the period between 01.01.2020 to 03.03.2020 amounted to PLN 35 thousand and for DCG S.A. supervisory board for the period of 01.01.2020 to 02.03.2020 amounted to PLN 21 thousand.

Transakcje z podmiotami powiązаныmi zawierane były na warunkach odpowiadających warunkom rynkowym.

In 2020, the parent company granted additional sureties to its subsidiaries.

- on April 21, 2020, the parent company granted an additional surety to the subsidiary DCG SA for the amount of 2,250,000.00 to the multi-purpose loan limit agreement of June 25, 2015, as amended. d, due to the increase of the credit limit to the amount of PLN 13,000,000.00. The surety by the Company was granted up to the maximum amount not exceeding PLN 19,500,000.00, the surety is valid until July 16, 2023.

- on July 7, 2020, the subsidiary W.Kruk S.A. granted a surety to VRG S.A. to the multi-purpose credit limit agreement of June 25, 2015 as of later d. up to the amount of PLN 55,000,000, the surety is valid until January 1, 2024.

On July 9, 2020, the subsidiary VRG S.A. granted a surety to W. Kruk S.A. to the multi-purpose credit limit agreement of June 25, 2015 as of later d. up to PLN 33,000,000, the surety is valid until January 6, 2024.

As at 31.12.2020, the balance of sureties granted in previous periods by the 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 SA and VG Property Sp. z o.o. to Bank PKO BP S.A. the resulting loan agreements are:

- 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 part of the Company's enterprise 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. in the full rights and obligations of the borrower. Therefore, the debt was taken over by W.KRUK SA After transferring the rights and obligations of the borrower to W.KRUK SA, the Company is responsible for the repayment of the Loan B due to the surety up to a maximum amount not exceeding PLN 107,100,000, with the possibility of releasing it after 3 years;
- b) Multi-purpose credit limit agreement up to PLN 13,000,000.00 concluded by a subsidiary DCG S.A. on June 25, 2015 with later d. One of the collaterals for the repayment of DCG S.A. liabilities under this agreement there is a surety by the Company towards the bank up to a maximum amount not exceeding PLN 19,500,000, the surety is valid until July 16, 2023.
- c) An investment loan agreement up to the amount of PLN 4,021,500.00 concluded by a subsidiary VG Property Sp. z o.o. on June 30, 2016. One of the collateral for the repayment of liabilities of VG Property Sp. z o.o. there is a surety by the Company towards the bank under this agreement up to a maximum amount not exceeding PLN 6,032,250, the surety is valid until the full repayment of the loan.

Note 33 Comparable data - previous years adjustments and presentation changes

In 2020, the Group made changes specified in the provisions of IAS 8 'Accounting principles, changes in estimates and correction of errors'.

In the financial statements for 2020, the Group changed the presentation of the lease of fixed assets, therefore it makes adjustments in the statement of financial position of comparable data for 2019. As a result of the above adjustment, the " Property, plant and equipment " decreased and the increase in "Assets due to rights for use" by the amount of PLN 4,141 thousand PLN. for the year 2019.

In addition, the Company changed the presentation of trade receivables and other receivables and current assets that were presented in one item of the statement of financial position, and corporate income tax receivables were excluded from receivables. Liabilities due to corporate income tax were also excluded from liabilities for the supply of works and services and other liabilities.

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

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

The principles of drawing up the financial statements are described in the general information for this report.

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

In 2020, the Group did not issue, redeem or repay equity securities.

6. Paid and declared dividends

In 2020, 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 before a court, a body competent for arbitration proceedings or a public administration body relating to the Group's liabilities or receivables whose value would constitute at least 10% of the Group's equity.

8. Credit or loan guarantees granted

As at 31.12.2020, there were no other guarantees apart from these indicated in Note 32.

9. Remuneration of Parent Company Management and Supervisory Board for 2020

Management Board

| | | w tys. zł. |
|-------------------|--|------------|
| Andrzej Jaworski | President of the Management Board /since July 13, 2020./ | 434 |
| Radosław Jakociuk | Executive Vice-President of the Management Board /since July 13, 2020./ | 449 |
| Michał Zimnicki | Executive Vice-President of the Management /since September 1, 2021/ | 173 |
| Ernest Podgórski | Member of the Supervisory Board delegated to temporarily perform duties of the Executive Vice-President of the Management Board responsible for Finance /from July 13, until September 13, 2020/ | 85 |

| | | |
|-------------------|--|--------------|
| Grzegorz Pilch | President of the Management Board / until June 29, 2020/ | 1,470 |
| Michał Wójcik | Executive Vice-President of the Management Board /until June 29, 2020/ President of the Management Board / from June 30, until July 13, 2020/ | 1,620 |
| Mateusz Żmijewski | Executive Vice-President of the Management Board /until July 13, 2020/ | 1,277 |
| Erwin Bakalarz | Management Board Member | 251 |
| Total | | 5,759 |

Supervisory Board

| | | PLN ths |
|-------------------------------|-----------------------------------|--------------|
| Jerzy Mazgaj | Chairman of the Supervisory Board | 294 |
| Artur Małek | Member of the Supervisory Board | 24 |
| Grzegorz Janas | Member of the Supervisory Board | 68 |
| Grażyna Sudzińska-Amroziewicz | Member of the Supervisory Board | 27 |
| Andrzej Szumański | Member of the Supervisory Board | 156 |
| Piotr Nowjalis | Member of the Supervisory Board | 60 |
| Jan Pilch | Member of the Supervisory Board | 120 |
| Piotr Kaczmarek | Member of the Supervisory Board | 160 |
| Paweł Tymczyszyn | Member of the Supervisory Board | 81 |
| Piotr Stępnik | Member of the Supervisory Board | 166 |
| Ernest Podgórski | Member of the Supervisory Board | 44 |
| Wacław Szary | Member of the Supervisory Board | 96 |
| Total | | 1,296 |

The managing and supervising persons obtained remuneration for performing functions in the authorities of the subsidiaries: Total remuneration for 2020 amounted to:

| | | PLN ths |
|-------------------|--|---------|
| Jerzy Mazgaj | Chairman of the Supervisory Board | 162 |
| Grzegorz Pilch | Member of the Supervisory Board | 46 |
| Jan Pilch | Member of the Supervisory Board | 88 |
| Mateusz Żmijewski | Member of the Supervisory Board and Executive Vice-President | 47 |
| Michał Wójcik | Member of the Supervisory Board | 22 |
| Piotr Nowjalis | Member of the Supervisory Board | 11 |
| Paweł Tymczyszyn | Member of the Supervisory Board | 22 |
| Piotr Stępnik | Member of the Supervisory Board | 34 |
| Ernest Podgórski | Member of the Supervisory Board delegated to temporarily perform duties of the Execu- tive Vice-President of the Management Board responsible for Finance | 60 |
| Andrzej Jaworski | Member of the Supervisory Board | 45 |

| | | |
|-------------------|-----------------------------------|------------|
| Radosław Jakociuk | President of the Management Board | 160 |
| Erwin Bakalarz | President of the Management Board | 6 |
| Total | | 703 |

The Group operates an incentive program based on subscription warrants entitling to acquire shares of the parent company, detailed information on the program and its terms and conditions is provided in Note 30 to the consolidated financial statements. Managing persons are entitled to benefits specified in employment or appointment contracts.

Apart from the benefits listed above, there were no other benefits for managing and supervising persons, including post-employment benefits, termination benefits, other long-term benefits.

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.

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 expects that the effects of the coronavirus epidemic will have a negative impact on the Issuer's future financial results. In particular, the Issuer points out that the restrictions introduced by the Minister of Health in the operation of commercial facilities with a sales area of more than 2,000 m², where 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 in the first quarter of 2021. In addition, the Issuer expects that, due to the worsening public mood related to the epidemic and the expected decline in consumption also in the period after the opening of shopping centers, consumer demand will be lower than in the years before the pandemic, and the recovery of demand in stores will take several months.

The above assessment is based on the Issuer's best knowledge as of the date of the annual report. It is impossible to accurately estimate the impact of limiting sales due to the temporary closing down of traditional stores located in shopping malls in the long term. The impact of the spread of the coronavirus in the conditions of an epidemic on the financial results depends on a number of factors that are beyond the direct influence and control of the Issuer. However, any protracted restrictions on the opening of stores in shopping centers will undoubtedly translate into lower sales revenues and deterioration of the Group's financial situation.

Actions: In this situation, the Group focuses its activities on intensifying sales in online stores of the above-mentioned brands. The Group will continue to carry out activities initiated in 2020 to improve the Group's working capital and maintain a stable level of the Group's net debt. In 2020, talks were held with banks that finance the operations of the Company and its companies from the capital group, which was completed with the extension of contracts with the main bank financing the Group, PKO BP, for two consecutive years and positively influencing the Group's liquidity situation in the current year.

Assuming that the period of the epidemic will be longer or in a situation with negative effects after the end of the epidemic, further solutions have been prepared to reduce the liquidity risk. In the opinion of the Management Board, the current situation is sufficiently monitored and controlled. The Management Board of the Company, bearing in mind the actions taken, is convinced of the positive results of the above-mentioned actions.

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 (excl. IFRS16):

- an average annual increase of USD to PLN by 1.0% will result in a decrease in the financial result by 1.2%.
- an average annual increase of EUR to PLN by 1.0% will reduce the financial result by 3.5%.

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, 2020, the Group had liabilities measured at amortized cost of PLN 71,568 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 PLN 85 ths.

Actions: with relatively low debt, 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 sales proceeds and the required liabilities. Additionally, in the current situation, the Group has taken active measures to improve financial liquidity and cash protection in individual Group companies. The Group took steps to extend the payment terms for the purchased goods, which will have a positive impact on the Group's financial flows, and started talks with shopping centers to obtain no rents or reduction of rents for the period when shopping centers are closed, without the need to extend contracts on this account. Moreover, talks were held with banks that finance the activities of the Company and its companies from the Capital Group. In April, the Capital Group companies increased their financing under current loans and annexes were signed to extend the repayment of long-term loan installments. In July 2020, the Capital Group signed agreements with the main financing bank, PKO BP, extending the cooperation for another two years. These agreements concerned the provision of lines as part of an overdraft facility and for letters of credit and guarantees. As part of the solutions of the anti-crisis shield, the key companies of the Group received co-financing for wages from the Guaranteed Employee Benefits Fund.

One of the key goals for 2021, which is closely related to the current activities aimed at securing the Group's financial liquidity, will be to further improve the efficiency of using working capital, which is to be achieved through a further decrease in the level of inventories year on year and the introduction of longer payment terms. Assuming that the period of the epidemic will be longer or in a situation with negative effects after the end of the epidemic, further solutions will be prepared to reduce the liquidity risk. In the opinion of the Management Board of the parent company, the current situation is sufficiently monitored and controlled. The Management Board of the parent company, having in mind the actions taken, is convinced of the positive results of the actions described above. Information on due liabilities and their maturity

dates is presented in note 19a of the Consolidated Financial Statements. Information on credit lines from which these liabilities will be settled is described in note 19, Loans and borrowings.

Risk of termination of the loan agreement

The parent company concluded on 09.03.2015 Loan agreements regarding investment financing with PKO BP S.A. bank. i.e. a term loan agreement (Loan A) up to the amount of PLN 47.6 million and a term loan agreement (Loan B) up to the amount of PLN 71.4 million, taken over on March 31, 2015 by a subsidiary of the Company, i.e. W.KRUK S.A. while maintaining the surety of the parent company.

The above credit agreements were concluded according to the standards of the Loan Market Association and contain a number of covenants to be implemented by the Company and W.KRUK S.A. In the event of an economic downturn and a weakening of consumer demand, the implementation of the covenants may be endangered and thus there is a risk that the financing bank will terminate the contracts. Due to the large amount of financing, the Parent Company will not be able to obtain refinancing in a short time.

In addition, the Parent Company has a Multi-product Agreement and an Overdraft Agreement with the Bank PKO BP for the total amount of PLN 92 million (extended for 2 years on July 5, 2020) and a Multi-product Agreement with mBank for the amount of PLN 19 million and for the factoring line (PLN 11.5 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 (as a result of the signed annexes, the amount increased to PLN 45 million). These agreements contain covenants which the Company is obliged to implement. In the event of an economic downturn, weakening demand for the Company's products, the implementation of the covenants may be jeopardized, which entails the risk of termination of contracts by the financing banks.

Actions: The Group minimizes the risk by timely fulfillment of obligations towards banks and monitoring of compliance with the covenants, at the same time in the current extraordinary situation related to the coronavirus epidemic and the objective, rapid deterioration of the Group's financial results, the Company entered into negotiations with the main financing bank to adjust the level of covenants to the current situation of the Company and taking this fact into account in the coming quarters. The parent company VRG S.A. and companies from the Capital Group (W.Kruk S.A. and DCG S.A.) signed new short-term financing agreements (agreements for the provision of an overdraft facility and a line for letters of credit and guarantees) at the beginning of July.

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 2020, there were no events other than those described in this report, and in particular those described in Note 1.4. Continuation of operations, circumstances that may significantly affect the personnel, property, financial standing and financial result of the Company, which could threaten its ability to meet its obligations.

Andrzej Jaworski Radosław Jakociuk Michał Zimnicki Ernest Podgórski Olga Lipińska-Długosz

.....
President of the
Management Board

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

.....
Executive Vice-Presi-
dent of the Management
Board

.....
Management
Board Member

.....
Management
Board Member

Signature of the person entrusted

with bookkeeping

Alicja Weber

.....
Chief Accountant

Cracow, April 16, 2021

VISTULA

BYTOM

SZTUKA KRAWIECTWA OD 1945

WÓLCZANKA

DENICLER
MILANO

W.KRUK
1 8 4 0



VRG

VISTULA RETAIL GROUP

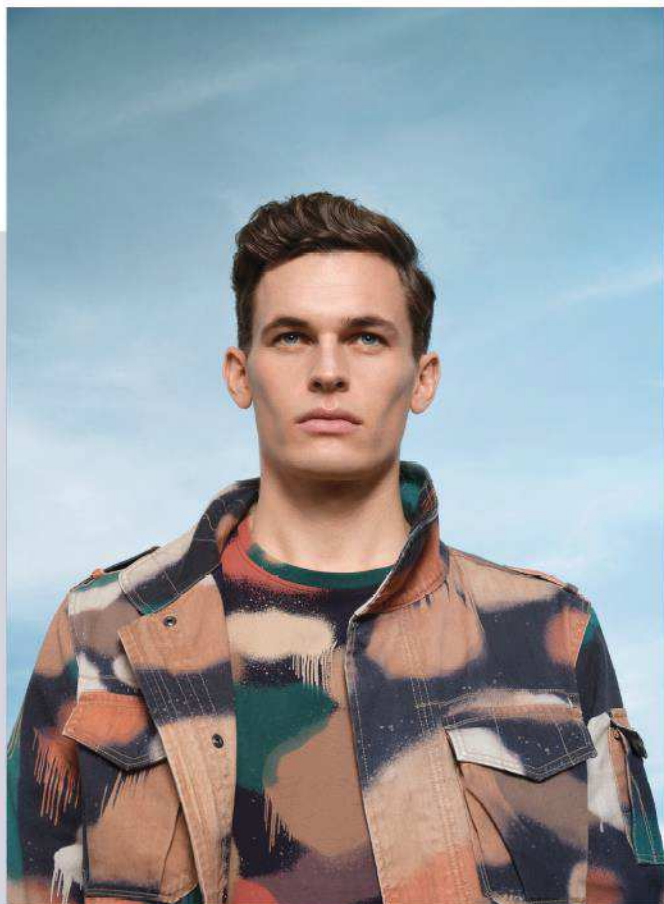
VISTULA

BYTOM
SZTUKA KRAWIECTWA OD 1945

WÓLCZANKA

DENI CLER
MILANO

W.KRUK
1840



REPORT OF THE MANAGEMENT BOARD ON OPERATIONS

of VRG S.A. Capital Group in 2020

Cracow, April 16, 2021

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 Board of the Parent Company

Management Board

As at 31 December 2020, the composition of the Management Board of VRG S.A. was as the following:

| | | |
|------------------|--|--|
| Management Board | Andrzej Jaworski President of the Management Board | Radosław Jakociuk Executive Vice-President of the Management Board |
| | Michał Zimnicki Executive Vice-President of the Management Board | Erwin Bakalarz Management Board Member |

The following changes occurred in the composition of the Company's Management Board during 2020:

- On December 30, 2019, Mr. Mateusz Żmijewski, Executive Vice-President of the Management Board, resigned from his position in the Management Board of the Company with effect as of March 31, 2020. On March 30, 2020, Mr. Mateusz Żmijewski submitted a declaration of withdrawal of his resignation. The Supervisory Board of the Company, in the resolution of March 30, 2020, consented to the withdrawal of the resignation of Mr. Mateusz Żmijewski and further performance of the function of the Executive Vice-President of the Management Board of the Company until the end of the current term of office of the Management Board of the Company.

- The Supervisory Board of the Company, at the meeting held on May 25, 2020, elected the Management Board of the Company for a new joint term of office starting on the day following the date of the Ordinary General Meeting approving the financial statements of the Company for the financial year 2019. According to the content adopted resolutions of the Supervisory Board, the following were appointed to the Management Board of the Company for the period of a new, joint term of office:

- Mr. Michał Wójcik for the position of the President of the Management Board;

- Mr. Michał Zimnicki for the position of the Executive Vice-President of the Management Board as of September 1, 2020;

- Mr. Erwin Bakalarz for the position of Management Board Member.

- On June 2, 2020, the Supervisory Board of the parent company adopted a resolution on the appointment of Mr. Mateusz Żmijewski to the Management Board of the Company for a new joint term of office until August 31, 2020 and entrusted him with the function of the Vice-President of the Management Board during this period.

- The Supervisory Board of the Company on July 13, 2020 made the following changes in the composition of the Management Board:

1) called off Mr. Michał Wójcik from the composition of the Management Board and the position of the President of the Management Boards;

2) called off Mr. Mateusz Żmijewski from the composition of the Management Board and the position of Executive Vice-President of the Management Board;

3) appointed Mr Andrzej Jaworski to the composition of the Management Board of the current term in office for the position of President of the Management Board;

4) based on Article 383 par. 1 of the Code of Commercial Companies, delegated Mr. Ernest Podgórski, Member of the Supervisory Board of the Company, to temporarily perform the duties of Executive Vice-President of the Management Board responsible for financial matters; the appointment is for a period of up to three months;

5) appointed Mr. Radosław Jakociuk to the composition of the Management Board for a joint term in office for the position of Executive Vice-President of the Management Board.

- the Supervisory Board of the Parent Company, at the meeting held on August 17, 2020, adopted a resolution to shorten the time of delegation of Mr. Ernest Podgórski, Member of the Supervisory Board of the Company, to

temporarily perform the duties of the Executive Vice-President of the Management Board responsible for financial matters; by September 14, 2020;

- on September 11, 2020, Mr. Ernest Podgórski, Member of the Supervisory Board of the Company, submitted a declaration of resignation with effect as of September 13, 2020 from delegation for Executive Vice-President of the Management Board for financial matters to temporarily perform the duties.

In the period from December 31, 2020 to the date of approval of these financial statements, the composition of the Management Board of VRG S.A. has changed as follows:

- on January 11, 2021, Mr. Erwin Bakalarz resigned from the position of a Member of the Company's Management Board, effective January 11, 2021.

- On January 11, 2021, the Supervisory Board of the Company appointed two members of the Management Board of the Company for the current joint term of office. Pursuant to the adopted resolutions of the Supervisory Board, the following were appointed to the Management Board of the Company:

Mr. Ernest Podgórski, PhD for the position of the Member of the Management Board responsible for IT and e-commerce;

Olga Lipińska-Długosz, PhD for the position of a Member of the Management Board.

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

| | | | | | |
|-------------------------|--|--|--|--|---|
| Management Board | Andrzej Jaworski President of the Management Board | Radosław Jakociuk Executive Vice-President of the Management Board | Michał Zimnicki Executive Vice-President of the Management Board | Ernest Podgórski Management Board Member | Olga Lipińska-Długosz Management Board Member |
|-------------------------|--|--|--|--|---|

Supervisory Board Member

As at December 31, 2020, the composition of the Supervisory Board of VRG S.A. was as follows:

| | | | |
|--------------------------|--|--|---|
| Supervisory Board | Jerzy Mazgaj Chairman of the Supervisory Board | | |
| | Piotr Stępnik Member of the Supervisory Board | Wacław Szary Member of the Supervisory Board | Piotr Kaczmarek Member of the Supervisory Board |
| | Jan Pilch Member of the Supervisory Board | Ernest Podgórski Member of the Supervisory Board | Andrzej Szumański Member of the Supervisory Board |

In 2020, the following changes took place in the composition of the Company's Supervisory Board:

- on February 19, 2020, Mrs. Grażyna Sudzińska-Amroziewicz submitted a declaration of resignation from the function of a member of the Supervisory Board of VRG S.A. and, consequently, membership in the 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 Supervisory Board of the Company of the current joint term of office:

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

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

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

d) pursuant to Resolution No. 06/02/2020 of the General Shareholder Meeting on changes in the composition of the Supervisory Board of the Company, Mr. Piotr Stępnik was appointed to the composition of the Supervisory Board of the Company.

e) pursuant to Resolution No. 07/02/2020 of the General Shareholder Meeting on changes in the composition of the Supervisory Board of the Company, Mr. Grzegorz Janas was appointed to the composition of the Supervisory Board of the Company.

- on June 29, 2020, Mr. Grzegorz Janas submitted a declaration of resignation from the function of a member of the Supervisory Board of VRG S.A.

- on June 29, 2020, Mr. Paweł Tymczyszyn submitted a declaration of resignation from the function of a member of the Supervisory Board of VRG S.A.

- on June 29, 2020; The Ordinary General Meeting of VRG S.A. adopted the following resolutions regarding changes in the composition of the Supervisory Board of the Company of the current joint term of office:

a) pursuant to Resolution No. 22/06/2020 of the General Meeting on changes in the composition of the Supervisory Board of the Company, Mr. Piotr Nowjalis was dismissed from the composition of the Supervisory Board of the Company.

b) pursuant to Resolution No. 23/06/2020 of the General Meeting on changes in the composition of the Supervisory Board of the Company, Mr. Ernest Podgórski was appointed to the composition of the Supervisory Board of the Company.

c) pursuant to Resolution No. 24/06/2020 of the General Meeting on changes in the composition of the Supervisory Board of the Company, Mr. Waclaw Gray was appointed to the composition of the Supervisory Board of the Company.

d) pursuant to Resolution No. 25/06/2020 of the General Meeting on changes in the composition of the Supervisory Board of the Company, Mr. Jan Pilch was appointed to the composition of the Supervisory Board of the Company.

In the period from December 31, 2020 to the date of approval of these financial statements, the composition of the Supervisory Board of the parent company changed as follows:

- on January 11, 2021, Mr. Ernest Podgórski resigned from the position of a Member of the Company's Supervisory Board with effect on January 11, 2021.

- On January 19, 2021, the Supervisory Board of the parent company adopted a resolution to supplement the composition of the Supervisory Board by co-option provided for in paragraph 22 sec. 3 of the Company's Articles of Association.

The Supervisory Board appointed Mr. Mateusz Kolański to the Supervisory Board of the parent company of the current joint term of office. Mr. Mateusz Kolański was appointed Vice-Chairman of the Supervisory Board with effect from February 17, 2021.

As at the date of approval of 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

| | | |
|---|---|--|
| Mateusz Kolański Vice-Chairman of the Supervisory Board | Piotr Kaczmarek Member of the Supervisory Board | Jan Pilch Member of the Supervisory Board |
| Piotr Stępnik Member of the Supervisory Board | Andrzej Szumański Member of the Supervisory Board | Wacław Szary Member of the Supervisory Board |

1.3. Approval of the financial statements

These consolidated financial statements have been approved for publication and signed by the Management Board of the Parent Company on April 16, 2021.

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 2020. In the opinion of the Management Board of the Parent Company, as at the date of approval of these separate financial statements, there are no premises or circumstances that would indicate a threat to going continuation of the Group's operations in the foreseeable future.

Due to the occurrence in 2020 of the situation related to the coronavirus pandemic - i.e. shopping malls being closed from March 14, 2020 to May 4, 2020, the Management Board of the Parent Company, in its report for 2019, drew attention to the occurrence in this matter of a significant uncertainty resulting from events taking place after the balance sheet date, which in the long run could threaten the going concern of the Capital Group's companies.

However, based on the sales results achieved in 2020 and until the date of publication of the consolidated financial statements for 2020, the current liquidity situation and available sources of financing, despite the repeated ban on trading in the retail operations of the Capital Group companies in majority of traditional stores until April 25, 2021, in the opinion of the Management Board of the Company, there is no uncertainty as to the continuation of the operations of the Capital Group companies.

In 2020, the Management Board of the Company undertook steps to limit the impact of the epidemic on the financial situation of the Group companies. In 2020, which was burdened with closings of shopping malls several times, measures were taken to secure the Group's liquidity situation: annexes were signed to the agreements with financing banks, i.e. PKO BP and mBank for the next two years, and the available credit lines were increased, the value of orders for 2020, payment terms to commodity suppliers were extended, terms of lease agreements with shopping malls were renegotiated, salary costs were reduced and the focus was on increasing sales through online channel. The Group also applied for co-financing to remuneration costs, which was granted in the amount of PLN 7.8 million (in total for all companies of the Capital Group).

The above activities contributed to a significant optimization of net working capital, which decreased in the Capital Group by PLN 55.3 million year on year. The Group's financial indebtedness also decreased from PLN 91.3 million (under the previously applicable IAS 17 standard) at the end of 2019 to PLN 53.7 million at the end of 2020. The net debt / EBITDA at the end of 2020, was relatively secure level of 2.3x, significantly below the levels defined in loan agreements concluded by the companies of the Capital Group.

In 2021, the Capital Group once again faced temporary closing down of shopping malls. In this period, the Group companies re-negotiated the terms of rental agreements in the period of closed traditional stores and lowered their salaries for this period. In the opinion of the Management Board of the Company, there is no threat to going concern and the Group is prepared for the current lockdown and continues to sell through the well-developed on-line channel in the Group's companies.

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 2020 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 2020 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, 2020 and for the twelve-month period ended with that date, were audited by a certified auditor (until the date of this publication of these financial statements of VRG S.A. Capital Group auditor's opinions on statements of subsidiaries have not been received). 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, 2019 contained in these financial statements were audited for the purpose of 2019 report.

The entity authorized to audit financial statements in the scope of the separate and consolidated financial statements for 2020 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 2019 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 2020 amounted to PLN 105 ths and for 2019 amounted to PLN 105 ths.

In 2020, 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 2021, Mazars Sp. z o.o. was appointed to perform an attestation service related to the assessment of the Management Board and Supervisory Board report on remuneration for the years 2019-2020. The total remuneration will be 8 thousand PLN.

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 | 11a | Right of use assets |
| 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 financial statements are prepared for the period of 2020, in which the companies did not merge.

The accounting principles (policy) adopted in the consolidated financial statements have been applied in a continuous manner and are consistent with the accounting principles applied in the last annual consolidated financial statements.

In 2020, there were no significant changes in the basic principles of managing the Issuer's enterprise and its Capital Group.


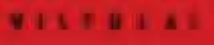
Operating segments

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, Wólczanka, Lambert, Bytom, 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 brand.

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



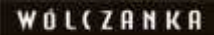

Leading brands of the Vistula business line:

| | | |
|---------|---|--|
| Vistula |  | Operating on the Polish market since 1967, Vistula is the basic line of men formalwear. The brand offers a wide range of suits, jackets, trousers, shirts and other complementary accessories. |
| |  | The brand was launched in 1998. Its signature products are associated with apparel of French origins. Introduction of the Lantier brand was aimed at broadening the Company's offer to include products aimed at the most demanding customers, using the latest global fashion trends and the highest quality fabrics. Apart from classic suits, Lantier collections, similarly to Vistula brand collections, also include knitwear, shirts, jackets, coats and a wide range of complementary items. |
| |  | A brand introduced in 2009, which offers fashionable and smart casual products. The Vistula Red branded products are characterized by high quality and design consistent with global fashion trends. The brand is addressed at younger customers looking for bolder and more casual outfits. |


Leading brands of the Bytom business line:

| | | |
|-------|--|---|
| Bytom |  | <p>BYTOM is a Polish brand with a history dating back to 1945, in which tradition meets the modern vision of tailoring and men's fashion. Basing on a dozen of years long heritage, the brand offers men formalwear with a flagship product in the form of suits, made from finest Italian fabrics in Polish sewing facilities.</p> <p>BYTOM is not just the art of tailoring. The brand refers to the Polish cultural heritage by creating limited collections inspired by the work of outstanding personalities, inviting people with a significant influence on the development of Polish culture and art.</p> |
|-------|--|---|

Leading brands of the Wólczanka business line:

| | | |
|-----------|---|---|
| Wólczanka |  | The brand exists since 1948. The offer of this brand is made of men's shirts, and from the Autumn-Winter 2014 season also women's formal and casual shirts. The complementary assortment of the Wólczanka brand are sweaters, polo shirts and, from Spring/Summer 2019, men's chinos. |
| |  | 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 |  | <p>The brand's clothing is dedicated to the upper segment of the women fashion. The brand's products were introduced to the Polish market in the early 90's.</p> <p>Deni Cler offering is sewn from Italian fabrics, with the majority of accessories used being of Italian origins as well. Fabrics used to make branded clothes are mostly cashmere and wool with silk. The brand's assortment includes mostly: skirts, jackets, pants, blouses, coats and dresses.</p> |
|-----------------|---|---|

| | |
|--|--|
| | <p>The owner of the Deni Cler brand originating in Milan is DCG S.A. based in Warsaw (the Company's subsidiary). The main activity of DCG S.A. focuses on the design, production and distribution of exclusive women's clothing.</p> |
|--|--|

The VRG Group systematically expands the range of complementary items in its brand stores, including, among other things, the offer of smart casual products, exclusive leather goods and footwear. Offered accessories are currently one of the fastest growing product categories and, at the same time, have a high gross margin.

Own brands in jewellery segment:

| | | |
|--|---|--|
| <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Jewellery segment</p> |  | <p>W. KRUK is the oldest jewellery brand in Poland with over 180 years of tradition. W. KRUK's offer includes gold and platinum jewellery, in particular jewellery with diamonds and precious stones. W. KRUK also creates the highest quality collections made of silver and other precious metals.</p> <p>W. KRUK offers many original jewellery lines with a unique character. The distinctive style of W. KRUK products is the result of the work of designers, projects inspired by ambassadors (including the Freedom collection by Martyna Wojciechowska) and an expert and innovative approach to jewellery. A significant part of the collections presented every year is made in the Manufaktura of the brand near Poznań, which is one of the few in Europe that still uses traditional manufacturing techniques. In the studios of the W. KRUK brand, handicraft is combined with the latest technologies. In 2019, the W. KRUK brand was the first in Poland to introduce a new category of man-made diamonds in laboratory conditions to the offer in its chain of stores under the name New Diamond by W. KRUK. They have parameters identical to diamonds mined with traditional methods and are classified according to the same parameters, using the same standards of expert assessment. The collection decorated with New Diamond by W. KRUK includes rings called Perfect®, earrings and pendants with man-made diamonds in the colors: white and, for the first time on the Polish market, pink and blue. Since 2016, the brand's range has been complemented by a selection of W. KRUK-branded accessories, such as leather bags and accessories, silk scarves, sunglasses and fragrances for women and men.</p> |
| | <p>ZEGARKI</p> | <p>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. At the end of 2020, Patek Philippe considered the most prestigious worldwide, was included into the offer.</p> <p>Watches of renowned brands sold in W. KRUK stores occupy a strong position on the Polish market, and their sales value is systematically increasing.</p> |

Manufacturing operations

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

Seasonality and cyclicity of operations

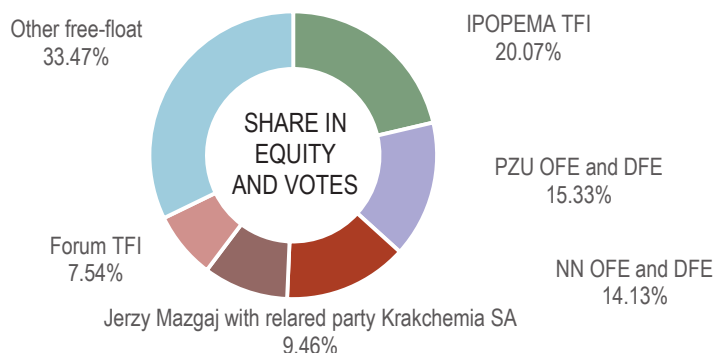
Retail sales both in the fashion sector and in the jewellery industry are characterized by significant seasonality of sales. For the apparel market, the most favourable period from the point of view of the generated financial result is the period of the second and fourth quarter, while in the jewellery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

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

3. SHARE CAPITAL AND SHAREHOLDERS

Shareholders owning directly or indirectly at least 5% of the total number of votes at the General Shareholder Meeting of VRG S.A. on the last day of financial year 2020 and as at the date of approval of the annual report for the financial year 2020.

1) Shareholder structure as at 31.12.2020



As at 31.12.2020, 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 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. ¹ | 47,047,277 | 20.07 | 47,047,277 | 20.07 |
| 2 | PZU „Złota Jesień” Open Pension Fund and Voluntary Pension Fund ² | 35,950,000 | 15.33 | 35,950,000 | 15.33 |
| 3 | Nationale-Nederlanden Open Pension Fund and Voluntary Pension Fund ³ | 33,119,487 | 14.13 | 33,119,487 | 14.13 |
| 4 | Jerzy Mazgaj with related party Krakchemia S.A. ⁴ | 22,170,000 | 9.46 | 22,170,000 | 9.46 |
| 5 | Forum TFI S.A. ⁵ | 17,680,800 | 7.54 | 17,680,800 | 7.54 |

¹ information provided in accordance with the notification received by the Company pursuant to Art. 69 sec. 1 point 1 and art. 87 sec. 1 point 2 of the Act of July 29, 2005 on public offering and the conditions for introducing financial instruments to an organized trading system and on public companies, applies to the Company's shares held jointly by all funds managed by IPOPEMA TFI S.A. According to the information in the possession of the Company, the Ipopema 2 FIZ Non-Public Assets fund managed by IPOPEMA TFI S.A. at the Ordinary General Shareholder Meeting on June 29, 2020, held 20,414,000 shares of the Company, which constituted 8.71% of the share capital of the Company and gave 20,414,000 votes, representing 8.71% of the total number of votes at the General Shareholder Meeting of the Company. According to the information in the possession of the Company, the Ipopema 21 Non-Public Assets Fund, managed by IPOPEMA TFI SA, held 26,633,277 shares of the Company, which constituted 11.36% of the share capital of the Company and gave 26,633,277 votes, constituting 11.36% of the total number of votes at the General Shareholder Meeting of the Company.

² information provided on the basis of the number of shares registered jointly by the Open Pension Fund PZU "Złota Jesień" and Voluntary Pension Fund at the Ordinary General Shareholder Meeting of the Company on June 29, 2020. At the Ordinary General Shareholder Meeting of the Company on June 29, 2020, Open Pension Fund PZU "Złota Jesień" independently held 35,100,000 shares of the Company, which constituted 14.97% of the share capital of the Company and entitled to 35,100,000 votes at the General Shareholder Meeting of the Company, which constituted 14.97% of the total number of votes at the General Shareholder Meeting of the Company.

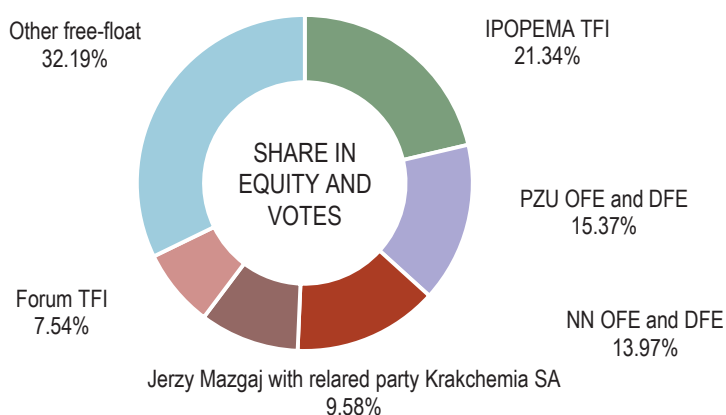
³ information provided on the basis of the number of shares registered jointly by Nationale-Nederlanden Open Pension Fund and Nationale-Nederlanden Voluntary Pension Fund at the Ordinary General Shareholder Meeting of the Company on June 29, 2020. At the Ordinary General Shareholder Meeting of the Company on June 29, 2020, Nationale-Nederlanden Open Pension Fund held independently 32,750,487 shares of the Company, which constituted 13.97% of the share capital of the Company and entitled to 32,750,487 votes at the General Shareholder Meeting of the Company, which represented 13.97% of the total number of votes at the General Shareholder Meeting of the Company.

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 offering and the conditions for introducing financial instruments to an organized trading system and on public

companies, and in accordance with the notifications received by the Company pursuant to Art. 19 MAR. According to the information possessed by the Company, Mr. Jerzy Mazgaj independently owned 21,170,000 shares of the Company, which constituted 9.03% of the share capital of the Company and was entitled to 21,170,000 votes at the General Shareholder Meeting of the Company, which constituted 9.03% of the total number of votes at the General Shareholder Meeting of the Company.

⁵ information on the number of shares provided in accordance with the notification received by the Company pursuant to Art. 69 sec. 1 point 2 in connection with art. 87 sec. 1 point 2 lit. a) the Act of July 29, 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies, and pursuant to 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 Shareholder Meeting of the Company, constituting 3.60% of the total number of votes in the Company, and (ii) Forum XXIII Closed-End Investment Fund holding 9,251,040 shares of the Company constituting 3.95% of the share capital of the Company and entitling to 9,251,040 votes at the General Shareholder Meeting of the Company, representing 3.95% of the total number of votes in the Company.

2) Shareholder structure according to the Company's best knowledge at the date of signing the annual report for 2020



As at 16.04.2021, 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 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 S.A. ¹ | 50,034,306 | 21.34 | 50,034,306 | 21.34 |
| 2 | Open Pension Fund PZU „Złota Jesień” and Voluntary Pension Fund PZU „Złota Jesień” ² | 36,042,345 | 15.37 | 36,042,345 | 15.37 |
| 3 | Nationale-Nederlanden Open Pension Fund and Nationale-Nederlanden Voluntary Pension Fund ³ | 32,750,000 | 13.97 | 32,750,000 | 13.97 |
| 4 | Jerzy Mazgaj with related party Krakchemia S.A. ⁴ | 22,465,760 | 9.58 | 22,465,760 | 9.58 |
| 5 | Forum TFI S.A. ⁵ | 17,680,800 | 7.54 | 17,680,800 | 7.54 |

¹ information based on the number of shares registered jointly by the Ipopema 2 FIZ Non-public Assets Fund and Ipopema 21 FIZ Non-Public Assets managed by IPOPEMA TFI S.A. Ipopema 2 FIZ Non-public Assets Fund at the Extraordinary General Meeting of March 17, 2021 held 20,289,000 shares of the Company, which constituted 8.65% of the share capital of the Company and entitling to 20,289,000 votes representing 8.65% of the total number of votes at the General Shareholder Meeting of the Company. Ipopema 21 FIZ Non-public Assets Fund held at the Extraordinary General Shareholder Meeting on March 17, 2021, 29,745,306 shares of the Company, which constituted 12.69% of the share capital of the Company and entitling to 29,745,306 votes, representing 12.69% of the total number of votes at the General Shareholder Meeting of the Company.

2 information on the number of shares provided in accordance with the notification received by the Company on behalf of the Open Pension Fund PZU "Złota Jesień" pursuant to Art. 69 sec. 1 point 1 of the Act of July 29, 2005 on public offering and conditions for introducing financial instruments to an organized trading system and on public companies and on the basis of the number of shares registered by Dobro-free PZU Pension Fund at the Extraordinary General Shareholder Meeting of the Company on March 17, 2021 year. According to the notification received by the Company, the Open Pension Fund PZU "Złota Jesień" independently holds 35,175,632 shares of the Company, which constitutes 15.003% of the share capital of the Company and entitles to votes, 35,175,632 representing 15.003% of the total number of votes at the General Shareholder Meeting of the Company.

3 information provided on the basis of the number of shares registered by Nationale-Nederlanden Open Pension Fund at the Extraordinary General Shareholder Meeting of the Company on March 17, 2021. At the Extraordinary General Shareholder Meeting of the Company on March 17, 2021, Nationale-Nederlanden Open Pension Fund held 32,750,000 shares of the Company, which constituted 13.97% of the share capital of the Company and entitled to 32,750,000 votes, constituting 13.97% of the total number of votes at the General Shareholder Meeting of the Company.

4 information provided on the basis of the number of shares registered jointly by Mr. Jerzy Mazgaj with a related entity, Krakchemia S.A. at the Extraordinary General Shareholder Meeting of the Company on March 17, 2021. At the Extraordinary General Shareholder Meeting of the Company on March 17, 2021, Mr. Jerzy Mazgaj independently owned 21,465,760 shares of the Company, which constituted 9.16% of the share capital of the Company and entitled to 21,465,760 votes at the General Shareholder Meeting of the Company, which is 9.16% in general number of votes at the General Shareholder Meeting of the Company.

5 information on the number of shares provided in accordance with the notification received by the Company pursuant to Art. 69 sec. 1 point 2 in connection with art. 87 sec. 1 point 2 lit. a) the Act of July 29, 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies, and pursuant to 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 Shareholder Meeting of the Company, constituting 3.60% of the total number of votes in the Company, and (ii) Forum XXIII Closed-End Investment Fund holding 9,251,040 shares of the Company constituting 3.95% of the share capital of the Company and entitling to 9,251,040 votes at the General Shareholder Meeting of the Company, representing 3.95% 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 16.04.2020, 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) |
|--|-----------------------|--|--------------------------------------|
| Andrzej Jaworski – President of the Management Board | 14,351 | 14,351 | 2,870.20 |
| Radosław Jakociuk – Executive Vice-President of the Management Board | 11 | 11 | 2.20 |
| Michał Zimnicki – Executive Vice-President of the Management Board | 4,000 | 4,000 | 800.0 |

According to the information possessed by the Company as at 16.04.2021, managers do not hold shares in related parties.

As at 16.04.2021, 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 | 21,465,760 | 21,465,760 | 4,293,152 |
| Jan Pilch – Member of the Supervisory Board | 745,000 | 745,000 | 149,000 |
| Wacław Szary – Member of the Supervisory Board | 35,000 | 35,000 | 7,000 |

As at 16.04.2021, 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.

The Company has an incentive program based on subscription warrants entitling to subscribe for the Company's shares, detailed information on the program and its terms and conditions is provided in Note 30 to the consolidated financial statements.

4. REMUNERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD FOR 2020

Management Board

| | | PLN ths |
|-------------------|--|--------------|
| Andrzej Jaworski | President of the Management Board /from July 13, 2020/ | 434 |
| Radosław Jakociuk | Executive Vice-President of the Management Board /from July 13, 2020/ | 449 |
| Michał Zimnicki | Executive Vice-President of the Management Board / from September 1, 2020/ | 173 |
| Ernest Podgórski | Member of the Supervisory Board delegated to temporarily perform duties of the Executive Vice-President of the Management Board responsible for Finance /from July 13, until September 13, 2020/ | 85 |
| Grzegorz Pilch | President of the Management Board / until June 29, 2020/ | 1,470 |
| Michał Wójcik | Executive Vice-President of the Management Board /until June 29, 2020/ President of the Management Board / from June 30, until July 13, 2020/ | 1,620 |
| Mateusz Żmijewski | Executive Vice-President of the Management Board /until July 13, 2020/ | 1,277 |
| Erwin Bakalarz | Management Board Member | 251 |
| Total | | 5,759 |

Supervisory Board

| | | PLN ths |
|-------------------------------|-----------------------------------|--------------|
| Jerzy Mazgaj | Chairman of the Supervisory Board | 294 |
| Artur Małek | Member of the Supervisory Board | 24 |
| Grzegorz Janas | Member of the Supervisory Board | 68 |
| Grażyna Sudzińska-Amroziewicz | Member of the Supervisory Board | 27 |
| Andrzej Szumański | Member of the Supervisory Board | 156 |
| Piotr Nowjalis | Member of the Supervisory Board | 60 |
| Jan Pilch | Member of the Supervisory Board | 120 |
| Piotr Kaczmarek | Member of the Supervisory Board | 160 |
| Paweł Tymczyszyn | Member of the Supervisory Board | 81 |
| Piotr Stępnik | Member of the Supervisory Board | 166 |
| Ernest Podgórski | Member of the Supervisory Board | 44 |
| Wacław Szary | Member of the Supervisory Board | 96 |
| Total | | 1,296 |

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

Total remuneration for 2020 amounted to:

| | | PLN ths |
|-------------------|---|------------|
| Jerzy Mazgaj | Chairman of the Supervisory Board | 162 |
| Grzegorz Pilch | Member of the Supervisory Board | 46 |
| Jan Pilch | Member of the Supervisory Board | 88 |
| Mateusz Żmijewski | Member of the Supervisory Board and Executive Vice-President | 47 |
| Michał Wójcik | Member of the Supervisory Board | 22 |
| Piotr Nowjalis | Member of the Supervisory Board | 11 |
| Paweł Tymczyszyn | Member of the Supervisory Board | 22 |
| Piotr Stępnik | Member of the Supervisory Board | 34 |
| Ernest Podgórski | Member of the Supervisory Board delegated to temporarily perform duties of the Executive Vice-President of the Management Board responsible for Finance | 60 |
| Andrzej Jaworski | Member of the Supervisory Board | 45 |
| Radosław Jakociuk | President of the Management Board | 160 |
| Erwin Bakalarz | President of the Management Board | 6 |
| Total | | 703 |

The Company operates an incentive program based on options based on subscription warrants entitling to take up the Company's shares, detailed information on the program and its terms is provided in Note 30 to the consolidated financial statements. Managing persons are entitled to benefits specified in employment or appointment contracts.

5. SIGNIFICANT EVENTS IN 2020 AND AFTER THE BALANCE SHEET DATE

24.01.2020

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

In the current report No. 4/2020, the Management Board of the Company, taking into account receiving of a letter on January 24, 2020 with attachments from Nationale-Nederlanden PTE S.A. acting on behalf of Nationale-Nederlanden of the Open Pension Fund with a request to convene an Extraordinary General Meeting of VRG S.A. with its registered office in Cracow at the earliest possible date - published an announcement on the convening of the Extraordinary General Meeting of the Company on February 20, 2020 at 12.00 at the Company's seat in Cracow at Pilotów 10 Street, (31-462 Cracow) with the agenda including the item regarding changes in the Supervisory Board of the Company and draft resolutions of the Extraordinary General Meeting with justification presented by Nationale-Nederlanden PTE S.A. acting on behalf of the Nationale-Nederlanden Open Pension Fund.

20.02.2020

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

In the current report no. 12/2020, the Group published the content of the resolutions adopted by the Extraordinary General Shareholder Meeting of the Company on February 20, 2020 ("General Meeting") along with information on the objections raised. At the same time, the Group announced that the General Meeting made the following changes to the composition of the Supervisory Board of the Company in the current joint term of office:

- pursuant to Resolution No. 03/02/2020 of the General Meeting on changes in the composition of the Supervisory Board of the Company, Mr. Artur Malek was dismissed from the Supervisory Board of the Company.
- pursuant to Resolution No. 04/02/2020 of the General Meeting on changes in the composition of the Supervisory Board of the Company, Mr. Jan Pilch was dismissed from the Supervisory Board of the Company.
- pursuant to Resolution No. 05/02/2020 of the General Meeting on changes in the composition of the Supervisory Board of the Company, Mr. Piotr Nowjalis was appointed to the Supervisory Board of the Company.

d) pursuant to Resolution No. 06/02/2020 of the General Meeting on changes in the composition of the Supervisory Board of the Company, Mr. Piotr Stępnik was appointed to the Supervisory Board of the Company.

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

16.03.2020

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

In 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.

According to the knowledge available as at the date of publication of the report, the Issuer anticipates that the effects associated with the coronavirus epidemic will have a significant negative impact on the future financial results of the Issuer. In particular, the Issuer pointed out 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 pose a very high risk of adversely affecting the Company's financial result and of the Issuer'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 Issuer's opinion, closing down of shopping centers 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 Issuer's Capital Group focuses its activities on intensifying sales in online stores of the above-mentioned brands. Revenues from sales in the e-commerce channel in the first quarter of 2019 amounted to 15.5%, while the Issuer estimated in this report that in the period of the first quarter of 2020 they will amount to approximately 24% of total revenues from sales of the Issuer's Capital Group.

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 online stores was rated by the Issuer as low. In the Issuer's opinion, the inventory of the Issuer's Capital Group in the apparel segment (Vistula, Bytom, Wólczanka and Deni Cler brands) and in the jewellery segment (W.KRUK brand) allows for ensuring full availability of the product offer in on-line stores and in traditional stores (after lifting restrictions on shopping malls) in perspective until the end of the current half-year. As at the date of publication of this report, the Issuer 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 regularly analyzes the situation of the companies of its Capital Group 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 e-commerce in the first quarter of 2019 amounted to 15.5%, while the Issuer in the report No. 15/2020 estimated that in the period of the first quarter of 2020 they will amount to about 24% of total sales revenues of the Capital Group,
- b) optimization of the volume of orders for the second half of this year and in terms of minimizing the costs of conducted operations,
- c) interventions regarding payment of rents for shopping premises - renegotiation of rents for commercial space,
- 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 funds,
- 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. At present, it is not possible to accurately estimate the impact of the Company and Capital Group sales restriction due to the temporary closing down of traditional stores located in shopping malls in the long-term. The impact of coronavirus spread 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 regularly analyze the situation of the Company and its Capital Group in relation to the spread of coronavirus and 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 Management Board of the Company 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 publicly disclosed in current reports in the manner provided for by applicable regulations regarding the implementation of information obligations of public companies. Additional explanatory information on the risks related to the effects of the coronavirus outbreak is provided in section 11 Significant risk 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.

30.03.2020

Closing of planned acquisition projects on foreign markets

In current report No. 18/2020 of March 30, 2020 in connection with the current report of August 27, 2018, No. 43/2018, in which the Company provided information on the signing by the subsidiary of the Company, i.e. W.KRUK SA on 27 August 2018 of a letter of intent with potential sellers of shares in Klenoty Aurum s.r.o. companies based in the Czech Republic and Montre s.r.o. with its registered office in Slovakia regarding acquisition projects on foreign markets, the Company announced the adoption of a resolution by the subsidiary's Supervisory Board on March 30, 2020 on termination of these projects without their implementation.

26.05.2020

Appointment of the Management Board of the Company for a new joint term of office

In the current report No. 22/2020 of May 26, 2020, the Company informed that the Supervisory Board of the Company, at the meeting held on May 25, 2020, elected the Management Board of the Company for a new joint term of office commencing on the day following the date of the Ordinary General Meeting approving financial statements of the Company for the financial year 2019. In accordance with the resolutions of the Supervisory Board, the following were appointed to the Management Board of the Company for the new, joint term of office: Mr. Michał Wójcik as the President of the Management Board; Mr. Michał Zimnicki for the position of Vice President of the Management Board from September 1, 2020; Mr. Erwin Bakalarz for the position of a Member of the Management Board. Information on professional CVs, education and qualifications of persons appointed to the Management Board of the Company for the new joint term of office were provided by the Company in the current report No. 22/2020.

02.06.2020

Appointment of a managing person

In the current report No. 25/2020 of June 2, 2020, the Company informed that the Supervisory Board of the Company, at the meeting held on June 2, 2020, adopted a resolution on the appointment of Mr. Mateusz Żmijewski to the Management Board of the Company for a new joint term of office until August 31, 2020 r. and entrusting him with the function of the Vice President of the Management Board during this period. The resolution of the Company's Supervisory Board referred to above was to enter into force on the day following the date of the Ordinary General Meeting approving the Company's financial statements for the financial year 2019. Information on the professional curriculum vitae, education and qualifications of Mr. Mateusz Żmijewski was provided by the Company in the current report No. 25/2020.

08.06.2020

A request to include certain matters on the agenda of the Ordinary General Meeting of the Company convened for June 29, 2020 and supplement the agenda of the Ordinary General Meeting of the Company convened for June 29, 2020.

In the current report No. 29/2020 of June 8, 2020, the Company informed that on June 8, 2020 it received a request submitted by the Company's shareholders:

- a) Forum XXIII Closed-End Investment Fund with its seat in Cracow, holding 7,251,040 shares of the Company;
- b) Mr. Jan Pilch holding 745,000 shares of the Company;
- c) Ipopema 2 Closed-end Private Assets Fund with its registered office in Warsaw, holding 20,414,000 shares of the Company, for placing on the agenda of the Ordinary General Meeting of VRG S.A. based in Cracow, which was convened on June 29, 2020 at 12.00 ("General Meeting") of the following matters:

after point 11 of the announced agenda, the following points are added:

- 12) adoption of a resolution to amend paragraph 17, section 1 of the Company's Articles of Association;
- 13) adopting a resolution to amend paragraph 20, section 3 of the Company's Articles of Association;
- 14) adoption of a resolution authorizing the Company's Supervisory Board to establish the consolidated text of the Company's Articles of Association in connection with the amendments to the Company's Articles of Association adopted on June 29, 2020;
- 15) adopting resolutions on changes in the composition of the Company's Supervisory Board;

The shareholders' request contained draft resolutions regarding the matters covered by the proposed agenda items, which, together with the justification contained in the shareholders' request, were included in the current report No. 29/2020.

17.06.2020

Conclusion of an agreement between the Company's shareholders

In the current report No. 30/2020 of June 17, 2020, the Company informed that on June 16, 2020 in the evening it received a notification from the shareholders of the Company: FORUM XXIII FIZ, Mr. Jan Pilch and IPOPEMA 2 FIZ Assets Niepublicznych, prepared on the basis of art. 69 sec. 1 in connection with with art. 87 sec. 1 point 5 of the Act on public offering and the conditions for introducing financial instruments to an organized trading system and on public companies, on concluding an oral agreement as to: (i) submitting on June 8, 2020 a joint request to supplement the agenda of the Ordinary General Meeting of the Company convened on June 29, 2020 (hereinafter: "GSM") and (ii) the intention to unanimously vote on items included in the agenda of this AGM. The full text of the notification referred to above is attached to the current report No. 30/2020.

29.06.2020

Resignations of supervising persons

In the current report No. 31/2020 of June 29, 2020, the Company informed that on June 29, 2020 it received a declaration by Mr. Grzegorz Janas on the submission of June 29, 2020 for personal reasons resigning from the function of a member of the Supervisory Board of VRG S.A.

In the current report No. 32/2020 of June 29, 2020, the Company informed that on June 29, 2020 it received a declaration from Mr. Paweł Tymczyszyn about resignation from sitting on the Supervisory Board of VRG S.A. on June 29, 2020.

29.06.2020

Changes in the composition of the Supervisory Board of VRG S.A. made on the basis of resolutions of the Ordinary General Meeting of VRG S.A. on June 29, 2020

In the current report No. 33/2020 of June 29, 2020, the Company informed about the content of the resolutions adopted by the Ordinary General Meeting on June 29, 2020, including the resolutions regarding the following changes in the composition of the Company's Supervisory Board:

- a) dismissal of Mr. Piotr Nowjalis from the Supervisory Board of the Company;
- b) appointing Mr. Ernest Podgórski, Mr. Waclaw Szary and Mr. Jan Pilch to the Supervisory Board of the Company.

Information on professional CVs, education and qualifications of persons appointed to the Supervisory Board of the Company by the Ordinary General Meeting on June 29, 2020, was provided by the Company in the appendix to the current report No. 33/2020.

02.07.2020

Change in the loan agreement

In current report No 36/2020 dated July 2, 2020 the Company informed that on July 2, 2020 documents were signed to amend the multi-purpose limit credit agreement of March 9, 2015, as from changes concluded between the Bank and the Company (hereinafter: "Multi-Purpose Loan Agreement"), about which the Company informed in current reports No. 8/2015, 57/2016 and 37/2017. The amendments to the Multi-Purpose Loan Agreement include an extension for a period of 24 months, i.e. until July 1, 2022, total credit limits to the amount of PLN 92,000 thousand consisting of:

- 1) Overdraft limit up to the sum of PLN 37,000 thousand under a separate contract;
- 2) Multi-purpose Credit Limit up to the amount of PLN 55,000 thousand, which includes the limit for bank guarantees up to the sum of PLN 25,000 thousand and the limit for letters of credit up to the sum of PLN 30,000 thousand.

As part of additional security to the above-mentioned contracts, in relation to existing ones, the following were introduced:

- increasing the value of the floating charge on inventory to the sum of PLN 160,000 thousand,
- Bank Gospodarstwa Krajowego liquidity guarantee for an overdraft,
- an obligation to provide security in the form of a civil law surety for a subsidiary of the Company, i.e. W.KRUK S.A. for multi-purpose bank loan.

07.07.2020

Change in the loan agreement concluded by the subsidiary of the Issuer with the bank Powszechna Kasa Oszczędności Bank Polski S.A.

In current report No 38/2020 dated July 7, 2020 the Company informed that on July 7, 2020 documents were signed to amend the multi-purpose limit credit agreement of March 9, 2015 changes concluded between Powszechna Kasa Oszczędności Bank Polski S.A. with its registered office in Warsaw and a subsidiary of the Issuer, i.e. the company W.KRUK S.A. with its registered office in Cracow (hereinafter: the "Multi-Purpose Loan Agreement"), about which the Issuer informed in current reports No. 8/2015, 65/2015 and 38/2017. Amendments to the Multi-Purpose Loan Agreement include an extension for a period of 24 months, i.e. until July 6, 2022, and an increase in the total credit limits to PLN 85,000,000 consisting of:

- 1) Overdraft limit up to the sum of PLN 52,000 under a separate contract;
- 2) Multi-Purpose Credit Limit up to the amount of PLN 33,000,000 which includes the limit for bank guarantees up to the sum of 25,000 thousand. PLN and the limit for letters of credit up to the sum of PLN 8,000.

As part of additional security to the above-mentioned contracts, in relation to existing ones, the following were introduced:

- Bank Gospodarstwa Krajowego liquidity guarantee for an overdraft,
- an obligation to provide security in the form of a civil law guarantee of the Issuer in relation to W.KRUK S.A. for multi-purpose credit.

13.07.2020

Changes in the composition of the Company's Management Board

In its current report No 40/2020 dated July 13, 2020 the Company informed that the Supervisory Board of the Company at a meeting on July 13, 2020 made the following changes in the composition of the Company's Management Board:

- 1) dismissed Michał Wójcik from the composition of the Company's Management Board and the function of the President of the Management Board;
- 2) dismissed Mr. Mateusz Żmijewski from the composition of the Management Board and the function of the Executive Vice President of the Management Board;
- 3) appointed Mr. Andrzej Jaworski to the Management Board of the Company for the current joint term of office and entrusted him with the function of the President of the Management Board;
- 4) pursuant to art. 383 parish 1 CCC delegated Mr. Ernest Podgórski, Member of the Company's Supervisory Board to temporarily perform the duties of the Executive Vice President of the Management Board for financial matters; the posting took place for up to three months;
- 5) appointed Mr. Radosław Jakociuk to the Management Board of the Company for the current joint term of office and entrusted him with the function of the Executive Vice President of the Management Board.
Information on professional CVs, education and qualifications of persons appointed to the Management Board of the Company on July 13, 2020 was provided by the Company in the current report No. 40/2020.

04.08.2020

Preliminary selected consolidated financial data of the VRG S.A. Capital Group for the second quarter and the first half of 2020

In current report No 48/2020 dated August 4, 2020 the Company published selected preliminary consolidated financial data of the Issuer's Capital Group for the second quarter and the first half of 2020. These financial data have been provided according to the current knowledge of the Issuer's Management Board as at August 4, 2020 and may change after the completion of the process of closing the books of accounts and the preparation of the periodic report, which will be published in accordance with the current report No. 2/2020 on August 26, 2020. The Issuer's Management Board considered the provision of the above-mentioned data to be significant due to the existing market uncertainty as to the impact of the COVID-19 pandemic on the functioning of the Issuer's Capital Group. Preliminary selected consolidated financial

data of the Company's Capital Group for the second quarter and the first half of 2020 were announced in the attachment to the current report No. 48/2020.

17.08.2020

Change of the period of delegation of a Supervisory Board member to temporarily perform duties in the Management Board

In its current report No 49/2020 dated August 17, 2020 the Company, with reference to the current report no. 40/2020 of July 13, 2020, in which the Company informed about the delegation of Ernest Podgórski, Phd, Member of the Supervisory Board of the Company, pursuant to Art. 383 par. 1 of the Commercial Companies Code, to temporarily perform the duties of the Vice-President of the Management Board for financial matters for up to three months, that the Supervisory Board of the Company on August 17, 2020 adopted a resolution to change the period of delegation to September 14, 2020.

08.09.2020

Notification regarding a significant block of shares

In the current report No 56/2020 dated September 8, 2020 the company informed that it received from IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A. with its seat in Warsaw ("the Mutual Fund"), information of September 8, 2020, sent pursuant to Art. 69 sec. 2 point 1 lit. a and art. 87 sec. 1 point 2 of the Act of 29 July 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 acquisition by the fund IPOPEMA 21 FIZ Non-Public Assets managed by the Society (" Fund "), shares of the Company, in a transaction carried out on the regulated market on September 2, 2020, settled on On September 4, 2020, the share of funds managed by the Mutual Fund in the total number of votes in the Company increased by over 2% in the total number of votes in the Company.

Before the above-mentioned event, all funds managed by the Mutual Fund held a total of 40,202,719 shares of the Company, which constituted 17.15% of the share capital of the Company and gave 40,202,719 votes, which constituted 17.15% of the total number of votes at the General Meeting of the Company.

After the aforementioned event, all funds managed by the Mutual Fund hold a total of 42,827,719 shares of the Company, which constitutes 18.27% of the share capital of the Company and gives 42,827,719 votes and constitutes 18.27% of the total number of votes at the general meeting of the Company.

At the same time, the Mutual Fund informed that the funds managed by the Society did not have the financial instruments referred to in Art. 69 b paragraph. 1 of the Act.

11.09.2020

Resignation of a Supervisory Board member from temporarily performing the duties of a Management Board member on the basis of delegation

In its current report No 58/2020 dated September 11, 2020, the Company informed that on September 11, 2020, it received a statement from Ernest Podgórski, Phd, Member of the Supervisory Board of the Company, about his resignation with effect on September 13, 2020 from the delegation to temporarily perform the duties of the Vice President of the Management Board to financial matters. On delegating Ernest Podgórski Phd to temporarily perform duties in the Management Board pursuant to art. 383 § 1. of the Commercial Companies Code, the Company informed in current reports no. 40/2020 and 49/2020. In connection with the resignation, Mr Ernest Podgórski, PhD returns to the performance of his duties as a member of the Supervisory Board of the Company.

16.09.2020

Announcement of the Board of VRG S.A. with its registered office in Cracow on convening an Extraordinary General Meeting; draft resolutions for the Extraordinary General Meeting.

In its current report No 59/2020 dated September 16, 2020, the Management Board of VRG, taking into account the motion of shareholder Jerzy Mazgaj for convening of the Extraordinary General Meeting of VRG SA with its seat in Cracow - announces the convening of the Extraordinary General Meeting for On October 13, 2020, at 12.00 p.m. at the Company's seat in Cracow, ul. Pilotów 10, (31-462 Cracow). The shareholder's letter referred to above constitutes Appendix 1 to current report No 59/2020.

The full text of the announcement on convening the Extraordinary General Meeting is attached as Appendix 2 to this report. At the same time, the Management Board of the Company announced draft resolutions for the Extraordinary General Meeting of the Company convened for October 13, 2020, including draft resolution No. 03/10/2020 to entitle the Management Board to buy-back the Company's

own shares and create reserve capitals and draft resolution No. 04/10/2020 on the adoption of an incentive program based on the Company's shares. Draft resolutions were attached as Appendix 3 to Current Report No. 59/2020.

23.09.2020

Request for supplementing the agenda of the Extraordinary General Meeting of the Company convened for 13 October, 2020

In the current report No. 61/2020 of September 23, 2020, the Management Board of the Company announced that on September 22, 2020, it received a request from a shareholder of IPOPEMA 21 Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych with its registered office in Warsaw ("Fund") to include an Extraordinary The General Meeting of the Company convened on October 13, 2020 ("General Meeting") with the following issue: "Changes in the composition of the Company's Supervisory Board". The shareholder's request contained draft resolutions regarding the matters covered by the proposed item on the agenda of the General Meeting, which were included in the current report no. 61/2020. In the justification for the above-mentioned motion, it was stated that the planned changes were aimed at ensuring a wide representation of the Company's shareholders in the composition of the Supervisory Board.

06.10.2020

Notification regarding a significant block of shares

In its current report No 64/2020 dated October 6, 2020 VRG S.A. informed that it received from IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A. with its seat in Warsaw ("the Mutual Fund"), information of October 5, 2020 pursuant to Art. 69 sec. 1 point 1 of the Act of 29 July 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 acquisition by the fund IPOPEMA 21 Closed-end Fund of Non-public Assets managed by the Fund ("Fund"), shares of the Company, in a transaction carried out on the regulated market on September 29, 2020, settled on October 1, 2020, the Fund's share 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 above-mentioned event, the Fund owned 23,437,423 shares of the Company, which constituted 9.997% of the share capital of the Company and gave 23,437,423 votes, which constituted 9.997% of the total number of votes at the General Meeting of the Company. After the above-mentioned event, the Fund holds 23,837,423 shares of the Company, which constitutes 10.167% of the share capital of the Company and gives 23,837,423 votes and constitutes 10.167% of the total number of votes at the General Meeting of the Company. At the same time, the Fund informed that the funds managed by the Mutual Fund did not have the financial instruments referred to in Art. 69b paragraph. 1 of the Act.

09.10.2020

Cancellation of the Extraordinary General Meeting of the Company convened for October 13, 2020

In current report No 65/2020 dated October 9, 2020 the Company's Management Board informed in connection with the announcement made on September 16, 2020 on the convening of the Extraordinary General Meeting of the Company for October 13, 2020 at 12:00 in the building in Cracow at Pilotów 10 Street (the "General Meeting"), announces the cancellation of the General Meeting.

The basis for the cancellation of the General Meeting is the resolution of the Management Board of the Company of October 9, 2020, which was adopted after the Management Board became familiar with the current information on the spread of the coronavirus and in connection with the introduction of the yellow zone in Poland and related with this restrictions.

Due to the current conditions related to the spread of the coronavirus, the Management Board believes that it is not possible to legally and safely conduct the General Meeting.

28.10.2020

Shareholder's request to convene an Extraordinary General Meeting of VRG S.A.

In the current report No. 69/2020 of October 28, 2020, the Management Board of the Company announced that on October 28, 2020 it received a request from the shareholder of IPOPEMA 21 Closed-end Investment Fund of Non-public Assets with its registered office in Warsaw ("Fund") submitted pursuant to Art. 400 par. 1 of the Code of Commercial Companies, to convene an Extraordinary General Meeting of the Company with the possibility of participating in such an Extraordinary General Meeting remotely using electronic means of communication and placing the following matters on the agenda of such Extraordinary General Meeting of the Company:

1. Discussion of the current financial situation of the Company and its subsidiaries, as well as the expected impact the Covid-19 epidemic on financial results and earlier financial forecasts;
2. Discussion of matters related to the performance by VRG S.A. ownership supervision over the activities of subsidiaries belonging to the VRG SA capital group, with particular emphasis on preventing conflicts of interest and concluding contracts by the Company and its subsidiaries with related entities, including the results of any audits carried out in such subsidiaries relating directly or indirectly to such issues;
3. Changes in the composition of the Supervisory Board of the Company.

05.11.2020

Notification regarding a significant block of shares

In the current report No. 71/2020 of November 5, 2020, the Company announced that it had received from IPOPEMA Towa-rzystwo Funduszy Inwestycyjnych S.A. with its registered seat in Warsaw ("Mutual Fund") information of November 4, 2020, art. 69 sec. 1 point 1 and art. 87 sec. 1 point 2 of the Act of 29 July 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 acquisition by the fund IPOPEMA 21 FIZ Non-Public Assets managed by the Mutual Fund ("Fund"), shares of the Company, in the transaction carried out on the regulated market on October 30, 2020, settled on November 3, 2020, the share of funds managed by the Company in the total number of votes in the Company increased above the 20% threshold in the total number of votes in the Company.

Before the above-mentioned event, all funds managed by the Society held a total of 46,418,761 shares of the Company, which constituted 19.80% of the share capital of the Company and gave 46,418,761 votes, which constituted 19.80% of the total number of votes at the general meeting of the Company.

After the above-mentioned event, all funds managed by the Society hold a total of 47,047,277 shares of the Company, which constitutes 20.07% of the share capital of the Company and gives 47,047,277 votes and constitutes 20.07% of the total number of votes at the general meeting of the Company.

There are no persons referred to in Art. 87 sec. 1 point 3) lit. c) of the Act. At the same time, the Society informed that the funds managed by the Society did not have the financial instruments referred to in Art. 69 b paragraph. 1 of the Act.

09.11.2020

Update of information on the impact of the effects of the coronavirus on the sales revenues of the VRG S.A. Capital Group in 2020

In the current report No. 72/2020 of November 9, 2020, the Management Board of the Company informed with reference to the content of the current report No. 15/2020 on the possible impact of the COVID-19 pandemic on the operations of the Company's Capital Group, current report No. updating information on the impact of the effects of the coronavirus on the sales revenues of the VRG S.A. Capital Group in 2020, current report No. 70/2020 on consolidated sales revenues and the estimated sales margin achieved by the VRG S.A. Capital Group in October 2020 and the second prohibition on commercial activities in the scope of the VRG S.A. Capital Group, introduced on the basis of the regulation of the Council of Ministers of November 6, 2020, effective from November 7, 2020 until November 29, 2020. in large commercial facilities where the majority of stores are located, that the Company is updating the baseline scenario, which currently assumes a loss of up to 25% of sales in 2020.

10.11.2020

Announcement of the Management Board of VRG S.A. based in Cracow on convening the Extraordinary General Shareholder Meeting of the Company; draft resolutions of the Extraordinary General Meeting of the Company

In the current report No. 73/2020 of November 10, 2020, the Management Board of VRG S.A. taking into account, inter alia, the shareholder's request submitted on October 28, 2020, about which the Company informed in the current report No. 69/2020, announced the convening of the Extraordinary General Shareholder Meeting of the Company on January 11, 2021 at 12.00 in Cracow in the Hotel Swing building at Dobrego Pasterza 124 Street, 31-416 Cracow, with the agenda including:

1. Opening of the General Meeting.
2. Election of the Chairman of the General Meeting.
3. Confirmation that the General Meeting has been properly convened and is capable of adopting resolutions.
4. Discussion of the current financial situation of the Company and its subsidiaries, as well as the expected impact of the Covid-19 epidemic on financial results and earlier on financial forecasts.
5. Discussion of matters related to the performance by VRG S.A. corporate supervision over the activities of subsidiaries belonging to the VRG S.A. Capital Group, with particular emphasis on preventing conflicts of interest and concluding contracts by the Company and its subsidiaries with related entities, including the results of any audits carried out in such subsidiaries relating to directly or indirectly to such matters.
6. Changes in the composition of the Supervisory Board of the Company.
7. Adoption of a resolution on changing the Remuneration Policy for Members of the Management Board and Supervisory Board of VRG S.A. based in Cracow.
8. Adoption of a resolution on the costs of convening and holding the General Meeting.
9. Closing of the General Meeting.

The full text of the announcement on convening the Extraordinary General Shareholder Meeting of the Company along with draft resolutions were, respectively, appendices no. 1 and no. 2 to the current report no. 73/2020.

30.12.2020

Cancellation of the Extraordinary General Meeting of the Company convened for January 11, 2021

In the current report No. 83/2020 of December 30, 2020, the Management Board of VRG S.A. in connection with the announcement made on November 10, 2020 on the convening of the Extraordinary General Shareholder Meeting of the Company on January 11, 2021 at 12:00 in the Hotel Swing building at Dobrego Pasterza 124 Street, 31-416 Cracow, about which the Company informed in the current report no. 73/2020, announced the cancellation of the Extraordinary General Shareholder Meeting of the Company. The basis for the dismissal of the Extraordinary General Shareholder Meeting was the resolution of the Management Board of December 30, 2020 adopted as a result of the Company receiving a notification from the owner of the Hotel Swing facility about the hotel being closed for the period until January 17, 2021 in connection with the Regulation of the Council of Ministers of December 21, 2020 on the establishment of certain restrictions, orders and bans in connection with the state of the epidemic and a declaration of the inability to provide the service. Therefore, it was not possible to hold the Extraordinary General Shareholder Meeting at the address indicated in the announcement on convening the General Meeting of the Company on January 11, 2021.

Simultaneously with the cancellation of the Extraordinary General Shareholder Meeting of the Company, the Management Board of the Company decided to convene the next Extraordinary Shareholder General Meeting of the Company on March 1, 2021. The Management Board of the Company, taking into account, inter alia, the shareholder's request submitted on October 28, 2020, about which the Company informed in the report current No. 69/2020, announced the convening of an Extraordinary General Shareholder Meeting for March 1, 2021 at 12.00 in Krakow in the conference room in the building MKS Cracovia SSA, Józefa Kaluży 1 Street, 30-111 Cracow, with the agenda including:

1. Opening of the General Shareholder Meeting.
2. Election of the Chairman of the General Shareholder Meeting.
3. Confirmation that the General Shareholder Meeting has been properly convened and is capable of adopting resolutions.
4. Discussion of the current financial situation of the Company and its subsidiaries, as well as the expected impact of the Covid-19 epidemic on the financial results and earlier financial forecasts.
5. Discussion of matters related to the performance by VRG S.A. ownership supervision over the activities of subsidiaries belonging to the VRG SA capital group, with particular emphasis on preventing conflicts of interest and concluding contracts by the Company and its subsidiaries with related entities, including the results of any audits carried out in such subsidiaries relating to directly or indirectly to such matters.
6. Changes in the composition of the Supervisory Board of the Company.
7. Adoption of a resolution on changing the Remuneration Policy for Members of the Management Board and Supervisory Board of VRG S.A. based in Krakow.
8. Adoption of a resolution on the costs of convening and holding the General Shareholder Meeting.
9. Closing of the General Shareholder Meeting.

The full text of the announcement on convening the Extraordinary General Shareholder Meeting of the Company together with draft resolutions were, respectively, Appendix No. 1 and No. 2 to the current report No. 83/2020.

11.01.2021

Changes in the composition of the Management Board and Supervisory Board of the Company

In the current report No. 3/2021 of January 11, 2021, the Management Board of VRG S.A. informed that on January 11, 2021, Mr. Erwin Bakalarz resigned from the position of a Member of the Management Board of the Company, effective January 11, 2021. In the current report No. 4/2021 of January 11, 2021, the Management Board of VRG S.A. informed that on January 11, 2021, Mr. Ernest Podgórski resigned from the position of a Member of the Supervisory Board of the Company. The resignation took effect on January 11, 2021. In the current report No. 4/2021 of January 11, 2021, the Management Board of VRG S.A. informed that the Supervisory Board of the Company, at the meeting held on January 11, 2021, elected two members of the Management Board of the Company for the current joint term of office. Pursuant to the resolutions of the Supervisory Board, the following were appointed to the Management Board of the Company: Dr. Ernest Podgórski, Member of the Management Board responsible for IT and e-commerce, and Dr. Olga Lipińska-Długosz, Member of the Management Board.

19.01.2021

Appointment to the Supervisory Board of VRG S.A. member of the Supervisory Board by co-option

In the current report No. 7/2021 of January 19, 2021, the Management Board of VRG S.A. informed that on January 19, 2021, the Supervisory Board of the Company adopted a resolution to supplement the composition of the Supervisory Board by co-option provided for in paragraph 22 sec. 3 of the Company's Articles of Association. The Supervisory Board appointed Mr. Mateusz Karol Kolański to the Supervisory Board of the current joint term of office.

19.01.2021

Withdrawal of a shareholder's request to convene an Extraordinary General Shareholder Meeting of VRG S.A. and announcement on the cancellation of the Extraordinary General Shareholder Meeting of VRG S.A. convened on March 1, 2021

In the current report No. 8/2021 of January 19, 2021, the Management Board of VRG S.A. informed that on January 19, 2021, it received a letter from the shareholder of IPOPEMA 21 Closed-end Non-Public Asset Fund with its seat in Warsaw ("Fund") about the withdrawal of the request submitted by the Fund on October 28, 2020 to convene an Extraordinary General Shareholder Meeting of the Company, about which the Company informed in the current report No. 69/2020. In connection with the receipt by the Company of the letter of the Fund referred to in point 1 above, the Management Board of the Company announced that pursuant to the resolution of the Management Board adopted on January 19, 2021, the Extraordinary General Shareholder Meeting of the Company convened for March 1, 2021 is canceled.

03.02.2021

Notification on a significant block of shares

In the current report No. 11/2021 of February 3, 2021, the Company announced that it had received from IPOPEMA Towarzystwo Funduszy Inwestycyjne S.A. with its seat in Warsaw ("the Mutual Fund"), the information provided pursuant to Art. 69 sec. 2 point 1 lit. a of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies (the "Act"), that as a result of the acquisition by the IPOPEMA 21 Closed-end Fund of Non-Public Assets managed by the Fund (the "Fund") carried out on the regulated market on January 28, 2021, settled on February 1, 2021, the share of the Fund in the total number of votes in the Company increased by more than 2% in the total number of votes in the Company.

Before the above-mentioned event, the Fund owned 28,492,901 shares of the Company, which constituted 12.15% of the share capital of the Company and gave 28,492,901 votes, which constituted 12.15% of the total number of votes at the General Shareholder Meeting of the Company.

After the above-mentioned event, the Fund owned 28,793,943 shares of the Company, which constituted 12.28% of the share capital of the Company and gave 28,793,943 votes and constituted 12.28% of the total number of votes at the General Shareholder Meeting of the Company.

At the same time, the Mutual Fund informed that the funds managed by the Mutual Fund did not have the financial instruments referred to in Art. 69b paragraph. 1 of the Act.

17.02.2021

Convening of the Extraordinary General Meeting of the Company convened for March 17, 2021

In the current report No. 12/2021 of February 17, 2021, the Management Board of VRG S.A. announced the convening of the Extraordinary General Meeting of the Company on March 17, 2021 at 12.00 in Cracow in the conference room in the building MKS Cracovia SSA, Józefa Kaluży 1 Street, 30-111 Cracow, with the agenda including:

1. Opening of the General Meeting.
2. Election of the Chairman of the General Meeting.
3. Confirmation that the General Meeting has been properly convened and is capable of adopting resolutions.
4. Adoption of a resolution on the approval of the co-option to the Supervisory Board of Mr. Mateusz Kolański in accordance with the resolution of the Supervisory Board of January 19, 2021.
5. Changes in the composition of the Supervisory Board of the Company.
6. Adoption of a resolution on changing the Remuneration Policy for Members of the Management Board and Supervisory Board of VRG S.A. based in Cracow.
7. Closing of the General Meeting.

The full text of the announcement on convening the Extraordinary General Shareholder Meeting of the Company along with draft resolutions were, respectively, appendices no. 1 and no. 2 to the current report no. 12/2021.

25.02.2021

Shareholder's request to include certain matters on the agenda of the Extraordinary General Shareholder Meeting of the Company convened for March 17, 2021, supplementing the agenda of the Extraordinary General Shareholder Meeting of the Company convened for March 17, 2021 and draft resolutions in connection with supplementing the agenda

In the current report No. 13/2021 of February 25, 2021, the Management Board of VRG SA announced that on February 24, 2021, the shareholder IPOPEMA 21 FIZAN, representing not less than 1/20 of the Company's share capital, had received an application on the basis of art. 401 par. 1 of the Code of Commercial Companies to include on the agenda of the Extraordinary General Shareholder Meeting of the

Company convened on March 17, 2021 at 12:00 (hereinafter: the "General Meeting") the following matter: changes to the Company's Articles of Association and extension of the agenda of the General Shareholder Meeting by the following items :

1. Adoption of a resolution on amendments to the Company's Articles of Association with regard to the resolution appointing a member of the Supervisory Board.
2. Adoption of a resolution on amendments to the Company's Articles of Association with regard to the obligation to convene a meeting of the Company's Supervisory Board.
3. Adoption of a resolution on amendments to the Company's Articles of Association as regards the lack of return of the vote by a member of the Company's Supervisory Board in a ordered vote.
4. Adoption of a resolution on changes to the Company's Articles of Association with regard to voting with the use of means of direct remote communication.
5. Adoption of a resolution on amendments to the Company's Articles of Association with regard to the adoption of the Company's Supervisory Board regulations.
6. Adoption of a resolution on amendments to the Company's Articles of Association with regard to extending the catalogue of activities for which the consent of the Company's Supervisory Board is required.
7. Adoption of a resolution on amendments to the Company's Articles of Association with regard to the management of the budget specified by the General Meeting.
8. Adoption of a resolution to amend the Articles of Association in the scope of extending the competences of the General Meeting of Shareholders.
9. Adoption of a resolution authorizing the Supervisory Board to adopt the uniform text of the Company's Articles of Association.

Taking into account the shareholder's request pursuant to Art. 401 par. 2 of the Code of Commercial Companies, the Management Board of the Company decided to extend the agenda of the General Shareholder Meeting to include items included in the shareholder's request.

In connection with the above, the Management Board of the Company announced an extended agenda for the General Meeting.

1. Opening of the General Meeting.
2. Election of the Chairman of the General Meeting.
3. Confirmation that the General Meeting has been properly convened and is capable of adopting resolutions.
4. Adoption of a resolution on the approval of the co-option to the Supervisory Board of Mr. Mateusz Kolański in accordance with the resolution of the Supervisory Board of January 19, 2021.
5. Changes in the composition of the Supervisory Board of the Company.
6. Adoption of a resolution on changing the Remuneration Policy for Members of the Management Board and Supervisory Board of VRG S.A. based in Krakow.
7. Adoption of a resolution on amendments to the Company's Articles of Association with regard to the resolution appointing a member of the Supervisory Board.
8. Adoption of a resolution on amendments to the Company's Articles of Association with regard to the obligation to convene a meeting of the Company's Supervisory Board.
9. Adoption of a resolution on amendments to the Company's Articles of Association with regard to the lack of return of the vote by a member of the Company's Supervisory Board in a ordered vote.
10. Adoption of a resolution on amendments to the Company's Articles of Association with regard to voting using means of direct remote communication.
11. Adoption of a resolution on amendments to the Company's Articles of Association with regard to the adoption of the Company's Supervisory Board regulations.
12. Adoption of a resolution on amending the Articles of Association in the scope of extending the catalog of activities for which the consent of the Supervisory Board of the Company is required.
13. Adoption of a resolution on amendments to the Company's Articles of Association with regard to the management of the budget specified by the General Meeting.
14. Adoption of a resolution to amend the Articles of Association in the scope of extending the competences of the General Meeting of Shareholders.
15. Adoption of a resolution authorizing the Supervisory Board to adopt the uniform text of the Company's Articles of Association
16. Closing of the General Meeting.

The current report no. 13/2021 and appendix no. 1 hereto present amendments to the Articles of Association of the Company along with draft resolutions proposed by the shareholder.

10.03.2021

Submission by a shareholder of draft resolutions for the Extraordinary General Shareholder Meeting of the Company convened for March 17, 2021 pursuant to Art. 401 par. 4 of the Code of Commercial Companies

In the current report No. 15/2021 of March 10, 2021, the Management Board of VRG SA informed that on March 10, 2021, the shareholder Jerzy Mazgaj had received a notification of draft resolutions for the Extraordinary General Shareholder Meeting of the Company convened for March 17, 2021, at 12:00 to points 8, 9, 12 and 14 of the extended agenda on February 25, 2021, about which the Company informed in the current report No. 13/2021 of February 25, 2021. Draft resolutions proposed by the shareholder were presented in Appendix No. 1 to the current report No. 15/2021.

17.03.2021

Resolutions adopted by the Extraordinary General Meeting of the Company on March 17, 2021

In the current report no. 16/2021 of March 17, 2021, the Company informed about the content of the resolutions of the Extraordinary General Shareholder Meeting of the Company on March 17, 2021 regarding amendments to the Company's Articles of Association regarding §20 sec. 3, §20 section 5, §21 section 3, §21 section 4, §22 section 6, §30 section 1. Detailed information on the above-mentioned changes to the Company's Articles of Association is presented in the appendix to the current report no 16/2021.

07.04.2021

Notification on a significant block of shares

In the current report no. 21/2021 of April 7, 2021, the Company informed that on April 7, 2021, it had received from Powszechnie Towarzystwo Emerytalne PZU S.A. with its seat in Warsaw ("Mutual Fund") acting on behalf of the Open Pension Fund PZU "Złota Jesień" (hereinafter: "OFE PZU") notifications pursuant to Art. 69 sec. 1 point 1 of the Act of July 29, 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies, that as a result of a purchase transaction of 30,000 shares of the Company, concluded on the regulated market on the Warsaw Stock Exchange on April 1 2021, as of the settlement date on April 7 this year, OFE PZU achieved and exceeded the share of 15% of the total number of votes in the Company.

Before the above-mentioned event, OFE PZU owned 35,145,632 shares of the Company, which constituted 14.999% of the share capital of the Company and gave 35,145,632 votes, which constituted 14.990% of the total number of votes at the General Meeting of the Company. After the above-mentioned event, OFE PZU z owned 35,175,632 shares of the Company, which constituted 15.003% of the share capital of the Company and gave 35,175,632 votes and constituted 15.003% of the total number of votes at the General Meeting of the Company. At the same time, the Mutual Fund informed that OFE PZU did not have any subsidiaries holding the Company's shares, the situation indicated in Art. 69 sec. 4 point 6 of the above-mentioned of the Act, also does not have the financial instruments referred to in Art. 69b paragraph. 1 point 1) and point 2) of the above-mentioned the law.



6. FINANCIAL RESULTS OF VRG S.A. CAPITAL GROUP IN 2020

At the end of 2020, compared to the same period of 2019, the Group's retail floorspace decreased to 53 thousand m², i.e. 2.4% YoY. The decline in floorspace in the apparel segment was 3.9%, while in the jewellery segment, floorspace increased by some 3.6%.

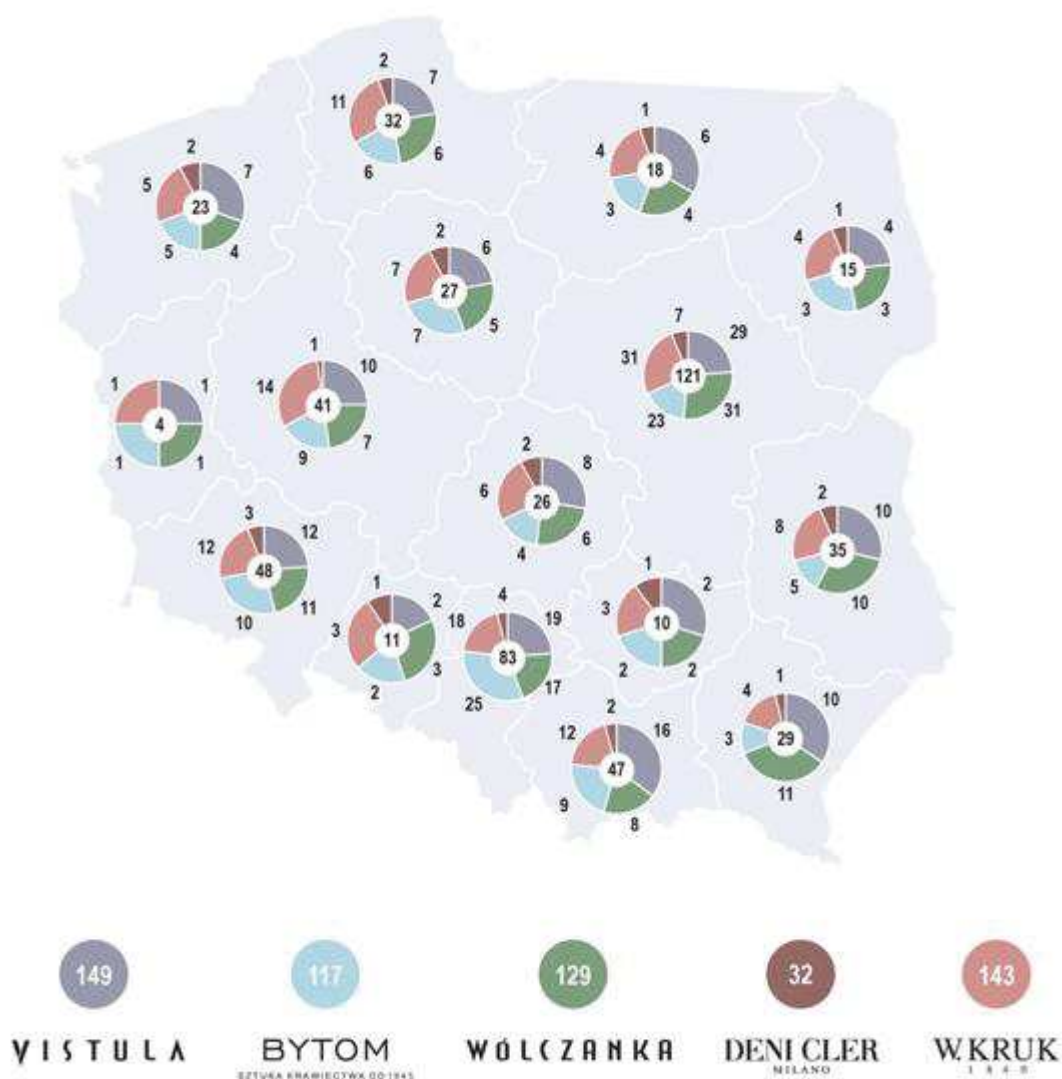
Retail floorspace (end of period):

| | Ths m ² | |
|-------------------------|--------------------|-------------|
| | 31.12.2020 | 31.12.2019 |
| Apparel segment | 42.0 | 43.7 |
| Jewellery segment | 11.0 | 10.6 |
| Total floorspace | 53.0 | 54.4 |

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 570 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

| | PLN ths | | | |
|------------|---|---|--|--|
| | 2020 period from 01-01-2020 to 31-12-2020 | 2019 period from 01-01-2019 to 31-12-2019 | 4Q 2020 period from 01-09-2020 to 31-12-2020 | 4Q 2019 period from 01-09-2019 to 31-12-2019 |
| Revenues | 853,714 | 1,068,266 | 232,004 | 332,462 |
| EBITDA | 98,422 | 198,483 | 22,805 | 76,133 |
| EBIT | -11,923 | 87,492 | -2,893 | 47,555 |
| Net profit | -48,170 | 63,993 | -18,870 | 44,348 |

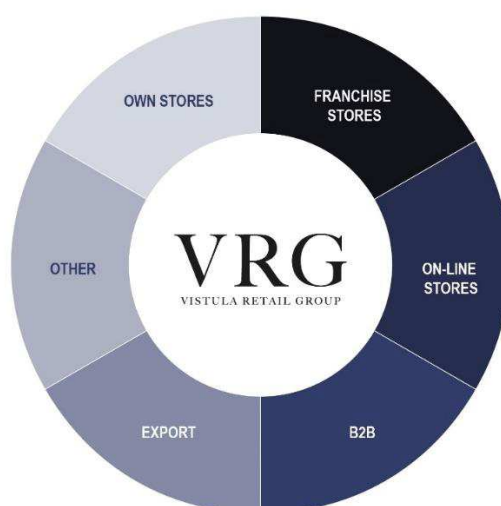
| IAS17* | PLN ths | | | |
|-------------------|---|---|--|--|
| | 2020 period from 01-01-2020 to 31-12-2020 | 2019 period from 01-01-2019 to 31-12-2019 | 4Q 2020 period from 01-09-2020 to 31-12-2020 | 4Q 2019 period from 01-09-2019 to 31-12-2019 |
| Revenues | 853,714 | 1,068,266 | 232,004 | 332,462 |
| EBITDA | 23,444 | 111,126 | 16,393 | 53,374 |
| EBIT | 481 | 87,535 | 10,825 | 47,463 |
| Net profit | -5,314 | 65,928 | 7,689 | 38,004 |

*The table above presents the main financial items of the Group, showing the impact of IAS17 as the previous standard

Significant difference between the operating result under IAS17 and the operating result according to the applicable standards in 2020 results from the fact that rents under IAS17 were not recognized due to the lack of invoices during the lockdown period. On the other hand, according to the applicable standards, the right-of-use assets are depreciated on a straight-line basis over the period of the valid contract.

Revenues

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



The decisive impact on the Group's financial results in 2020 was the regulation issued on March 13, 2020 by the Minister of Health on the announcement of an epidemic threat on the territory of the Republic of Poland, imposing restrictions on the operation of commercial facilities with a sales area of over 2,000 m². Due to this regulation, from March 14, 2020 to May 4, 2020, nearly 100% of the Group's traditional stores were not operating. Due to the unfavorable epidemiological situation, the Council of Ministers, under the regulations issued on November 6 and December 21, again introduced difficulties in conducting commercial activities, resulting in the temporary closing down of the Group's stores in the period November 7-27 and December 28-31, 2020. Despite the introduction of the highest standards of safety by shopping malls, the traffic in shopping malls significantly decreased YoY, which had a direct impact on the sales results obtained by the Group in the traditional store network in 2020.

Sales revenues of the Capital Group in 2020 amounted to PLN 853.7 million and were by PLN 215 million (-20%) lower than the revenues achieved in the corresponding period of the previous year.

Consolidated EBITDA in 2020 amounted to PLN 98.4 million and was approximately 50% lower than in the previous year. The EBITDA calculated excluding the impact of IFRS 16 amounted to PLN 23.4 million.

In the current year, the Capital Group realized a net loss of PLN -48.2 million compared to a profit of PLN 64 million in 2019. The net loss calculated excluding the impact of IFRS 16 amounted to PLN 5.3 million.

APPAREL SEGMENT

| Apparel segment | PLN ths | | | |
|--|---|---|--|--|
| | 2020 period from 01-01-2020 to 31-12-2020 | 2019 period from 01-01-2019 to 31-12-2019 | 4Q 2020 period from 01-09-2020 to 31-12-2020 | 4Q 2019 period from 01-09-2019 to 31-12-2019 |
| Revenues | 501,378 | 692,319 | 117,752 | 206,834 |
| Cost of sales | 264,779 | 334,341 | 59,649 | 95,919 |
| Gross profit on sales | 236,599 | 357,978 | 58,103 | 110,915 |
| Other operating income | 10,194 | 2,541 | 5,344 | 2,096 |
| Profit from sale of non-financial non-current assets | - | 477 | - 45 | - |
| Selling costs | 225,452 | 258,531 | 65,216 | 68,460 |
| Administrative expenses | 47,144 | 55,267 | 12,063 | 15,485 |
| Other operating costs | 23,382 | 4,182 | 4,420 | 2,284 |
| Loss from sale of non-financial non-current assets | 619 | - 16 | 353 | 224 |
| Profit (loss) from operations | -49,804 | 43,032 | -18,650 | 26,558 |
| Financial income / costs | -21,926 | -4,093 | -8,417 | 3,371 |
| Pre-tax profit (loss) | -71,730 | 38,939 | -27,067 | 29,929 |
| Income tax | -7,762 | 7,125 | -1,521 | 5,138 |
| Net profit (loss) for the period | -63,968 | 31,814 | -25,546 | 24,791 |

| IAS17* Apparel segment | PLN ths | | | |
|--|---|---|--|--|
| | 2020 period from 01-01-2020 to 31-12-2020 | 2019 period from 01-01-2019 to 31-12-2019 | 4Q 2020 period from 01-09-2020 to 31-12-2020 | 4Q 2019 period from 01-09-2019 to 31-12-2019 |
| Revenues | 501,378 | 692,319 | 117,752 | 206,834 |
| Cost of sales | 264,779 | 334,341 | 59,649 | 95,919 |
| Gross profit on sales | 236,599 | 357,978 | 58,103 | 110,915 |
| Other operating income | 9,939 | 2,476 | 5,193 | 2,097 |
| Profit from sale of non-financial non-current assets | - | 477 | - 45 | - |
| Selling costs | 216,620 | 258,509 | 55,471 | 68,538 |
| Administrative expenses | 46,655 | 55,332 | 11,705 | 15,499 |
| Other operating costs | 23,266 | 4,182 | 4,304 | 2,284 |

| IAS17* Apparel segment | PLN ths | | | |
|--|--|--|---|---|
| | 2020 period from 01-01-2020 to 31-12-2020 | 2019 period from 01-01-2019 to 31-12-2019 | 4Q 2020 period from 01-09- 2020 to 31-12-2020 | 4Q 2019 period from 01-09- 2019 to 31-12-2019 |
| Loss from sale of non-financial non-current assets | 619 | - 16 | 353 | 224 |
| Profit (loss) from operations | -40,621 | 42,924 | -8,582 | 26,467 |
| Financial income / costs | -3,434 | -2,902 | -405 | -523 |
| Pre-tax profit (loss) | -44,055 | 40,022 | -8,986 | 25,944 |
| Income tax | -7,762 | 7,125 | -1,521 | 5,138 |
| Net profit (loss) for the period | -36,293 | 32,897 | -7,465 | 20,806 |

* The table above presents the main financial items of the Group, showing the impact of IAS17 as the previous standard

Fall in retail sales

The sales revenues of the apparel segment in 2020 amounted to PLN 501.4 million and were PLN 190.9 million (i.e. 28%) lower than the revenues achieved for the period of 2019.

Revenues from sales in the apparel segment in the fourth quarter of 2020 amounted to PLN 117.8 million and were by PLN 89.1 million (i.e. 43%) lower than the revenues achieved for the period of 2019.

| Apparel segment | PLN m | | | |
|-----------------|--|--|---|---|
| | 2020 period from 01-01-2020 to 31-12-2020 | 2019 period from 01-01-2019 to 31-12-2019 | 4Q 2020 period from 01-09-2020 to 31-12-2020 | 4Q 2019 period from 01-09-2019 to 31-12-2019 |
| Revenue | 501.4 | 692.3 | 117.8 | 206.8 |
| Retail sales | 480.2 | 657.1 | 113.6 | 198.2 |
| Processing | 16.8 | 23.2 | 3.2 | 6.3 |
| B2B | 4.4 | 12.0 | 0.9 | 2.3 |

In 2020, the Group recorded the following results in the following retail channels:

| | | | |
|-------------------------------------|------------------------------------|---------------------------------------|---|
| VISTULA PLN 196.4m (-31% YoY) | BYTOM PLN 147.1m (- 26% YoY) | WÓLCZANKA PLN 99.2m (- 21% YoY) | DENI CLER MILANO PLN 37.5m (- 20% YoY) |
|-------------------------------------|------------------------------------|---------------------------------------|---|

On March 14, 2020, an epidemic state of emergency was introduced throughout the country, which resulted in a ban for trade in traditional stores located in shopping malls in the period March 14 - May 4. Due to the unfavorable epidemiological situation, the Council of Ministers, under the regulations issued on November 6 and December 21, again introduced restrictions in conducting commercial activities, resulting in the temporary closing down of the stores belonging to the VRG Group in the period November 7-27 and December 28-31, 2020. Despite the introduction of the highest safety standards by shopping malls, the traffic in shopping centers decreased significantly YoY, which had a direct impact on the sales results obtained by the Group in the traditional network in 2020.

In 2020, there was a decrease in offline sales by 41% and an increase in online sales by 36% compared to the same period last year. The share of online sales in the apparel segment's revenue was 32% in 2020 compared to 17% of online sales in 2019.

In the fourth quarter of 2020, there was a 56% decrease in offline sales and an 11% increase in online sales compared to the same period last year. The share of online sales in the apparel segment's revenue amounted to 36% in Q4 2020 compared to 19% of online sales in Q4 2019.

The last quarter of the year is a key period for retail, whose value share in sales in 2019 amounted to 30%. In 2020, due to the reduction in the number of trading days caused by the limited trade in shopping malls, the value share of sales in Q4 in 2020 amounted to 23% and had a significant impact on the decrease in sales in the apparel segment.

In the fourth quarter of 2020, the Group recorded the following results in the following retail channels:

| | | | |
|-------------------------------------|-----------------------------------|---------------------------------------|---|
| VISTULA PLN 43.3m (- 49% YoY) | BYTOM PLN 34.5m (- 42% YoY) | WÓLCZANKA PLN 26.5m (- 34% YoY) | DENI CLER MILANO PLN 9.3m (- 31% YoY) |
|-------------------------------------|-----------------------------------|---------------------------------------|---|

Gross profit on sales

Gross profit on sales in the apparel segment in 2020 amounted to PLN 236.6 million and was 34% lower than that generated in the corresponding period of the previous year. The gross margin was 47.2%, which means a decline by 4.5 pp. compared to 2019.

Changes in the margins of individual brands in 2020:

| | | | |
|--|--|--|---|
| VISTULA 49.5% (margin fall by 2.5 pp.) | BYTOM 47.9% (margin fall by 4.7 pp.) | WÓLCZANKA 48.6% (margin fall by 5.1 pp.) | DENI CLER MILANO 53.3% (margin fall by 6.3 pp.) |
|--|--|--|---|

Gross profit on sales in the apparel segment in Q4 2020 amounted to PLN 58.1 million and was 48% lower than that generated in Q4 2019. The gross margin in Q4 2020 was 49.3% (Q4 2019: 53.6%). Decrease in margin took place due to higher YoY promotions and a change in the sales structure between the online and offline distribution channels.

Changes in individual brands' margins in Q4 2020:

| | | | |
|--|--|--|---|
| VISTULA 50.9% (margin fall by 1.9 pp.) | BYTOM 50.4% (margin fall by 2.7 pp.) | WÓLCZANKA 52.2% (margin fall by 2.6 pp.) | DENI CLER MILANO 62.6% (margin fall by 0.9 pp.) |
|--|--|--|---|

Selling costs

Selling costs in 2020 amounted to PLN 225.5 million and were lower by PLN 33.1 million (-13%) compared to costs incurred in the corresponding period of 2019. The share of selling costs in revenues in 2020 was 45.0% compared to 37.3% in 2019.

Selling costs in the fourth quarter of 2020 amounted to PLN 65.2 million and were lower by PLN 3.2 million (-5%) compared to the corresponding period of 2019. The share of selling costs in revenues of the apparel segment in the fourth quarter of 2020 amounted to 55.4% and was higher by 22.3 pp.

Increase in the share of selling costs in revenues results from a decrease in revenues in 2020 due to the closing down of traditional stores in shopping malls caused by the Covid-19 pandemic in the period: March 14 - May 4, November 7-27 and December 28-31, 2020.

Due to the limitations in trade in traditional stores, in 2020 the cost of remuneration in the apparel segment was reduced by 18% (in the fourth quarter of 2020, costs were reduced by 24%) and by 21% in the cost of lease (in the fourth quarter of 2020, costs were reduced by 20%).

General and administrative expenses

General and administrative expenses in 2020 amounted to PLN 47.1 million compared to PLN 55.3 million in 2019, which means a decrease in costs by PLN 8.1 million (-15%). At the same time, the share of general and administrative expenses in sales revenues increased to 9.4% compared to 8.0% in 2019.

General and administrative expenses in the fourth quarter of 2020 amounted to PLN 12.1 million compared to PLN 15.5 million in the fourth quarter of 2019, which means a decrease in costs by PLN 3.4 million (-22%). At the same time, the share of general administrative costs in revenues increased to 10.2% compared to 7.5% in 2019. The drop in the value of general and administrative expenses was due to the reduction of remuneration costs as a result of the use by the companies of the apparel segment from the government program of assistance for employers related to the prevention, counteracting and combating Covid-19.

Operating result of the apparel segment

In 2020, a loss in the apparel segment was recorded in the amount of PLN 49.8 million, which means that the result of this segment was lower by PLN 92.8 million than the operating result in the corresponding period of 2019.

Despite lower by PLN 41.2 million selling costs and general and administrative expenses in 2020, the Company recorded negative operating result in the apparel segment. The biggest impact on the negative operating result was due to the lower by PLN 121 million gross profit on sales as a result of lower YoY revenues from sales in the apparel segment. Despite an increase in online revenues by PLN 42.4 million (+ 36%) in the apparel segment, it was not possible to compensate for the loss of revenues in the offline network.

Fall in sales per m² (lower number of trading days YoY due to the Covid-19 pandemic) and PLN 12.4 million write-offs on inventories (the write-off related mainly to wholesale goods and older collections), as well as the unfavorable impact of IFRS 16 on the operating result with a value of PLN 9.2 million, contributed to a decrease in the operating result of the apparel segment in 2020.

In the fourth quarter, the Group recorded a loss of PLN 18.7 million in the apparel segment, compared to the operating profit in 2019 of PLN 26.6 million. The sales lower by 43% y / y related to the lower number of shopping days in the fourth quarter of 2020, as well as the lower traffic in shopping malls in December, adversely affected the operating result of the clothing segment in the last quarter of 2020.

Financial income and costs

The balance of the result on financial activities in the apparel segment amounted to PLN -21.9 million in 2020 compared to PLN -4.1 million in 2019. The IFRS16 standard had a negative impact on the balance of financial activities in the apparel segment in 2020, as it increased net financial costs by PLN 18.5 million (in Q4 2020, costs increased by PLN 8 million).

| Apparel segment | PLN ths | | | |
|-----------------------------------|---|---|--|--|
| | 2020 period from 01-01-2020 to 31-12-2020 | 2019 period from 01-01-2019 to 31-12-2019 | 4Q 2020 period from 01-09-2020 to 31-12-2020 | 4Q 2019 period from 01-09-2019 to 31-12-2019 |
| Financial costs net | -1,754 | -3,541 | -677 | -1,435 |
| FX differences net (excl. IFRS16) | -1,679 | 639 | 272 | 911 |
| IFRS 16 impact | -18,492 | -1,191 | -8,012 | 3,894 |
| <i>‘- incl. FX differences</i> | -15,273 | 1,466 | -6,701 | 4,547 |
| <i>‘- incl. interest</i> | -3,219 | -2,657 | -1,311 | -653 |
| Financial income/ costs | -21,926 | -4,093 | -8,417 | 3,371 |

Net result in the apparel segment

In the apparel segment, the Group posted a net loss of PLN 64.0 million in 2020, compared to PLN 31.8 million in net profit in 2019. Sales drop, 4.5 pp lower gross margin caused by higher share of online sales in revenues of the apparel segment, lower YoY sales, as well as the negative impact of IFRS16 (PLN 27.7 million of negative impact on the financial result) had a negative impact on the financial result in 2020.

In the fourth quarter of 2020, the Group reported a net loss of PLN 25.6 million in the apparel segment, compared to PLN 24.8 million in profit in the fourth quarter of 2019. The lower financial result is a consequence of lower sales per m2 in the apparel segment (lower number of trading days due to the limitations in trade in shopping malls caused by the epidemic), and the negative impact on the financial result under IFRS 16 (mainly due to negative exchange rate differences, but also interest costs and the difference between the rental costs and the accrued depreciation on the right to use lease contracts) in the amount of PLN 18.1 million compared to the positive impact of PLN 4.0 million in the fourth quarter of 2019.



JEWELLERY SEGMENT

| Jewellery segment | PLN ths | | | |
|--|---|---|--|--|
| | 2020 period from 01-01-2020 to 31-12-2020 | 2019 period from 01-01-2019 to 31-12-2019 | 4Q 2020 period from 01-09-2020 to 31-12-2020 | 4Q 2019 period from 01-09-2019 to 31-12-2019 |
| Revenues | 352,336 | 375,947 | 114,252 | 125,628 |
| Cost of sales | 171,591 | 177,851 | 53,465 | 58,049 |
| Gross profit on sales | 180,745 | 198,096 | 60,787 | 67,579 |
| Other operating income | 5,262 | 2,843 | 1,601 | 1,920 |
| Selling costs | - | - | 45 | - |
| Administrative expenses | 114,342 | 124,530 | 36,443 | 39,520 |
| Other operating costs | 29,902 | 30,851 | 8,164 | 8,598 |
| Loss from sale of non-financial non-current assets | 3,827 | 1,082 | 2,069 | 358 |
| Profit (loss) from operations | 55 | 16 | - | 26 |
| Financial income / costs | 37,881 | 44,460 | 15,757 | 20,997 |
| Pre-tax profit (loss) | -14,225 | -4,042 | -5,410 | 2,938 |
| Income tax | 23,656 | 40,418 | 10,347 | 23,935 |
| Net profit (loss) for the period | 7,858 | 8,239 | 3,671 | 4,378 |
| Revenues | 15,798 | 32,179 | 6,676 | 19,557 |

| IAS 17 Jewellery segment | PLN ths | | | |
|--|---|---|--|--|
| | 2020 period from 01-01-2020 to 31-12-2020 | 2019 period from 01-01-2019 to 31-12-2019 | 4Q 2020 period from 01-09- 2020 to 31-12-2020 | 4Q 2019 period from 01-09-2019 to 31-12-2019 |
| Revenues | 352,336 | 375,947 | 114,252 | 125,628 |
| Cost of sales | 171,591 | 177,851 | 53,465 | 58,049 |
| Gross profit on sales | 180,745 | 198,096 | 60,787 | 67,579 |
| Other operating income | 5,075 | 2,835 | 1,556 | 1,920 |
| Gain from sale of non-financial non-current assets | - | - | 45 | - |
| Selling costs | 111,746 | 124,382 | 33,273 | 39,519 |
| Administrative expenses | 29,156 | 30,841 | 7,706 | 8,600 |
| Other operating costs | 3,760 | 1,082 | 2,002 | 358 |
| Loss from sale of non-financial non-current assets | 55 | 16 | - | 26 |

| IAS 17 Jewellery segment | PLN ths | | | |
|---|--|--|---|---|
| | 2020 period from 01-01-2020 to 31-12-2020 | 2019 period from 01-01-2019 to 31-12-2019 | 4Q 2020 period from 01-09- 2020 to 31-12-2020 | 4Q 2019 period from 01-09-2019 to 31-12-2019 |
| Profit (loss) from operations | 41,103 | 44,611 | 19,407 | 20,996 |
| Financial income / costs | -2,266 | -3,342 | -582 | 580 |
| Pre-tax profit (loss) | 38,837 | 41,269 | 18,825 | 21,576 |
| Income tax | 7,858 | 8,239 | 3,671 | 4,378 |
| Net profit (loss) for the period | 30,979 | 33,030 | 15,154 | 17,198 |

*The table above presents the main financial items of the Group, showing the impact of IAS17 as the previous standard

Revenues

Revenues in the Capital Group in 2020 in the jewellery segment amounted to PLN 352.3 million and were lower than the segment's results recorded in 2019 by PLN 23.6 million (-6%).

In the fourth quarter of 2020, revenues in this segment amounted to PLN 114.3 million and were lower than those achieved in the fourth quarter of 2019 by PLN 11.4 million (-9%). The decline in sales in 2020 occurred due to the lower number of trading days in 2020.

Gross profit on sales

Gross profit on sales in the jewellery segment in 2020 amounted to PLN 180.8 million and was 9% lower than that generated in the corresponding period of the previous year. In 2020, the gross margin decreased by 1.4 pp. to 51.3% compared to 52.7% in 2019. The decrease in the gross margin resulted from the increase in the share of the online channel sales (characterized by a lower gross margin on sales) in retail sales. The gross margin in the fourth quarter of 2020 amounted to 53.2%, which means a margin decrease by 0.6 pp. compared to the fourth quarter of 2019. The lower margin is the result of changes in the sales structure of products.

Selling costs

Selling costs in 2020 amounted to PLN 114.3 million compared to PLN 124.5 million in the previous year, which means a decrease in selling costs by PLN 10.2 million (-8.2%). In the jewellery segment, the share of selling costs in total sales increased from 33.1% in 2019 to 32.5% in 2020. In 2020, the jewellery segment rental costs were cut by 15%, salaries by 12%, and marketing expenses were reduced.

Selling costs in the fourth quarter of 2020 amounted to PLN 36.4 million, which means a decrease compared to the fourth quarter of 2019 by PLN 3.1 million (-7.8%). Their share in revenues amounted to 31.9% in the fourth quarter of 2020, compared to 31.5% in the fourth quarter of 2019.

In the fourth quarter of 2020, there was a decrease in rental costs by 15% and payroll costs by 14%, and advertising costs were reduced.

General and administrative expenses

In 2020, general and administrative costs were lower by PLN 0.9 million (-3%) compared to 2019. The share of general and administrative costs in sales amounted to 8.5% and was higher by 0.3 pp. compared to 2019. In the fourth quarter of 2020, these costs amounted to PLN 8.2 million, which means a decrease by PLN 0.4 million compared to the fourth quarter of 2019. Their share in sales in the fourth quarter of 2020 was 7.1% compared to 6.8% in the fourth quarter of 2019.

Operating result of the jewellery segment

In the jewellery segment, the Group recorded a decrease in operating profit in 2020 by PLN 6.6 million (-15%) compared to 2019. The decrease by PLN 11.1 million in selling costs and general administrative expenses in 2020 did not compensate for the decrease in the gross profit on sales of PLN 17.4 million, which resulted in a lower YoY operating profit in 2020. The operating profit margin in 2020 was 10.8% and was lower by 1.0 pp. compared to 2019.

In the fourth quarter of 2020, the Group recorded an operating profit in the amount of PLN 15.8 million in this segment, compared to PLN 21.0 million in the fourth quarter of 2019. The operating profit margin decreased from 16.7% in the fourth quarter of 2019 to 13.8% in the fourth quarter of 2020. The drop in profitability was the result of closing down of traditional stores as a result of the Covid-19 pandemic located in shopping malls.

Financial income and costs

The balance of the result on financial activities in the jewellery segment amounted to PLN -14.2 million in 2020. The recognition of the IFRS16 standard for financial reporting had a negative impact on the balance of the financial activities of the jewellery segment in 2020 (due to negative exchange rate differences), as it caused an increase in financial costs by PLN 12.0 million. For comparison, in 2019 the introduction of IFRS16 had a negative impact on the balance of financial activities in the amount of PLN 0.7 million.

| Jewellery segment | PLN ths | | | |
|-----------------------------------|---|---|--|--|
| | 2020 period from 01-01-2020 to 31-12-2020 | 2019 period from 01-01-2019 to 31-12-2019 | 4Q 2020 period from 01-09-2020 to 31-12-2020 | 4Q 2019 period from 01-09-2019 to 31-12-2019 |
| Financial costs net | -2,173 | -2 758 | -1,007 | -426 |
| FX differences net (excl. IFRS16) | -93 | -583 | 426 | 1,006 |
| IFRS 16 impact | -11,959 | -700 | -4,828 | 2,358 |
| ‘- incl. FX differences | -9,943 | 891 | -4,057 | 2,767 |
| ‘- incl. interest | -2,016 | -1,592 | -771 | -409 |
| Financial income/ costs | -14,225 | -4,042 | -5,410 | 2,938 |

Net profit in the jewellery segment

Net profit of the jewellery segment in 2020 amounted to PLN 15.8 million compared to PLN 32.2 million of net profit in 2019, which means a decrease in profit by 51% YoY.

Net profit of the jewellery segment in the fourth quarter of 2020 amounted to PLN 6.7 million compared to PLN 19.6 million in the fourth quarter of 2019, which means a decrease in net profit by 66%.

Decrease in net profit both in the fourth quarter and the entire 2020 was the result of unfavourable conditions for conducting commercial activities in 2020 limiting the number of trading days caused by the Covid-19 pandemic in the stationary sales network mainly located in shopping malls.

Additionally, the financial result was burdened with the unfavorable influence of IFRS16. In 2020, the application of IFRS16 resulted in a decrease in net profit by PLN 15.2 million (mainly due to negative exchange rate differences, but also interest costs and the difference between the rental costs and the accrued depreciation on the right to use lease contracts) compared to the decrease in profit in 2019 by PLN 0.9 million. The impact of IFRS16 resulted in a decrease in the financial result in the fourth quarter of 2020 by PLN 8.5 million compared to the increase in net profit in the fourth quarter of 2019 by PLN 2.4 million.

Structure and characteristics of statement of financial position

| Consolidated balance sheet | 31.12.2020 | | 31.12.2019 | |
|---|------------------|-----------|------------------|-----------|
| | value | share (%) | value | share (%) |
| | (PLN ths) | | (PLN ths) | |
| Non-current assets, including: | 889,789 | 61.0% | 847,036 | 59.2% |
| <i>Intangible assets</i> | 498,990 | 34.2% | 499,704 | 34.9% |
| <i>Fixed assets</i> | 60,626 | 4.2% | 67,482 | 4.7% |
| <i>Right-of-use asset (IFRS16)</i> | 312,690 | 21.4% | 270,546 | 18.9% |
| Current assets, including: | 568,206 | 39.0% | 584,278 | 40.8% |
| <i>Inventory</i> | 505,584 | 34.7% | 535,539 | 37.4% |
| <i>Receivables</i> | 10,843 | 0.7% | 19,986 | 1.4% |
| <i>Cash and cash equivalents</i> | 48,839 | 3.3% | 25,280 | 1.8% |
| Total assets | 1,457,995 | | 1,431,314 | |
| Equity attributable to dominating entity, including: | 815,116 | 55.9% | 863,286 | 60.3% |
| <i>Share capital</i> | 49,122 | 3.4% | 49,122 | 3.4% |
| <i>Net profit (loss) for the current period</i> | -48,170 | -3.3% | 63,933 | 4.5% |
| Long-term liabilities and provisions: | 307,227 | 21.1% | 243,356 | 17.0% |
| <i>Long-term loans and borrowings</i> | 47,196 | 3.2% | 55,851 | 3.9% |
| <i>Lease liabilities</i> | 258,354 | 17.7% | 186,112 | 13.0% |
| <i>' incl. IFRS16</i> | 256,974 | 17.6% | 183,915 | 12.8% |
| Short-term liabilities and provisions, including: | 335,652 | 23.0% | 324,672 | 22.7% |
| <i>Trade liabilities</i> | 199,240 | 13.7% | 182,552 | 12.8% |
| <i>Short-term loans and borrowings</i> | 24,372 | 1.7% | 35,568 | 2.5% |
| <i>Lease liabilities</i> | 98,839 | 6.8% | 86,308 | 6.0% |
| <i>' incl. IFRS16</i> | 97,510 | 6.7% | 84,424 | 5.9% |
| Total equity and liabilities | 1,457,995 | | 1,431,314 | |

Assets

Value of assets at the end of 2020 slightly increased compared to the end of 2019.

Decrease in property, plant and equipment by PLN 6.9 million

Change in tangible fixed assets is mainly the result of the calculation of depreciation in 2020 and the lack of significant investments (new openings of own stores) in the reporting period.

IFRS 16 right-of-use asset

Change in this item is the result of a significant increase in this right in connection with the signing, extension or renegotiation of lease agreements (details are presented in the consolidated financial statements), which was partially netted by the calculation of depreciation for 2020.

Inventory

Value of inventories as at December 31, 2020 amounted to PLN 505.6 million, which means a decrease by 5.6% compared to December 31, 2019. In the apparel segment, the value of inventories decreased by 16% YoY (the effect of optimizing the inventory level, reducing orders for 2020 and increasing impairment losses by PLN 12.4 million), and in the jewellery segment, it increased by 9%. Fall in the Group's inventories is the result of a reduction in orders for goods for the 2020 collection and optimization of the level of raw materials in the apparel segment.

The Group's inventories per m2 amounted to PLN 9,531, which means a decrease by some 3.2% YoY:

| INVENTORY/ [PLN/m2] | 4Q20 | 4Q19 | YoY |
|---------------------|--------|--------|--------|
| VRG | 9,531 | 9,848 | -3.2% |
| Apparel segment | 6,067 | 6,978 | -13.1% |
| Jewellery segment | 22,731 | 21,640 | 5.0% |

Equity and liabilities

Equity

Changes in equity by PLN 48.2 million are the result of generating a loss for 2020 in the amount of PLN 48.2 million.

Long-term and short-term indebtedness

Debt under long-term loans as at December 31, 2020 amounted to PLN 47.2 million compared to PLN 55.9 million at the end of December 2019, which means a decrease by PLN 8.7 million. The Group companies signed annexes postponing the repayment dates of long-term loan installments maturing at the end of March and June 2020. Lease liabilities for the lease of retail and office floorspace total PLN 354.5 million, of which PLN 257 million is the long-term part and PLN 97.5 million in the short-term part.

Table below presents financial liabilities as at December 31, 2020 and December 31, 2019 and net debt. Moreover, data on net debt are presented, also without the impact of IFRS 16, which significantly changes its value.

The amount of net debt decreased compared to last year despite the decline in sales revenues and results due to the precautionary measures taken. The net debt/EBITDA ratio (under IAS 17) is at a relatively low level of 2.2x, significantly below the levels defined in the loan agreements concluded by the companies of the Capital Group.

| Net debt | 31.12.2020 | 31.12.2019 |
|--|----------------|----------------|
| Long-term debt | 305,550 | 241,963 |
| Long-term loans and borrowings | 47,196 | 55,851 |
| Finance lease liabilities | 258,354 | 186,112 |
| '- incl. leases for retail and office floorspace | 256,974 | 183,915 |
| Short-term debt | 151,496 | 143,003 |
| Loans and borrowings | 11,289 | 21,340 |
| Short-term part of long-term loans | 13,083 | 14,228 |
| Reverse factoring | 28,285 | 21,127 |
| Finance lease liabilities | 98,839 | 86,308 |
| '- incl. leases for retail and office floorspace | 97,510 | 84,424 |
| Cash | 48,839 | 25,280 |
| Net debt | 408,207 | 359,686 |

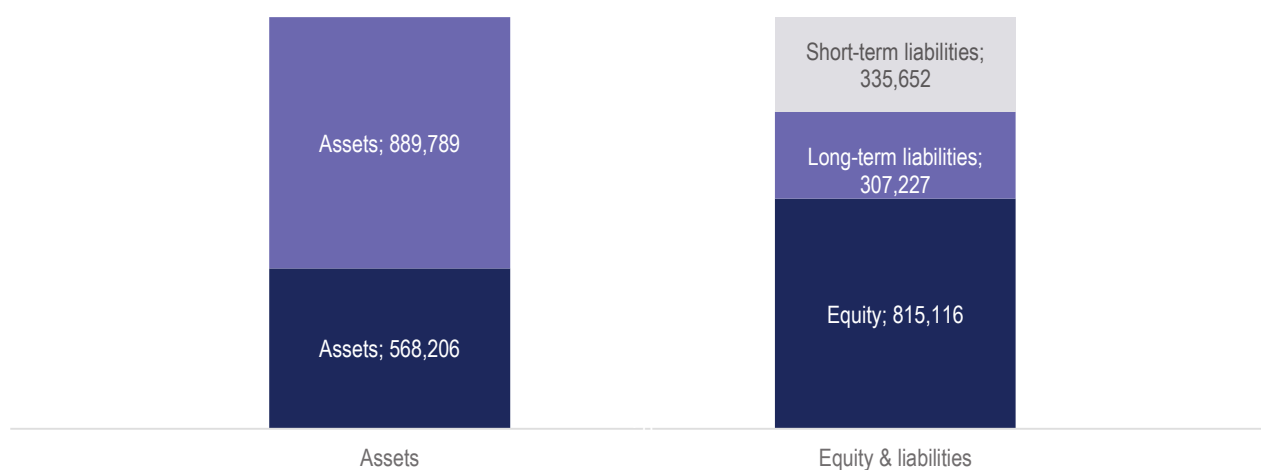
| | | |
|------------------------|------------|------------|
| EBITDA | 98,422 | 198,483 |
| Net debt/EBITDA | 4.2 | 1.8 |

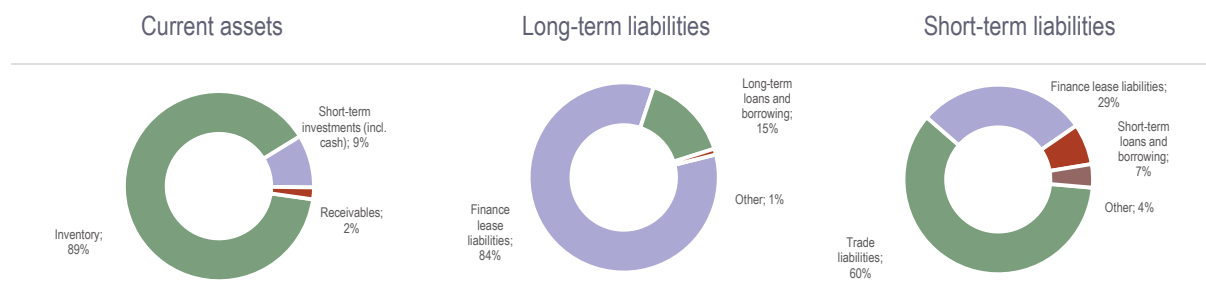
| Net debt IAS 17* | 31.12.2020 | 31.12.2019 |
|------------------------------------|---------------|---------------|
| Long-term debt | 48,576 | 58,048 |
| Long-term loans and borrowings | 47,196 | 55,851 |
| Finance lease liabilities | 1,380 | 2,197 |
| Short-term debt | 53,986 | 58,579 |
| Loans and borrowings | 11,289 | 21,340 |
| Short-term part of long-term loans | 13,083 | 14,228 |
| Reverse factoring | 28,285 | 21,127 |
| Finance lease liabilities | 1,329 | 1,884 |
| Cash | 48,839 | 25,280 |
| Net debt | 53,723 | 91,347 |
| EBITDA | 23,444 | 111,126 |
| Net debt/EBITDA | 2.3 | 0.8 |

*The table above presents the calculation of net debt showing the impact of IAS17 as the previous standard

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 2020





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 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 Act, which has already been adopted and suspended there is a risk of charging some of the Issuer's Capital Group revenues with this tax. The impact on the Group's financial result

would be visible at the earliest in 2021, depending on the time when the matter of this tax was decided by the Court of Justice of the Union European 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 analyzes 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 related to increased competition

VRG S.A. operates in the highly competitive men's fashion segment. This segment is characterized by fragmentation: on the one hand we are dealing with recognized Polish brands such as Vistula, Bytom, Wólczanka, Deni Cler and W.KRUK, and on the other with global brands that do not enter the Polish market aggressively. This market is characterized by quite low entry barriers. We are also dealing with the emergence of competition of emerging brands. VRG S.A. Group may be forced to look for new supply markets to keep the offer competitive. In addition, it may be possible to increase marketing and promotion outlays to reach the target customer.

Actions: In order to reduce the risk, the Management Board regularly monitors the actions of competitors in terms of sales network development, offered products and price level.

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 Company incurs higher costs due to exchange 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 and other accessories) 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 (based on IFRS 16):

- the average annual increase (decrease) in the USD / PLN exchange rate by 1.0% will reduce (increase) the financial result by PLN 1.2 million;
- the average annual increase (decrease) in the EUR / PLN exchange rate by 1.0% will reduce (increase) the financial result by PLN 3.5 million.

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 a possible USD strengthening, which could have a significant negative impact on the Group's margin. The concluded forward contracts 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 emphasized 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 strengthening, 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 31.12.2020, the Group had liabilities measured at amortized cost in the amount of PLN 71.568 thousand. Consequently, the Group is exposed to interest rate risk due to changes in the valuation of debt based on a variable interest rate. An increase in interest rates may increase the cost of financing, and thus lower the Group's profitability. Based on the sensitivity analysis performed, the average annual increase (decrease) in the base interest rate by 10% will reduce (increase) the financial result by approx. PLN 85 thousand. PLN.

Actions: having relatively low debt, the Issuer currently considers this risk to be low. He constantly monitors the market situation, but currently does not take additional measures to hedge the interest rate risk.

Risk related to effects related to the coronavirus epidemic

In emergency situations, such as an epidemic, there may be state ordinances regarding the functioning of economic 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 operations of the Company.

According to the current assessment, the Issuer expects that the effects of the coronavirus epidemic will have a significant negative impact on the Issuer's future financial results. In particular, the Issuer points out that the restrictions introduced by the Minister of Health in the operation of commercial facilities with a sales area of more than 2,000 m², where over 95% of the Vistula, W.KRUK, Bytom, Wólczanka and Deni Cler brand stores are located, pose a sizable negative threat on the Group's financial result during the first quarter of 2021. In addition, the Issuer expects that due to worsening public moods related to the epidemic and the expected decrease in consumption also in the period after the opening of shopping centers, consumption demand will be lower than before pandemic, while demand will rebuild over several months.

The above assessment is based on the Issuer's best knowledge as of the date of the annual report. It is impossible to accurately estimate the impact of sales restrictions due to the temporary closing down of traditional stores located in shopping malls in the long term. The impact of the spread of the coronavirus under epidemic conditions on the financial results depends on a number of factors that are beyond the direct influence and control of the Issuer. However, any protracted restrictions on the opening of stores in shopping centers will undoubtedly translate into lower sales revenues and deterioration of the Group's financial situation.

Actions: In this situation, the Group focuses its activities on intensifying sales in online stores of the above-mentioned brands. The Group will continue activities initiated in 2020 to improve the Group's working capital and maintain a stable level of the Group's net debt. In 2020, talks were held with banks that finance the operations of the Company and its companies from the capital group, which was completed with the extension of contracts with the main bank financing the Group, PKO BP, for two consecutive years and positively influencing the Group's liquidity situation in the current year.

Assuming that the period of the epidemic will be longer or in a situation with negative effects after the end of the epidemic, further solutions have been prepared to reduce the liquidity risk. In the opinion of the Management Board, the current situation is sufficiently monitored and controlled.

The Management Board of the Company, bearing in mind the actions taken, is convinced of the positive results of the above-mentioned actions.

Internal risk factors

Risk associated with adopting the wrong strategy

There is a risk that the adopted development strategy of the Group, the basic assumptions of which have been presented in point 2 "Planned development activities" of the Management Board's comment on financial information, will turn out to be inadequate to changing customer expectations 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, the risk that the Company will not be able to launch the planned new sales area, the launch will be delayed or the new locations will not achieve the assumed sales results.

Activities: Management boards analyze the effects of implemented activities as part of the adopted development strategy on an ongoing basis. Data on available new locations is obtained, as well as the currently possessed evaluation. Optimization measures are taken and customer behavior 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 to 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, applying solutions dedicated to mobile devices and shortening the time of the delivery. On top, changes in product offering are introduced, i.e. more casual products are included in collections of all apparel brands.

Risk related to lease agreements

The Group's activity is based predominantly on the retail sale of goods through its own network of stores. In the face of recent events related to the outbreak of coronavirus, which led to the temporary closing down of shopping centers, and thus no possibility of selling by the Issuer on the leased space, there is a risk that in the event of negotiations with the landlords fails and there will be no reduction in rents due proportional to the loss of revenues and obligations contained in the lease contracts will become an additional cost burden for the Issuer, and as a consequence may significantly affect its financial results.

Loss of existing locations may result in the necessity to temporarily limit the activity in a given area or the acquisition of attractive locations will be associated with increased costs.

In the face of the recent events related to the coronavirus epidemic, which led to the temporary closure of shopping centers, and thus the Issuer's ability to sell on the leased space, there is a risk that, in the absence of the possibility of a reduction in rents for the leased space proportionate to the loss of revenue (without additional extending lease agreements, which results in the expiry of rent obligations for the period when stores in shopping centers are closed), the obligations contained in the lease agreements will become an additional cost burden for the Issuer and, consequently, may have a significant negative impact on its financial results.

Activities: constant monitoring of owned 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 Issuer took steps to avoid charging rent for the period when shopping centers were closed.

Risk related to inventory management

Zarządzanie zapasami wyrobów gotowych i towarów należy do istotnych czynników, mających wpływ na wyniki sprzedaży w branży Grupy. Z jednej strony poziom zapasów powinien ułatwiać podjęcie decyzji zakupowej w trakcie oferowania danej kolekcji sezonowej, co prowadzi do wzrostu zapasu w każdym punkcie sprzedaży. Z drugiej – wyższy poziom zapasów generuje dodatkowe zapotrzebowanie na kapitał obrotowy oraz może prowadzić do nagromadzenia zapasów trudnozbywalnych (produkty sezonowe, „modowe”, nietrafione kolekcje).

Niewłaściwe zarządzanie zapasami stanowi ryzyko dla cen, marż i koniecznego poziomu kapitału obrotowego, przez co może negatywnie wpłynąć na perspektywy rozwoju, osiągnięte wyniki i sytuację finansową Grupy.

Działania: Okresowo prowadzona jest analiza ilościowa i jakościowa posiadanych zapasów. Na jej bazie Grupa decyduje o akcjach rabatowych, wysokości wyprzedaży, jak i ewentualnych odpisach aktualizujących. Ponadto na bazie analizy posiadanego zapasu i odsprzedaży bieżących kolekcji, podejmowane są decyzje co do poziomu zakupów na kolejne okresy sprzedażowe.

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 or not prolonging of bank 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 parent company has at Bank PKO BP a Multi-product Agreement and an Overdraft Agreement for the total amount of PLN 92m (extended for 2 years on 5 July 2020) and a Multi-product Agreement with mBank for PLN 19m and a factoring line (PLN 11.5m). 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 (as a result of the signed annexes, the amount increased to PLN 45m). These agreements contain covenants which the Company is obliged to implement. In the event of an economic downturn, weakening demand for the Company's products, the implementation of the covenants may be jeopardized, which entails the risk of termination of contracts by the financing banks.

Actions: The Group minimizes the risk by timely fulfillment of obligations towards banks and monitoring of compliance with the covenants, at the same time in the current extraordinary situation related to the coronavirus epidemic and the objective, sharp deterioration of the Group's financial results, the Company entered into negotiations with the main financing bank to adjust the level of the covenants to the current situation of the Company and taking this fact into account in the coming quarters. The parent company VRG S.A. and companies from the Capital Group (W.KRUK S.A. and DCG S.A.) signed new short-term financing agreements at the beginning of July (agreements for the provision of an overdraft facility and a line for letters of credit and guarantees).

Risk of losing financial liquidity

The Company has loan liabilities, lease liabilities and trade 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 Group 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 analysing the volume of sales proceeds and the required liabilities. Additionally, in the current situation, the Group has taken active measures to improve financial liquidity and cash protection in individual Group companies. The Group carried 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 took steps to renegotiate rents for commercial space and reduce payroll costs. Moreover, talks were held with banks that finance the operations of the Company and its companies from the Capital Group. In April, the Capital Group companies increased their financing under current loans and annexes were signed to extend the repayment of long-term loan instalments. In July 2020, the Capital Group signed agreements with the main financing bank, PKO BP, extending the cooperation for another two years. These agreements concerned the provision of lines under an overdraft facility and for letters of credit and guarantees. As part of the solutions of the anti-crisis shield, the key companies of the Group received co-financing for wages from the Guaranteed Employee Benefits Fund.

One of the key goals for 2021, which is closely related to the Group's ongoing activities aimed at securing the Group's financial liquidity, will be to further improve the efficiency of working capital use, which is to be achieved through a further decrease in the level of inventories year on year and the introduction of longer payment terms. Assuming that the period of the epidemic will be longer or in a situation with negative effects after the end of the epidemic, further solutions will be prepared to reduce the liquidity risk.

In the opinion of the Management Board of the parent company, the current situation is sufficiently monitored and controlled. The Management Board of the parent company, having in mind the actions taken, is convinced of the positive results of the above-mentioned actions. Information on due liabilities and their maturity dates is presented in note 24a of the Consolidated Financial Statements. Information on credit lines from which these liabilities will be settled is described in note 19, Loans and borrowings.

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.

Actions: 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 shareholders managed by IPOPEMA TFI S.A. possess 21.34% of votes at the General Shareholder Meeting and five significant shareholders hold a total of 67.80% 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 regulations, which may mean additional financial consequences for the Company.

Risk related to guarantees granted to subsidiaries

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

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

In connection with the extension of Multi-product Agreements of subsidiaries with Bank PKO BP, the parent company granted an additional surety to the subsidiary W.KRUK S.A. for the amount of PLN 33 million, and the subsidiary W.KRUK S.A. granted a surety to the parent company VRG S.A. for the amount of PLN 55 million.

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

Risk related to disruptions in the functioning of information systems

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

However, it is not possible to completely exclude the risk of incidents related to disruption of the aforementioned logistics processes, which could cause the Company additional negative consequences related to fall in sales as a result of late replenishment of a network of traditional stores or loss of some on-line store customers as a result of delays in paid deliveries.

One cannot completely rule out the negative effects of deterioration of the image of the Company's brands as a result of the appearance on the Internet and social media of critical comments from customers of on-line stores who do not receive the purchased goods within the required period.

In connection with the ban of conducting commercial activities in the field of the VRG S.A. Capital Group, introduced pursuant to the regulation of the Council of Ministers of November 6, 2020 in large commercial facilities, stores selling clothing were closed for the period starting November 7 to 29, 2020. In this situation, in order to ensure timely deliveries for orders from the Group's on-line stores, the logistic potential of the external operator servicing the Group's apparel brands was increased.

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.

Actions: 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 2020.

Delivery of published forecasts

VRG S.A. did not make public any forecast of financial results for 2020.

7. PLANNED DEVELOPMENT ACTIVITIES

The Group's development prospects in 2021 will be largely determined by circumstances related to the ongoing coronavirus pandemic. Like the entire retail industry and many other sectors of the economy, the Group faced the challenges of the COVID-19 epidemic in 2020, which will continue to apply in 2021. 2021 began with closing down of shopping malls in January 2021 and from March 20, 2021, due to the growing number of cases in the whole country. As a consequence, these events will weigh on the Group's results for the first quarter of 2021 and the entire year 2021. The Management Board believes that restrictions on the operation of retail outlets will be smaller in the coming months, and traffic in shopping malls will be systematically increased. This should have a positive effect on the Group's revenues in 2021, which, in the opinion of the Management Board, should be higher than those achieved in 2020. We also assume an improvement in the gross percentage margin this year compared to 2020 due to further growth in Asian sourcing, common policies in terms of suppliers and reducing the intensity of promotional activities.

The Group is well prepared for the Spring/Summer 2021 season. It has an attractive and stylistically diverse assortment of all the Group's brands, reflecting the prevailing trends and customer expectations. Casual and smart casual will have a greater share in the offer of clothing brands, which is a response to the needs of customers and the market situation. Significant changes are noticeable in the collection of the Wólczanka brand, which will include new assortments for both men and women, creating a "total look", and the share of casual products should increase. Vistula brand offer will include, in addition to formal and casual products, the Vistula Move line inspired by sport, the Safari line inspired by the landscape and color of the desert, as well as elements of the women's collection. In Bytom brand, offering men's formal fashion and an assortment of smart casual and casual types, in the Spring edition of the collection customers will be able to find t-shirts and sweatshirts with the works of the creators of the Polish Poster School. Deni Cler Milano brand has prepared a collection for the Spring and Summer season consisting of six capsules inspired by nature. W.KRUK has prepared a collection inspired by the hummingbird motif. The original Preludium collection is a combination of jewellery craftsmanship with the latest trends.

As regards the opening plans, the Group does not anticipate any changes in the net retail floorspace it has compared to the end of 2020. There are still plans to close unprofitable stores, in particular in the apparel segment, which will reduce its space by 2% YoY and to develop the jewellery segment (space increase by 7% YoY). In the case of Wólczanka brand, new larger stores with an area of 150 m², will show the broadened range of this brand. The investment outlays planned for the current year in the amount of PLN 18 million will be mainly allocated to opening of new stores, mainly W.KRUK brand, and the development of infrastructure and IT systems.

The Group maintains further increases in sales in the on-line channel, and the share of this channel in total sales may exceed 20%. Ongoing support for the further development of the e-commerce channel will concern, among others increase in expenditure on acquiring on-line traffic, launching a sales application for each of the brands, improving the service of e-stores and further development of functionality and logistics, as well as consistent marketing and online and off-line promotions.

The Management Board of the Company is prepared for any epidemic scenario. Along with information on introduction of new restrictions, the Management Board decided to intensify on-line marketing, which is to translate into an increase in sales in this channel. In addition to pro-sales activities, the Management Board took actions related to cost reductions, consisting in a 20% reduction in salaries and working time of employees of sales outlets, as well as starting further negotiations with shopping malls. At the same time, the Management Board counts on support in the area of public aid in the form of suspension of rent payments and co-financing of employees' wages.

The key task of the Management Board is to stabilize the operating activities and protect the liquidity of the Group companies. The Group is currently in a safe liquidity situation, but despite this, in the face of the uncertainty as to the date of ending the restrictions on the operation of shopping malls, it is taking a number of steps to prevent it from deteriorating significantly. These activities include, first of all, improving the use of working capital, prudent investment policy and keeping operating costs under control, with ongoing response in the event of unfavourable sales and cost trends.

In addition to measures securing the Group's liquidity, the main goal for 2021 is to achieve significantly better financial results than in 2020, e.g. through the following activities:

- maximization of sales activities (including in the e-commerce channel) by adapting the offer to the current market trends and customer expectations;
- increase in sales in the online channel YoY; omnichannel-oriented activities, i.e. joint management of the channel of traditional stores and e-commerce;
- improvement of gross profit margin thanks to significant share of Asian sourcing and reduction of promotion;
- further optimization of the existing retail network, including closing unprofitable stores;
- further improvement in efficiency of working capital use, which we intend to achieve by reducing the level of inventories year on year, adapting the level of inventories to the changing situation and further work on financing purchases (extending cooperation with suppliers offering longer payment terms);
- maintaining a safe financial situation.

The Management Board of the Company still maintains that continuation of activities related to the House of Brands strategy and acceleration of development through acquisition activities for strong and recognizable apparel and jewellery brands will only be possible after the coronavirus pandemic has subsided and the market situation has stabilized.

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.



9. Statement on application of corporate governance rules in 2020

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 2020.

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 2020 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 2020.

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, 2020, 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.

In connection with the adoption by the Ordinary General Shareholder Meeting of the Company on June 29, 2020, the resolution on the approval of the remuneration policy for members of the Management Board and Supervisory Board of the Company based in Cracow, amended by the resolution of the Extraordinary General Shareholder Meeting of the Company of March 17, 2020, the Company will prepare the first report prepared by the Supervisory Board of the Company on remuneration for each member of the Management Board and each member of the Supervisory Board for the years 2019 and 2020 in total, in accordance with the provisions of law. Such report, subject to the auditor's assessment, will be presented for the opinion of the General Shareholder Meeting. Amendments in this respect result from the Act of October 16, 2019 amending the Act on Public Offering and the Conditions for Introducing Financial Instruments to Organized Trading, and on Public Companies, and certain other acts.

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 used in the Company is aimed at identifying and preventing or limiting to the greatest possible extent possible 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 terms of potential impact of the risks taken on the results of the Company's business. The key internal document to ensure risk monitoring, along with a record of key mitigating and limiting measures to mitigate their impact on the Company's operations, introduced on the basis of the Audit Committee's recommendations, is the "Risk Management Regulations at VRG S.A. in Cracow".

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, 2020

As at 31.12.2020, 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 | 47,047,277 | 20.07 | 47,047,277 | 20.07 |
| 2 | PZU „Złota Jesień” Open Pension Fund and Voluntary Pension Fund ² | 35,950,000 | 15.33 | 35,950,000 | 15.33 |
| 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 | 22,170,000 | 9.46 | 22,170,000 | 9.46 |
| 5 | Forum TFI S.A. ⁵ | 17,680,800 | 7.54 | 17,680,800 | 7.54 |

¹ information provided in accordance with the notification received by the Company pursuant to Art. 69 sec. 1 point 1 and art. 87 sec. 1 point 2 of the Act of July 29, 2005 on public offering and the conditions for introducing financial instruments to an organized trading system and on public companies, applies to the Company's shares held jointly by all funds managed by IPOPEMA TFI S.A. According to the information in the possession of the Company, the Ipopema 2 FIZ Non-Public Assets fund managed by IPOPEMA TFI S.A. at the Ordinary General Meeting on June 29, 2020, he held 20,414,000 shares of the Company, which constituted 8.71% of the share capital of the Company and gave 20,414,000 votes, representing 8.71% of the total number of votes at the General Shareholder Meeting of the Company. According to the information in the possession of the Company, the Ipopema 21 Closed-End Fund of Non-Public Assets, managed by IPOPEMA TFI SA, held 26,633,277 shares of the Company, which constituted 11.36% of the share capital of the Company and gave 26,633,277 votes, constituting 11.36% of the total number of votes at the General Shareholder Meeting of the Company.

² information provided on the basis of the number of shares registered jointly by the Open Pension Fund PZU "Złota Jesień" and Voluntary Pension Fund at the Ordinary General Shareholder Meeting of the Company on June 29, 2020. At the Ordinary General Shareholder Meeting of the Company on June 29, 2020, PZU "Złota Jesień" Open Pension Fund independently held 35,100,000 shares of the Company, which constituted 14.97% of the share capital of the Company and entitled to 35,100,000 votes at the General Shareholder Meeting of the Company, which constituted 14.97% of the total number of votes at the General Shareholder Meeting of the Company.

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 Ordinary General Shareholder Meeting of the Company on June 29, 2020. At the Ordinary General Shareholder Meeting of the Company on June 29, 2020, Nationale-Nederlanden Open Pension Fund held independently 32,750,487 shares of the Company, which constituted 13.97% of the share capital of the Company and was entitled to 32,750,487 votes at the General Shareholder Meeting of the Company, which was 13.97% of the total number of votes at the General Shareholder Meeting of the Company.

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 offering and the conditions for introducing financial instruments to an organized trading system and on public companies, and in accordance with the notifications received by the Company pursuant to Art. 19 MAR. According to the information possessed by the Company, Mr. Jerzy Mazgaj independently owns 21,170,000 shares of the Company, which constituted 9.03% of the share capital of the Company and is entitled to 21,170,000 votes at the General Shareholder Meeting of the Company, which constituted 9.03% of the total number of votes at the General Shareholder Meeting of the Company.

⁵ information on the number of shares provided in accordance with the notification received by the Company pursuant to Art. 69 sec. 1 point 2 in connection with art. 87 sec. 1 point 2 lit. a) the Act of July 29, 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies, and pursuant to 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 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 Shareholder Meeting of the Company, constituting 3.60% of the total number of votes in the Company, and (ii) Forum XXIII Closed-End Investment Fund holding 9,251,040 shares of the Company constituting 3.95% of the share capital of the Company and entitling to 9,251,040 votes at the General Shareholder Meeting of the Company, representing 3.95% 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 2020

The table below contains information about Shareholders who had as at the date of preparation of the annual report for the financial year 2020, at least 5% of the total number of votes at the General Meeting of Shareholders, according to information possessed by the Company.

As at 16.04.2021, 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 S.A. ¹ | 50,034,306 | 21.34 | 50,034,306 | 21.34 |
| 2 | PZU „Złota Jesień” Open Pension Fund and PZU Voluntary Pension Fund ² | 36,042,345 | 15.37 | 36,042,345 | 15.37 |
| 3 | Nationale-Nederlanden Open Pension Fund and Nationale-Nederlanden Voluntary pension Fund ³ | 32,750,000 | 13.97 | 32,750,000 | 13.97 |
| 4 | Jerzy Mazgaj with related party Krakchemia S.A. ⁴ | 22,465,760 | 9.58 | 22,465,760 | 9.58 |
| 5 | Forum TFI S.A. ⁵ | 17,680,800 | 7.54 | 17,680,800 | 7.54 |

1 information provided on the basis of the number of shares registered jointly by the fund Ipopema 2 FIZ Non-public Assets and Ipopema 21 FIZ Non-Public Assets managed by IPOPEMA TFI S.A. Ipopema 2 FIZ Non-public Assets Fund at the Extraordinary General Shareholder Meeting of March 17, 2021 held 20,289,000 shares of the Company, which constituted 8.65% of the share capital of the Company entitled to 20,289,000 votes representing 8.65% of the total number of votes at the General Meeting of Shareholders The Meeting of the Company. Ipopema 21 FIZ Non-public Assets Fund at the Extraordinary General Shareholder Meeting on March 17, 2021, held 29,745,306 shares of the Company, which constituted 12.69% of the share capital of the Company and entitled to 29,745,306 votes, representing 12.69% of the total number of votes at the General Shareholder Meeting of the Company.

2 information on the number of shares provided in accordance with the notification received by the Company on behalf of the Open Pension Fund PZU "Złota Jesień" pursuant to Art. 69 sec. 1 point 1 of the Act of July 29, 2005 on public offering and conditions for introducing financial instruments to an organized trading system and on public companies and on the basis of the number of shares registered by Voluntary PZU Pension Fund at the Extraordinary General Shareholder Meeting of the Company on March 17, 2021 year. According to the notification received by the Company, the Open Pension Fund PZU "Złota Jesień" independently holds 35,175,632 shares of the Company, which constitutes 15.003% of the share capital of the Company and entitles to votes, 35,175,632 representing 15.003% of the total number of votes at the General Shareholder Meeting of the Company.

3 information provided on the basis of the number of shares registered by Nationale-Nederlanden Open Pension Fund at the Extraordinary General Shareholder Meeting of the Company on March 17, 2021. At the Extraordinary General Shareholder Meeting of the Company on March 17, 2021, Nationale-Nederlanden Open Pension Fund held 32,750,000 shares of the Company, which constituted 13.97% of the share capital of the Company and entitled to 32,750,000 votes, constituting 13.97% of the total number of votes at the General Shareholder Meeting of the Company.

4 information provided on the basis of the number of shares registered jointly by Mr. Jerzy Mazgaj with a related entity, Krakchemia S.A. at the Extraordinary General Shareholder Meeting of the Company on March 17, 2021. At the Extraordinary General Shareholder Meeting of the Company on March 17, 2021, Mr. Jerzy Mazgaj independently owned 21,465,760 shares of the Company, which constituted 9.16% of the share capital of the Company and entitled to 21,465,760 votes at the General Meeting of the Company, which is 9.16% in general number of votes at the General Shareholder Meeting of the Company.

5 information on the number of shares provided in accordance with the notification received by the Company pursuant to Art. 69 sec. 1 point 2 in connection with art. 87 sec. 1 point 2 lit. a) the Act of July 29, 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies, and pursuant to 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 Shareholder Meeting of the Company, constituting 3.60% of the total number of votes in the Company, and (ii) Forum XXIII Closed-End Investment Fund holding 9,251,040 shares of the Company constituting 3.95% of the share capital of the Company and entitling to 9,251,040 votes at the General Meeting of the Company, representing 3.95% of the total number of votes in the Company.



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 General Meeting of the Company operates on the basis of the provisions of the Code of Commercial Companies, the Company's Articles of Association, in accordance with the permanent Regulations of the General Shareholder Meeting adopted by the resolution no. 2 of the Ordinary General Shareholder Meeting of the Company of June 30, 2004, amended by the resolution of the General Shareholder Meeting of the Company of June 29, 2009 and the Regulations of participation in the General Meeting of VRG SA with its registered office in Cracow, using electronic means of communication adopted by the Supervisory Board of the Company by a resolution of December 18, 2020.

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.

On March 17, 2021, the Extraordinary General Shareholder Meeting of the Company introduced a number of amendments to the Company's Articles of Association. Until the date of this report, these changes have not been registered in the National Court Register. The changes were presented in the current report No. 16/2021 of March 17, 2021.

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 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. 406¹ of the Code of Commercial Companies,
 - 4) information that the right to participate in the General Shareholder Meeting is only available to persons who are shareholders of the Company on the day of registration of participation in the General Shareholder Meeting,
 - 5) an indication of where and how a person entitled to participate in the General Shareholder Meeting may obtain the full text of the documentation to be presented to the General Shareholder Meeting and draft resolutions or, if no resolutions are envisaged, comments of the Management Board or the Supervisory Board regarding matters put on the agenda of the General Shareholder Meeting or matters to be included in the agenda before the date of the General Shareholder Meeting,
 - 6) indication of the address of the website on which information on the General Shareholder Meeting will be made available.

A shareholder or shareholders representing at least 1/20 of the Company's share capital may request that particular matters be placed on the agenda of the General Shareholder Meeting, which they request to be convened pursuant to Art. 400 § 1 of the Code of Commercial Companies and also on the agenda of the next General Shareholder Meeting.

In the case of election of Supervisory Board members by group voting, the Chairman of the General Meeting shall call on shareholders or their representatives participating in the General Shareholder Meeting to form a separate group or groups to elect one or several members of the Supervisory Board; these persons, however, do not take part in the selection of other members of the Supervisory Board.

If at least one group capable of electing a member of the Supervisory Board is not appointed, the Chairman of the General Shareholder Meeting states that the General Shareholder Meeting does not elect the members of the Supervisory Board.

After the election of the members of the Supervisory Board by the created group or groups, the General Shareholder Meeting shall elect the remaining members of the Supervisory Board by voting in which all shareholders or their representatives participate, whose votes have not been cast in the selection of members of the Supervisory Board elected by voting in separate groups.

The General Shareholder Meeting is opened by the Chairman of the Supervisory Board or another person in accordance with art. 409 § 1 of the Code of Commercial Companies, who then manages the election of the Chairman

of the General Shareholder Meeting. The person opening the General Shareholder Meeting should refrain from any other substantive or formal decisions.

The Chairman of the General Shareholder Meeting prepares and signs the attendance list containing the list of participants of the General Shareholder Meeting with the number of shares that each of them represents and the votes they are entitled to. The list, after being signed by the Chairman of the General Shareholder Meeting, is displayed during the General Shareholder Meeting.

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.

Dividend payment 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 from art. 337 of the Code of Commercial Companies, in which it refers to the disposition of shares, and thus also to perform activities related to the establishment of a pledge or usufruct on shares of the Company.

The subject of the pledge on shares is not the share itself, but the rights incorporated in the shares. For this reason, the provisions of the Civil Code on pledge on rights - regulated in art. 327 - 335 of the Civil Code apply.

In the light of art. 329 § 1 sentence 1 of the Civil Code, to establish a pledge on a right, the provisions on the disposal of this right shall apply. Establishment of a pledge will require the conclusion of an agreement between a shareholder acting as a pledger and his creditor acting as a pledgee, and then transferring the ownership of shares to the pledgee.

The legal status of the pledgee of shares is regulated, inter alia, in the provisions of: art. 340 § 1 and 3, art. 341, art. 362 § 3, art. 588 of the Code of Commercial Companies.

The establishment of a pledge on shares of companies whose shares are admitted to public trading is covered by a separate legal regime.

In connection with the conclusion of the pledge agreement, the pledgee will in principle be entitled to property rights, which are referred to as the benefits of the law (Article 54 of the Civil Code). These rights include: voting rights, the right to dividend, the right to participate in the liquidation mass.

With regard to the voting right, it should be mentioned that pursuant to art. 340 § 3 of the Code of Commercial Companies, in the period when the shares of a public company on which the pledge was established or used are recorded in securities accounts maintained by an authorized entity in accordance with the provisions on trading in financial instruments, the shareholder has the right to vote.

Establishment of usufruct on shares

A shareholder may establish usufruct on his/her shares of the Company.

The Company's Articles of Association do not provide for any restrictions in this regard.

The legal admissibility of establishing usufruct on shares results from art. 265 of the Civil Code stating that the rights may also be subject to usufruct. The establishment of usufruct on shares will relate to rights related with those shares. The legal status of the beneficiary of the person signing the usufruct on the shares (user) is regulated by the provisions of art. 4 § 1 points 4 a), art. 340, 341 § 2, art. 343 § 2 and 406 § 1 of the Code of Commercial Companies.

Establishment of usufruct on shares requires the conclusion of an agreement with the participation of a shareholder and a third party for whom the right of usufruct is established (user).

One should also indicate to a regulation contained in art. 340 § 3 of the Code of Commercial Companies, according to which in the period when the shares of a public company on which the pledge or usufruct was established are recorded in securities accounts maintained by an authorized entity in accordance with the provisions on trading in financial instruments, voting rights from such shares is entitled to a shareholder.

2. Corporate Shareholders' rights:

■ The right of a shareholder to elect the members of the Company's Supervisory Board

The Supervisory Board of the Company consists of 5 - 7 members. The number of members of the Supervisory Board is determined by the General Shareholder Meeting.

Members of the Supervisory Board are appointed and dismissed by the General Shareholder Meeting for the joint term in office.

If the election is made via the General Shareholder Meeting at the request of shareholders representing at least one fifth of the share capital, the election of the Supervisory Board may be made by voting in separate groups.

The Regulations of the General Shareholder Meeting in force at the Company provide for rules of conduct in the event of election of members of the Supervisory Board by voting in separate groups.

Persons representing at the General Shareholder Meeting this portion of shares, which falls due after division of the total number of represented shares by the number of Supervisory Board members, may form a separate group to elect one member of the Supervisory Board, without taking part in the selection of other members of the Supervisory Board.

The election of the Supervisory Board by groups prefers minority shareholders. Thanks to the possibility of creating separate groups, they can introduce their representatives to the Supervisory Board. The selection of groups takes place at the request of shareholders even when the Company's Articles of Association provide for a different manner of appointing the Supervisory Board. The selection of groups applies to all members of the Supervisory Board. The only exception is when the Supervisory Board consists of a person appointed by an entity authorized to choose independently on the basis of separate legal provisions. Only the other members of the Supervisory Board are subject to election.

If the Supervisory Board was elected by voting in separate groups, each group has the right to delegate one of the Supervisory Board members elected by it to permanent individual performance of supervisory activities. These members have the right to participate in meetings of the Management Board in an advisory capacity. The Management Board is obliged to notify them in advance about each of their meetings.

Members of the Supervisory Board, delegated to permanent individual performance of supervision, receive a separate remuneration, the amount of which is determined by the General Shareholder Meeting. The General Shareholder Meeting may entrust this right to the Supervisory Board. These persons are obliged with the competition ban referred to in art. 380 of the Code of Commercial Companies.

■ The right to convene and request the convening of an Extraordinary General Shareholder Meeting or placing certain matters on the agenda of the General Shareholder Meeting

Shareholders or a shareholder of the Company representing at least one twentieth of the Company's share capital have the right to request that an Extraordinary General Shareholder Meeting be convened and that specific matters be placed on the agenda of the Meeting. The request to convene an Extraordinary General Shareholder Meeting should be submitted to the Management Board in writing or in electronic form.

If, within two weeks from the date of submitting the request to the Management Board, the Extraordinary General Shareholder Meeting is not convened, a registry court may authorize the shareholders that demand the meeting to convene the Extraordinary General Shareholder Meeting. The court appoints the chairman of this Meeting. The Meeting referred to shall adopt a resolution deciding whether the costs of convening and holding the Meeting shall be borne by the Company. Shareholders, on whose request the Meeting has been convened, may apply to the registry court for exemption from the obligation to cover the costs imposed by the resolution of the General Shareholder Meeting. In the notification of convening the Extraordinary General Shareholder Meeting referred to in this paragraph, reference should be made to the decision of the registry court.

In addition, a shareholder or shareholders representing at least one twentieth of the share capital may request that certain matters be placed on the agenda of the next General Shareholder Meeting. The request should be submitted to the Management Board no later than twenty one days before the set date of the Meeting. The request should contain justification or a draft resolution regarding the proposed agenda item. The request may be submitted in electronic form. The Management Board is obliged to announce immediately, but no later than eighteen days prior to the scheduled date of the General Shareholder Meeting, changes to the agenda, introduced at the request of shareholders. The announcement is made in a manner appropriate for convening the General Shareholder Meeting.

In addition, the right to convene an Extraordinary General Shareholder Meeting was granted to shareholders representing at least half of the share capital or at least half of the total votes in the Company. Shareholders appoint the chairman of this Meeting (Article 399 § 3 of the Code of Commercial Companies).

The above-described rights are governed by the provisions of the Code of Commercial Companies, whereas the Company's Articles of Association do not contain any restrictions or privileges for the Company's shareholders in this regard. Moreover, no personal rights connected with convening General Shareholder Meetings were granted in the Company's Articles of Association.

■ **The right to participate in the General Shareholder Meeting and the right to request copies of motions on issues included in the agenda of the General Shareholder Meeting**

The shareholder's right to participate in the General Shareholder Meeting is one of the fundamental absolute rights of a shareholder, i.e. rights which the shareholder cannot be deprived of. The implementation of this right is guaranteed by art. 412 of the Code of Commercial Companies.

According to art. 4061 § 1 of the Code of Commercial Companies, persons who are shareholders on the day of registration, i.e. sixteen days before the date of the General Shareholder Meeting, have the right to participate in the General Shareholder Meeting of the Company.

To participate in the General Shareholder Meeting of the Company, entitled from dematerialised bearer shares shareholder, should apply to the entity maintaining the securities account not earlier than after the announcement of convening the General Shareholder Meeting and no later than the first weekday after the registration of participation in the General Shareholder Meeting to obtain a personal certificate of the right to participate in the General Shareholder Meeting (Article 4063 § 2 of the Code of Commercial Companies in connection with Article 4063 § 6 and § 7 of the Code of Commercial Companies).

The Company establishes a list of persons entitled to participate in the General Shareholder Meeting based on the list prepared by the entity keeping the securities deposit in accordance with the provisions on trading in financial instruments. The Management Board presents a list for information at the Company's headquarters for 3 (three) business days prior to the date of the General Shareholder Meeting.

Shareholders may participate in the General Shareholder Meeting and exercise their voting rights in person or by proxy.

The Company's Articles of Association do not allow shareholders to participate in the General Shareholder Meeting by means of electronic communication.

The power of attorney to participate in the General Shareholder Meeting of a public company or to exercise the voting right must be granted in writing or in electronic form without the requirement to use a secure signature verified by means of a valid qualified certificate.

On 29 June 2009, the General Shareholder Meeting of the Company, by virtue of resolution No. 29/06/2009, changed the Regulations of the General Shareholder Meeting regarding the procedure of notifying the Company of the power of attorney in electronic form via electronic means of communication.

A shareholder is entitled to notify the Company of the power of attorney to participate in the General Shareholder Meeting of the Company or to exercise the right to vote in electronic form without the requirement to use a secure signature of such power of attorney in accordance with the rules set out below.

Before the date of the General Shareholder Meeting, the Company makes available on the website www.vrg.pl a form for a power of attorney, which after filling in, the shareholder may send to the Company via the Company's website.

A shareholder who wishes to grant a power of attorney in the aforementioned form, asks in person or in writing for the Company to issue a login and password, which allows the shareholder to carry out the verification and proxy procedure in an electronic form. The shareholder undertakes to keep the assigned login and password confidential to him. The login and password are sent to the shareholder by letter or courier to the address provided by him in the request. A shareholder may change the password independently via the Company's website.

Before granting a power of attorney in electronic form, each shareholder should assess the risk related to notifying the Company of granting a power of attorney by means of electronic communication without using a secure signature.

Detailed rules for the implementation of the above procedure are determined by the Management Board of the Company. The Management Board of the Company may introduce additional security at its own discretion.

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.



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. Management Board

Composition of the Management Board:

At the balance sheet date of 31.12.2020 the Management Board composed of:

- Andrzej Jaworski – President of the Management Board
- Radosław Jakociuk – Executive Vice-President of the Management Board
- Michał Zimnicki – Executive Vice-President of the Management Board
- Erwin Bakalarz – Management Board Member

In 2020, the following changes took place in the composition of the Management Board of the parent company:

- On December 30, 2019, Mr. Mateusz Żmijewski, Executive Vice-President of the Management Board, resigned from his position in the Management Board of the Company with effect as of March 31, 2020. On March 30, 2020, Mr. Mateusz Żmijewski submitted a declaration of withdrawal of his resignation. In the resolution of March 30, 2020, the Supervisory Board of the Company agreed to withdraw the resignation of Mr. Mateusz Żmijewski and continue to perform the function of the Executive Vice-President of the Management Board of the Company until the end of the current term of office of the Management Board of the Company.

- The Supervisory Board of the parent company, at the meeting held on May 25, 2020, elected the Management Board of the Company for a new joint term of office starting on the day following the date of the Ordinary General Shareholder Meeting approving the financial statements of the Company for the financial year 2019. According to the content adopted resolutions of the Supervisory Board, the following were appointed to the Management Board of the Company for the period of a new, joint term of office:

- Mr. Michał Wójcik for the position of the President of the Management Board;

- Mr. Michał Zimnicki for the position of the Vice-President of the Management Board from September 1, 2020;

- Mr. Erwin Bakalarz for the position of a Member of the Management Board.

- On June 2, 2020, the Supervisory Board of the Company adopted a resolution on the appointment of Mr. Mateusz Żmijewski to the Management Board of the Company for a new joint term of office until August 31, 2020 and entrusted him with the function of the Executive Vice-President of the Management Board during this period.

- The Supervisory Board of the parent company on July 13, 2020 made the following changes in the composition of the Management Board:

1) recalled Mr. Michał Wójcik from the composition of the Management Board of the Company and the position of the President of the Management Board;

2) recalled Mr. Mateusz Żmijewski from the composition of the Management Board of the Company and from the position of the Vice-President of the Management Board;

3) appointed Mr. Andrzej Jaworski to the Management Board of the Company of the current joint term of office and entrusted him with the position of the President of the Management Board;

4) pursuant to art. 383 par. 1 of the Commercial Companies Code, delegated Mr. Ernest Podgórski, Member of the Supervisory Board of the Company, to temporarily perform the duties of the Executive Vice-President of the Management Board for financial matters; the posting was performed for a period of up to three months;

5) appointed Mr. Radosław Jakociuk to the Management Board of the Company of the current joint term of office and entrusted him with the function of the Executive Vice-President of the Management Board.

- the Supervisory Board of the Company, at the meeting held on August 17, 2020, adopted a resolution to shorten the time of delegation of Mr. Ernest Podgórski, Member of the Supervisory Board of the Company, to temporarily perform the duties of the Executive Vice-President of the Management Board for financial matters; by September 14, 2020

- on September 11, 2020, Mr. Ernest Podgórski, Member of the Supervisory Board of the Company, submitted a declaration of resignation with effect as of September 13, 2020 from delegating Executive Vice-President of the Management Board for financial matters to temporarily perform the duties of the Executive Vice-President of the Management Board.

In the period from December 31, 2020 to the date of approval of these financial statements, the composition of the Management Board of VRG S.A. has changed as follows:

- on January 11, 2021, Mr. Erwin Bakalarz resigned from the position of a Member of the Company's Management Board, effective January 11, 2021.

- On January 11, 2021, the Supervisory Board of the parent company appointed two members of the Management Board of the Company for the current joint term of office. Pursuant to the adopted resolutions of the Supervisory Board, the following were appointed to the Management Board of the Company:

Mr. Ernest Podgórski, PhD for the position of the Member of the Management Board responsible for IT and e-commerce;

Olga Lipińska-Długosz, PhD for the position of a Member of the Management Board.

As at the day of approval of these financial statements the composition of the Company's Management Board was as follows:

- Andrzej Jaworski – President of the Management Board
- Radosław Jakociuk – Executive Vice-President of the Management Board
- Michał Zimnicki – Executive Vice-President of the Management Board
- Ernest Podgórski – Member of the Management Board
- Olga Lipińska-Długosz – Member of the Management Board

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 split of Management Board,
- 16) taking decisions regarding group restructuring,
- 17) establishing organisation rules and working arrangements,
- 18) matters before settling of which at least one Management Board member filled an objections,
- 19) granting loans,
- 20) granting guarantees and sureties,
- 21) other important financial and non-financial matters relating to 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.

At the meeting of the Management Board of the Company on April 13, 2021, a resolution was adopted on the adoption of the new text of the Regulations of the Management Board of the Company, however, the condition for its entry into force is the approval of its content by the Supervisory Board of the Company as to the date of preparation of this report.

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 31.12.2020 the Supervisory Board consisted of:

- Jerzy Mazgaj - Chairman of the Supervisory Board
- Piotr Kaczmarek - Member of the Supervisory Board

- Jan Pilch - Member of the Supervisory Board
- Ernest Podgórski - Member of the Supervisory Board
- Piotr Stępnik - Member of the Supervisory Board
- Andrzej Szumański - Member of the Supervisory Board
- Wacław Szary - Member of the Supervisory Board

In 2020, the following changes took place in the composition of the Supervisory Board:

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

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

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

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

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

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

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

- on June 29, 2020, Mr. Grzegorz Janas submitted a statement on resignation for personal reasons from the function of a member of the Supervisory Board of VRG S.A.

- on June 29, 2020, Mr. Paweł Tymczyszyn submitted a declaration of resignation from the function of a member of the Supervisory Board of VRG S.A.

- on June 29, 2020; The Ordinary General Meeting of VRG S.A. adopted the following resolutions regarding changes in the composition of the Supervisory Board of the Company of the current joint term of office:

a) pursuant to Resolution No. 22/06/2020 of the General Meeting on changes in the composition of the Supervisory Board of the Company, Mr. Piotr Nowjalis was dismissed from the composition of the Supervisory Board of the Company.

b) pursuant to Resolution No. 23/06/2020 of the General Meeting on changes in the composition of the Supervisory Board of the Company, Mr. Ernest Podgórski was appointed to the composition of the Supervisory Board of the Company.

c) pursuant to the Resolution No. 24/06/2020 of the General Meeting on changes in the composition of the Supervisory Board of the Company, Mr. Wacław Gray was appointed to the composition of the Supervisory Board of the Company.

d) pursuant to Resolution No. 25/06/2020 of the General Meeting on changes in the composition of the Supervisory Board of the Company, Mr. Jan Pilch was appointed to the composition of the Supervisory Board of the Company.

In the period from December 31, 2020 to the date of approval of these financial statements, the composition of the Supervisory Board of the parent company changed as follows:

- on January 11, 2021, Mr. Ernest Podgórski resigned from the position of a Member of the Company's Supervisory Board with effect on January 11, 2021.

- on January 19, 2021, the Supervisory Board of the parent company adopted a resolution to supplement the composition of the Supervisory Board by co-option provided for in paragraph 22 sec. 3 of the Company's Articles of Association. The Supervisory Board appointed Mr. Mateusz Kolański to the Supervisory Board of the parent company of the current joint term of office.

Therefore, as at April 16, 2021 (the date of this statement), the Supervisory Board of the Company was composed of the following persons:

- Jerzy Mazgaj - Chairman of the Supervisory Board
- Mateusz Kolański – Vice-Chairman of the Supervisory Board
- Piotr Kaczmarek - Member of the Supervisory Board
- Jan Pilch - Member of the Supervisory Board
- Piotr Stępnik - Member of the Supervisory Board
- Andrzej Szumański - Member of the Supervisory Board
- Wacław Szary - 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,
- in writing or by means of direct remote communication when ordered by the Chairman of the Supervisory Board.

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.

It is possible to hold a meeting of the Supervisory Board:

- (i) by teleconference in such a way that all participants may communicate with one another by means of telecommunications; or
- (ii) in mixed mode, in such a way that some members of the Supervisory Board are present at the meeting and some participate in it by teleconference in such a way that all participants can communicate with each other using telecommunications means. The minutes of such a meeting are signed by the Chairman of the Supervisory Board, and in the case of mixed mode, also by members of the Supervisory Board who are present at the meeting.

Voting on the resolutions of the Supervisory Board may take place with the use of the electronic system of casting and counting votes.

The Supervisory Board may hold a meeting without being formally convened, if all members of the body are present and no one objects to holding the meeting in this manner.

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 members of the Supervisory Board. In the event of an equal number of votes for and against a resolution of the Supervisory Board - the casting vote is that of the Chairman of the Supervisory Board.

Unless the content of the resolution provides otherwise, the resolution of the Supervisory Board shall enter into force on the date of its adoption. Adoption of a resolution in writing by signing the draft resolution by individual members of the Supervisory Board indicating the date of voting and specifying whether they vote for the resolution, against the resolution or abstain from voting upon its signing by all members of the Supervisory Board or after 10 days from the date of sending the draft resolution to the members of the Supervisory Board.

The Supervisory Board may adopt, amend or repeal its regulations specifying the mode of its operation. The Supervisory Board exercises permanent supervision over the activities of the Company. Apart from the matters stipulated in the Company's Articles of Association, the specific 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.

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 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.

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 2020, the Audit Committee operated as a permanent collegial and advisory body of the Supervisory Board. The Audit Committee was appointed by way of a resolution of the Company's Supervisory Board of May 14, 2012, pursuant to art. 86 of the Act of May 7, 2009 on chartered auditors and their self-government, entities authorized to audit financial statements and on public supervision.

The composition of the Audit Committee in 2020 was subject to the changes described below. Therefore, in the period from 01.01.2020 to 19.02.2020, the Audit Committee was composed of.

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

On February 19, 2020, Ms. Grażyna Sudzińska-Amroziewicz submitted a declaration of resignation from the function of a member of the Supervisory Board of VRG S.A. and, consequently, membership in the 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 recalled Mr. Artur Małek and Mr. Jan Pilch from the Supervisory Board of the Company, which resulted in the termination of their membership in the committees operating within the Supervisory Board of VRG S.A.

Therefore, in the period from February 20, 2020 to February 27, 2020, the Audit Committee was composed of Mr. Piotr Kaczmarek - Member of the Audit Committee. At the meeting of the Company's Supervisory Board on February 27, 2020, the following were appointed to the four-person Audit Committee operating as part of the Supervisory Board of the current term of office: Mr. Piotr Kaczmarek, Mr. Grzegorz Janas, Mr. Piotr Nowjalis, Mr. Piotr Stępnik.

As a result of the above between 27.02.2020 until 29.06.2020 the Audit Committee consisted of:

- Mr Piotr Nowjalis – Chairman of the Audit Committee
- Mr Grzegorz Janas - Member of the Audit Committee
- Mr Piotr Kaczmarek - Member of the Audit Committee
- Mr Piotr Stępnik - Member of the Audit Committee

In connection with the resignation of Mr. Grzegorz Janas from the function of a member of the Supervisory Board of VRG S.A. filed on June 29, 2020 and dismissed from the composition of the Supervisory Board of VRG S.A. Mr. Piotr Nowjalis by the Ordinary General Shareholder Meeting of VRG S.A. on June 29, 2020 in the period from June 29, 2020 to July 13, 2020, the Audit Committee was composed of:

- Mr Piotr Kaczmarek - Member of the Audit Committee
- Mr Piotr Stępnik - Member of the Audit Committee

Based on the resolutions adopted at the meeting on July 13, 2020, the Supervisory Board of VRG S.A. established a new composition of the Audit Committee. Therefore, in the period from 13.07.2020 to 18.12.2020, the Audit Committee was composed of:

- Mr Waław Szary – Chairman of the Audit Committee,
- Mr Piotr Kaczmarek - Member of the Audit Committee,
- Mr Jan Pilch - Member of the Audit Committee,
- Mr Piotr Stępnik - Member of the Audit Committee.

At the meeting held on December 18, 2020, the Supervisory Board of the current term of office increased the number of members of the Audit Committee to five and appointed Mr. Ernest Podgórski to its composition. Therefore, in the period from December 18, 2020 to December 31, 2020, the Audit Committee was composed of:

- Mr Waław Szary – Chairman of the Audit Committee,
- Mr Piotr Kaczmarek – Member of the Audit Committee,
- Mr Piotr Stępnik – Member of the Audit Committee,
- Mr Jan Pilch – Member of the Audit Committee,
- Mr Ernest Podgórski – Member of the Audit Committee.

In the period from the balance sheet date, i.e. December 31, 2020 to April 16, 2021 (the date of these financial-statement), the above composition of the Audit Committee was subject to one change. In connection with the resignation of Mr. Ernest Podgórski from the function of a Member of the Supervisory Board of the Company, filed

on January 11, 2020, which resulted in the termination of his membership in the Audit Committee, in the period from January 11, 2021 to April 16, 2021 in the Audit Committee was composed of:

- Mr Waclaw Szary – Chairman of the Audit Committee,
- Mr Piotr Kaczmarek - Member of the Audit Committee,
- Mr Jan Pilch - Member of the Audit Committee,
- Mr Piotr Stępniaak - 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 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 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.

The following Members of the Audit Committee met or continue to meet the independence criteria pursuant to Art. 129 sec. 3 of the Act on statutory auditors: Mr. Artur Małek, Mr. Piotr Kaczmarek, Mrs. Grażyna Sudzińska-Amroziewicz, Mr. Piotr Nowjalis, Mr. Piotr Stępnia, Mr. Wacław Szary. Knowledge and skills in the field of accounting were possessed, in particular, by the members of the Audit Committee in the following persons: Mr. Artur Małek, Mr. Piotr Kaczmarek, Mrs. Grażyna Sudzińska-Amroziewicz, Mr. Piotr Nowjalis, Mr. Piotr Stępnia and Mr. Wacław Szary. The knowledge and skills in the above scope were acquired by the members of the Audit Committee by obtaining education in the field of economics and related sciences as part of higher education, post-graduate studies, specialized courses and training, and through professional experience related to performing functions in management and supervisory bodies of capital companies (including performing the function of a member of the Audit Committee of these bodies). Information on the education and professional experience of these members of the Audit Committee has been published in current reports:

1. Mr Artura Małka – current report No 33/2018 dated June 27, 2018;
2. Mrs Grażyny Sudzińskiej - Amroziewicz – current report No 33/2018 dated June 27 czerwca, 2018;
3. Mr Piotra Kaczmarka – current report No 35/2019 dated June 17, 2019;

4. Mr Piotra Nowjalisa – current report No 7/2020 dated February 12, 2020;
5. Mr Piotra Stępniaaka – current report No 8/2020 dated February 14, 2020 and current report No 10/2020 dated February 18, 2020;
6. Mr Wacława Szarego – current report No 33/2020 dated June 29, 2020.

The knowledge and skills in the industry in which it operates were possessed or are held, respectively, by the members of the Supervisory Board in the person of Mr. Artur Małek and Mr. Jan Pilch. Mr. Artur Małek gained knowledge in the field of the industry, in particular as a member of the Supervisory Board of the Company and a member of the Audit Committee of the Supervisory Board of the Company from April 2016. Mr. Jan Pilch gained knowledge in the field of the industry, among others as the founder and long-term Executive Vice President of the Management Board of Artman S.A. based 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 S.A. (until 2003 Artman Sp.z o.o.) as Executive Vice-President of the Management Board, in the years 2004-2009 as Executive Vice-President of the Management Board. In addition, in the past, Mr. Jan Pilch was, among others, Chairman of the Supervisory Board of Simple Creative Products, Chairman of the Supervisory Board of Gino Rossi S.A. Moreover, Mr. Jan Pilch was Chairman of the Supervisory Board of Bytom S.A. December 2010 to November 2018.

In 2020, the Audit Committee held eight meetings, the main topics of which were: the scope, course and methodology of the auditor's work related to the review and audit of the separate and consolidated financial statements of the Company and the audit of the financial statements of W.KRUK S.A. subsidiaries and DCG SA, reviews of the internal control and risk management system in terms of ensuring that the main strategic, operational and financial risks are properly identified and managed, monitoring and evaluation of activities of the internal audit unit operating within the organizational structure of the Company, detailed analysis of individual and consolidated projects financial statements included in the Company's periodic reports disclosed to the public, obtaining additional information and explanations about them from the Management Board of the Company and indicating the need for any corrections, additional explanations or comments, assessment of the independence of the audit firm and members of the unit and audit team solid financial statements of the Company for 2019, conducting an audit of the report of the Management Board of VRG SA on the Company's activities in 2019, the Company's separate financial statements for 2019, the Company's Management Board's report on the activities of the Company's Capital Group in 2019 and the consolidated financial statements of the Company's Capital Group for 2019, and the recommendation of the Company's Supervisory Board based on its results on accepting a positive assessment of the audit of the above reports and on the recommendation of the Supervisory Board's application to the Ordinary General Shareholder Meeting of the Company for their approval, examination of the costs of representation and business travel costs of members of governing bodies of companies from the VRG S.A. Capital Group.

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 2020, 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".

In the period between 01.01.2020 until 27.02.2020 the four-person-strong Nomination and Remuneration Committee included the following Supervisory Board members:

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

On February 19, 2020, Mrs. Grażyna Sudzińska-Amroziewicz submitted a declaration of resignation from the function of a member of the Supervisory Board of VRG S.A. and, consequently, membership in the Nomination and Remuneration Committee.

On February 20, 2020, the Extraordinary General Shareholder Meeting recalled Mr. Jan Pilch from the Supervisory Board of the Company, which resulted in the termination of his membership in the Nomination and Remuneration Committee.

As a result of the above from 20.02.2020 until 27.02.2020 the Nomination and Remuneration Committee consisted of:

- Mr Jerzy Mazgaj – Chairman of the Nomination and Remuneration Committee
- Mr Paweł Tymczyszyn – Member of the Nomination and Remuneration Committee.

At the meeting of the Supervisory Board of the Company on February 27, 2020, due to changes in the composition of the Supervisory Board of VRG S.A. by the Extraordinary General Shareholder Meeting on February 20, 2020, the following were appointed to the five-member Nomination and Remuneration Committee operating as part of the Supervisory Board of the current term of office: Mr. Grzegorz Janas, Mr. Jerzy Mazgaj, Mr. Piotr Stępnik, Mr. Andrzej Szumański, Mr. Paweł Tymczyszyn.

As a result of the above from 27.02.2020 until 29.06.2020 the Nomination and Remuneration Committee consisted of:

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

Along with Mr Grzegorza Janas and Mr Paweł Tymczyszyn resignations from Supervisory Board of VRG S.A. filled on June 29, 2020 and as a result, resignations from membership in Nomination and Remuneration Committee, from June 29, 2020 until July 13, 2020, the Nomination and Remuneration Committee consisted of:

- Mr Piotr Stępnik – Chairman of the Nomination and Remuneration Committee
- Mr Jerzy Mazgaj - Member of the Nomination and Remuneration Committee
- Mr Andrzej Szumański - Member of the Nomination and Remuneration Committee.

Due to changes in the composition of the Supervisory Board of VRG S.A. made by the Ordinary General Shareholder Meeting on June 29, 2020 on the basis of the resolutions adopted at the meeting on July 13, 2020, the Supervisory Board of VRG S.A. established a new five-person composition of the Nomination and Remuneration Committee.

As a result, from July 13, 2020 until September 14, 2020 the Nomination and Remuneration Committee consisted of:

- Piotr Stępnik, Chairman of the Nomination and Remuneration Committee
- Jerzy Mazgaj, Member of the Nomination and Remuneration Committee
- Jan Pilch, Member of the Nomination and Remuneration Committee
- Wacław Szary, Member of the Nomination and Remuneration Committee
- Andrzej Szumański, Member of the Nomination and Remuneration Committee.

In connection with the change in the position of the Chairman of the Nomination and Remuneration Committee by the Nomination and Remuneration Committee on September 14, 2020 from September 14, 2020 to December 31, 2020, the Nomination and Remuneration Committee composed of:

- Jerzy Mazgaj, Chairman of the Nomination and Remuneration Committee
- Jan Pilch, Member of the Nomination and Remuneration Committee
- Waław Szary, Member of the Nomination and Remuneration Committee
- Pan Piotr Stępniać, Member of the Nomination and Remuneration Committee
- Andrzej Szumański, Member of the Nomination and Remuneration Committee.

In the period from the balance sheet date, i.e. December 31, 2020 to April 16, 2021 (the date of this financial statement), the above composition of the Nomination and Remuneration Committee was changed as follows.

In the period from January 1, 2021 until February 17, 2021, the Nomination and Remuneration Committee consisted of:

- Jerzy Mazgaj, Chairman of the Nomination and Remuneration Committee
- Jan Pilch, Member of the Nomination and Remuneration Committee
- Waław Szary, Member of the Nomination and Remuneration Committee
- Pan Piotr Stępniać, Member of the Nomination and Remuneration Committee
- Andrzej Szumański, Member of the Nomination and Remuneration Committee.

On February 17, 2021, Mr. Waław Szary resigned from the position of a member of the Nomination and Remuneration Committee.

On February 17, 2021, Mr. Mateusz Kolański was appointed a member of the Nomination and Remuneration Committee.

In the period from February 17, 2021 until April 16, 2021, the Nomination and Remuneration Committee consisted of:

- Jerzy Mazgaj, Chairman of the Nomination and Remuneration Committee
- Mateusz Kolański, Member of the Nomination and Remuneration Committee
- Jan Pilch, Member of the Nomination and Remuneration Committee
- Pan Piotr Stępniać, Member of the Nomination and Remuneration Committee.
- Andrzej Szumański, 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.

| | | | | |
|--|---|---|---------------------------------------|---------------------------------------|
| Andrzej Jaworski | Radosław Jakociuk | Michał Zimnicki | Ernest Podgórski | Olga Lipińska-Długosz |
| | | | | |
| President of the Management Board | Executive Vice-President of the Management Board | Executive Vice-President of the Management Board | Member of the Management Board | Member of the Management Board |

Cracow, April 16, 2021

VISTULA

BYTOM

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VRG

VISTULA RETAIL GROUP



Independent Statutory Auditor's Report on the Audit
of Annual Consolidated Financial Statements of
VRG S.A. Group
for the financial year ended
31 December 2020

Mazars Audyt Sp. z o.o.
ul. Piękna 18
00-549 Warsaw

INDEPENDENT STATUTORY AUDITOR'S REPORT ON THE AUDIT OF ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

Translation of the document originally issued in Polish

To the General Meeting and the Supervisory Board of VRG S.A.] [a joint stock company]

Report on the Audit of Annual Consolidated Financial Statements

Opinion

We have audited the annual consolidated financial statements of the group, the parent undertaking of which is VRG S.A. ("the Parent Undertaking") ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the financial year from 1 January to 31 December 2020 and notes, comprising a summary of significant accounting policies and other explanatory notes ("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 2020, and of its consolidated financial performance and its consolidated cash flows for the financial year then ended in accordance with the applicable International Financial Reporting Standards as adopted by the European Union and the adopted accounting principles (policy);
- comply with the legislation applicable to the Group and with the provisions of the Parent Undertaking's Articles of Association as to the form and content;

This opinion is consistent with the additional report to the Audit Committee that we issued on 16 April 2021.

Basis for Opinion

We conducted our audit in accordance with National Standards on Auditing as per International Standards on Auditing adopted by resolution no. 3430/52a/2019 of the National Council of Statutory Auditors of 21 March 2019 regarding national standards on auditing and other documents (as amended) (National Standards on Auditing “NSA”), as well as according to the Act on Statutory Auditors, Audit Firms and Public Supervision of 11 May 2017 (“the Act on Statutory Auditors” - Journal of Laws of 2020, item 1415) and Regulation (EU) No 537/2014 of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (“EU Regulation” - Official Journal of the European Union L 158 of 27 May 2014 p. 77, as amended). Our responsibility under those standards has been further described in “Statutory Auditor’s Responsibilities for the Audit of the Financial Statements” section of our report.

We are independent of the Group Companies in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (“the IESBA Code”), adopted by resolution of the National Council of Statutory Auditors No. 3431/52a/2019 of 25 March 2019 on the principles of professional ethics for statutory auditors and other ethical requirements which are applicable to the audit of financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. During the audit, the key statutory auditor and the audit firm remained independent of the Group Companies in accordance with the independence requirements specified in the Act on Statutory Auditors and EU Regulation.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These include the most significant assessed risks of material misstatement, including the assessed risks of material misstatement due to fraud. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we summarized our responses to these risks, and, where deemed appropriate, presented the most important observations related to these risks.

We do not provide a separate opinion on these matters.

| Key audit matter | How the matter was addressed in our audit |
|---|--|
| <p><u>Impairment of goodwill and trademarks</u></p> <p>The goodwill disclosed in the consolidated financial statements as at 31 December 2020 amounted to PLN 302,748 thousand and the value of trademarks amounted to PLN 194,093 thousand.</p> <p>The analysis of the impairment of goodwill and trademarks was the key audit matter due the balance of goodwill and balance of trademarks which are material to the financial statements. The process of making an estimate by the Management Board is based on significant assumptions and estimates such as: budgets, future revenues, costs and cash flows, discount rate, long-term growth rate, which depend on the expectations about future market and economic conditions.</p> <p>The disclosures concerning the impairment tests carried out were presented in note no. 9 and no. 10 of the Notes to the consolidated financial statements.</p> | <p>Our audit procedures included a critical assessment of the correctness of goodwill impairment test and assumptions adopted in the model, with particular focus on:</p> <ul style="list-style-type: none"> - the assessment of the key assumptions concerning market parameters of the impairment test, in which the adopted discount rates, risk ratios, long-term growth rates and exchange rates; - the verification of the mathematical and arithmetical accuracy of the discounted cash flow model and reconciliation of source data to the financial forecasts approved by the Management Board of the Parent Undertaking; - the evaluation of the reasonableness of the financial forecasts adopted by the Parent Undertaking's Management Board through the analysis of the implementation of earlier adopted forecasts and changes in the environment affecting the adopted forecasts; - the assessment of the sensitivity analysis prepared by the Management Board of the Parent Undertaking while taking into account the assessment of changes in the discount rate and changes related to the operating profit; - the assessment of the correctness and completeness of disclosures in this regard. <p>The assessments made as part of the audit and comparisons described above provided us with sufficient and appropriate audit evidence necessary to address the described risk related to the goodwill impairment.</p> |
| <p><u>Inventory valuation</u></p> <p>The value of inventories disclosed in the consolidated financial statements as at 31 December 2020 amounted to PLN 505,584 thousand.</p> <p>The analysis of the inventory valuation was a key audit matter due to the balance</p> | <p>Our audit procedures included in particular:</p> <ul style="list-style-type: none"> - the review of accounting principles concerning the inventory valuation and related significant judgments and estimates; |

of inventories which is material to the consolidated financial statements. The valuation of inventories as at the balance sheet date with respect to prudent valuation and to potential impairment allowances requires considering their specificity and adopting many assumptions. It is particularly necessary to estimate realizable prices, evaluate the inventory turnover and ageing of particular classes of inventories and verify the level of inventory impairment losses taking into account the nature of inventories.

The Group presented the disclosures regarding inventories in note no. 15 of the Notes to the consolidated financial statements.

- the assessment of the policy of recognizing impairment allowance, its validity and compliance with the adopted methodology;
- the analysis of the model of calculation of the impairment allowance, including the completeness and correctness of calculations;
- the assessment of the correctness of valuation and the validity of the allowance by comparing the unit selling price to the current realizable selling prices;
- the assessment of the correctness and completeness of disclosures in this regard.

The above-described tests of details carried out provided us with sufficient and appropriate audit evidence necessary to address the described risk related to the inventory valuation.

Revenue recognition

The value of net revenues from sales disclosed in the consolidated profit and loss account for the period from 1 January 2020 to 31 December 2020 amounted to PLN 853,714 thousand.

The correct revenue recognition is an inherent industry risk. It results from the complexity of terms and conditions set out in the sales contracts. These terms and conditions are frequently changing and require adequate reflection in the sales system, which increases the risk of error.

The Group presented the disclosures regarding revenues in note no. 1 and 2 to the Notes to the consolidated financial statements.

Our audit procedures included in particular:

- the review of accounting principles concerning the revenue recognition and related significant judgments and estimates;
- the understanding and assessment of the internal control environment, in which the recognition and presentation of revenues from sales;
- the analysis of the significant terms and conditions of contracts and their reflection in the sales system;
- the assessment of IT systems used with respect to revenue recognition;
- the analysis of the balance confirmations received from clients and statement of payments received in connection with the sale;
- the assessment of the correctness and completeness of disclosures in this regard.

The above-described tests of details carried out in conjunction with the assessment of internal control environment provided us with sufficient and appropriate audit evidence necessary to address the described risk related to the revenue recognition.

Responsibilities of the Management Board and Supervisory Board of the Parent Undertaking for the Consolidated Financial Statements

The Parent Undertaking'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 performance in accordance with International Financial Reporting Standards as adopted by the European Union and adopted accounting principles (policy), as well as with the relevant legislation and with the provisions of the Parent Undertaking's Articles of Association. The Parent Undertaking's Management Board is also responsible for such internal control as the Management Board determines is 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 Undertaking's Management Board is responsible for assessing the Group's ability to continue as a going concern, as well as for disclosing, if applicable, matters related to going concern and for adopting the going concern assumption as an accounting basis, unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Parent Undertaking's Management Board and members of the Supervisory Board are obliged to ensure that the consolidated financial statements meet the requirements set out in the Accounting Act of 29 September 1994 ("Accounting Act" – Journal of Laws of 2021, item 217 as amended). Members of the Supervisory Board of the Parent Undertaking are responsible for supervising the financial reporting process.

Statutory Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 audited Group and effectiveness or efficiency of running its affairs by the Parent Undertaking's Management Board at present or in the future.

According to National Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit, as well as:

- we identify and assess risks of material misstatement of consolidated financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks 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 an understanding of internal control relevant to the 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 and the reasonableness of the accounting estimates and related disclosures made by the Management Board of the Parent Undertaking;
- we conclude on the appropriateness of the Parent Undertaking's Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, as to whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the 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 our 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 appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit and we remain solely responsible for the auditor's opinion on our audit.

We communicate to the Supervisory Board of the Parent Undertaking information regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We make a representation to the Supervisory Board of the Parent Undertaking that we have complied with relevant ethical requirements pertaining to independence and that we will communicate all relationships and other matters that could reasonably be considered to pose a threat to our independence, and, where applicable, the safeguards applied.

Among matters communicated to the Supervisory Board of the Parent Undertaking we have determined matters that were of most significance in our audit of the consolidated financial statements of the current period and therefore we have determined them to be key audit matters. We describe those matters in our auditor's report unless law or regulation preclude their public disclosure or when, in exceptional circumstances, we decide that a given matter should not be presented in our report as the adverse consequences of such communication would reasonably be expected to outweigh the public interest benefits of communicating about the matter.

Other Information, including the Management Report

Other information includes the management report of the Group for the year ended 31 December 2020 (“Group Management Report”) along with corporate governance statement which is a separate part of this Group Management Report and separate report on non-financial information referred to in Article 55 (2c) of the Accounting Act (jointly referred to as “Other Information”).

Responsibility of the Management Board and Supervisory Board of the Parent Undertaking

The Parent Undertaking’s Management Board is responsible for preparing Other Information in accordance with the applicable regulations.

The Management Board of the Parent Undertaking and members of the Supervisory Board of the Parent Undertaking are obliged to ensure that the Group Management Report along with the separate part meets the requirements set out in the Accounting Act.

Statutory Auditor’s Responsibility

Our opinion on the audit of the consolidated financial statements does not cover Other Information. Our responsibility regarding the audit of the consolidated financial statements is to get acquainted with Other Information and to consider whether it is not significantly incoherent with the consolidated financial statements or with our knowledge obtained during the audit or whether Other Information seems to be significantly misstated in other manner. If, based on work performed, we consider that there are material misstatements in Other Information, we are obliged to inform about it in our audit report. In accordance with the Act on Statutory Auditors, our responsibility is also to give an opinion whether the Group 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 obliged to communicate whether the Group prepared a separate report on non-financial information and issue an opinion whether the Group included the required information in the corporate governance statement.

Opinion on the Group Management Report

Based on the work performed during the audit, in our opinion, the Group Management Report:

- has been prepared in accordance with Article 49 of the Accounting Act and 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 on conditions under which information required by legal regulations of a third country may be recognised as equivalent (“Regulation on current information” – Journal of Laws of 2018, item 757 as amended),

- is in line with information contained in the consolidated financial statements.

Moreover, according to our knowledge of the Group and its environment obtained during the audit, we declare that we have not identified any material misstatement in the Group Management Report.

Opinion on Corporate Governance Statement

In our opinion, the Group included information specified in paragraph 70 (6) item 5 of the Regulation on the current information in its corporate governance statement. Moreover, information indicated in points c-f, h and i of paragraph 70 (6) item 5 of this Regulation included in the corporate governance statement complies with the relevant regulations and information included in the consolidated financial statements.

Information on Non-Financial Information

In accordance with the requirements of the Act on Statutory Auditors we confirm that the Group included in the Group Management Report information on preparing a separate report on non-financial information referred to in Article 55 (2c) of the Accounting Act and that the Group prepared such separate report.

We have not performed any assurance work concerning the separate report on non-financial information and we do not express any assurance about it.

Report on Other Legal and Regulatory Requirements

Declaration on non-audit services

According to our best knowledge and belief we declare that non-audit services that we have provided to the Group comply with laws and regulations applicable in Poland and that we have not provided any non-audit services that are prohibited pursuant to Article 5 (1) of the EU Regulation and Article 136 of the Act on Statutory Auditors.

Appointment of an Audit Firm

We were appointed for the first time to audit the consolidated financial statements of the Group pursuant to the resolution of the Parent Undertaking's Supervisory Board of 19 June 2017 and then again under the resolution of 20 February 2018 and 15 July 2019. We have been auditing the consolidated financial statements of the Group continuously, starting from the financial year ended 31 December 2017, i.e. for 4 consecutive years.

The key statutory auditor responsible for the audit that was the base of this 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 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

Partner

mazars

Warsaw, 16 April 2021

Appendix 2 to Resolution No. 2 of the Supervisory Board of VRG S.A. with its seat in Cracow of April 16, 2021 regarding the assessment of the Supervisory Board of VRG S.A. regarding the Management Board's report on the activities of VRG S.A. and financial statements of VRG S.A. for 2020 and the Management Board's reports on the activities of the VRG S.A. Capital Group and the consolidated financial statements of the VRG S.A. Capital Group for 2020 required under § 70 section 1 point 14) and § 71 subpara. 1 point 12) Ordinance of the Minister of Finance of March 29, 2018 on 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 ("Ordinance of the Minister of Finance").

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 2020;
2. consolidated financial statement of the Company's Capital Group for 2020.

Assessment of the Management Board's report on operations of the Company's Capital Group for 2020:

The Supervisory Board assessed the Management Board's report on the operations of the Company's Capital Group for 2020 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, 2020, including the auditor's opinion on the Management Board's report on the operations of the Capital Group for 2020, and became acquainted with the recommendation of the Audit Committee regarding the Management Board's report on operations of the Capital Group for 2020 and therefore states that the Management Board's report on operations of the Capital Group for 2020:

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 2020.

The Supervisory Board states that the report on operations of the Capital Group of the Company in 2020 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 2020.

Assessment of the consolidated financial statements of the Company's Capital Group for 2020:

The Supervisory Board assessed the consolidated financial statements of the Capital Group for 2020 comprising:

- a) consolidated statement of financial position prepared as at 31 December 2020,
- b) consolidated statement of profit or loss for the fiscal year from January 1, 2020 to December 31, 2020;
- c) consolidated statement of comprehensive income for the fiscal year from January 1, 2020 to December 31, 2020;
- d) consolidated statement of cash flows for the fiscal year from January 1, 2020 to December 31, 2020;
- e) consolidated statement of changes in equity for the fiscal year from January 1, 2020 to December 31, 2020,
- 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, 2020, and became acquainted with the recommendation of the Audit Committee regarding the consolidated financial statements of the Capital Group for 2020 and states that the consolidated financial statements of the Capital Group for 2020 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 2020.

Taking into account the above assessment regarding the report on operations of the Capital Group in 2020 and the consolidated financial statements of the Capital Group for 2020 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.

Cracow, April 16, 2021

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 leave behind an unprecedented year in the history of the VRG Capital Group and the entire Polish economy – a year marked by effects of the global COVID-19 pandemic. Development of the epidemic situation, and in particular administrative decisions regarding lack of possibility of selling in the Group's traditional stores located in shopping malls, influenced the Group's results throughout 2020.

Consolidated revenues in 2020 amounted to PLN 853.7 million and were approximately 20% lower than in the historically record-high year for the Group of 2019. The decrease in revenues was directly influenced by restrictions in traditional trade. These resulted from administrative decisions made in connection with the course of the epidemic in the country. Despite the fact that for almost a quarter of the year the Group was able to sell only in the online channel, the baseline scenario assuming a decrease in revenues of up to 25% year on year was achieved. Consolidated net loss was PLN 48.2 million, compared to PLN 64.0 million in profit in 2019.

The most important challenge for VRG Capital Group last year was to ensure the stabilization of our operations in a difficult business environment. The Management Board focused on protecting financial liquidity, improving working capital management, reducing costs, optimizing inventories and order volumes and ensuring the Group's operational going concern.

In the Spring of 2020, we saw the first-ever lockdown of our traditional stores. It was a time when the Group only sold online. After opening stores in the second quarter, we saw a gradual recovery in demand in the offline channel, which, however, did not return to the level of 2019. Regardless of the reopening of traditional stores, we recorded good traffic in our online stores.

The third quarter of 2020 was the only one in which, thanks to far-reaching unfreezing of the economy, the Group was able to sell both online and in stores. We have succeeded in this period, among others with the launch of our new Autumn/Winter collections. From the beginning of October, along with growing number of COVID-19 cases and the announcement of the red zone throughout Poland (with the highest degree of epidemic restrictions), demand and movement of customers in stores have been reduced, until the announcement of administrative closing down of stores in large commercial facilities on days from November 7 to 27. We dealt with another such lockdown in a period crucial for trade, from December 27, which prevented the Group from gaining traffic in the offline channel during the biggest sell-offs after Christmas.

The Group ended the year with 570 stores in 106 cities all over Poland, which translated into 53 thousand m² of floorspace. Throughout the year, we took active steps towards optimization of the retail network, departing from the strategy of systematically increasing the retail floorspace on which the Group operates. We did not hesitate to close low-profit stores. The Group took advantage of rental holidays guaranteed under the government's first anti-crisis shield and negotiated rents for all subsequent periods of administrative lockdown. Potential new locations for traditional stores are currently selected with care, based on in-depth profitability analyzes. In the jewellery segment, we focus on a sustainable network

development, based on both our own and franchise locations. In apparel brands, we focus on franchise store development as these stores carry a lower cost risk for the Group.

Pandemic restrictions in traditional trade resulted in a dynamic increase in online sales. In 2020, the sales of online stores of VRG Capital Group amounted to PLN 207 million, which represents an increase of 43% year on year. In the Group's revenues for 2020, the internet channel already accounted for 24.3% (compared to 13.6% a year earlier). As in previous years, the leader in online sales among all the Group's brands was Wólczanka, whose online sales increased by 22%. The share of the internet channel in the brand's revenues was 56.4%.

During the year, we introduced many operational innovations and successively improved our logistics processes to more efficiently handle orders from e-commerce customers. We invested in infrastructure of online stores, incl. new sales engines and applications to prepare the Group for a further increase in traffic in this channel. These changes will positively affect the sales process in the future. Maintaining good sales dynamics in e-commerce is one of the strategic goals of the Management Board for 2021.

Restricting offline sales put pressure on margins throughout the year. Consolidated gross profit margin generated by the Group was 3.2 pp. lower than in the previous year and amounted to PLN 417.3 million (48.9% vs 52.1% in 2019). The jewellery segment was more resistant to this phenomenon (51.3% compared to 47.2% in the apparel segment).

Limitations in business and social life, including in particular the transition of many companies to remote work and the inability to organize family celebrations, translated into the results of the apparel segment of the Group. This segment generated revenues of PLN 501.4 million (28% less year on year).

The pandemic accelerated the evolution of the Group's apparel brands towards casual fashion, initiated in previous years. We have opened up to new elements of the assortment, both for men and women, moving more and more towards a complete "total look". Although the share of formal clothing in revenues decreased year on year, it remains the DNA of our Group. Vistula was and still is the most fashionable brand of the Group. In the Autumn/Winter 2020 season, elements of the women's collection were introduced to the offer as part of the Vistula Red line. This direction will continue in 2021 as part of the development of the Vistula women's collection. Bytom maintains its more classic line, with a significant increase in the share of casual products (including suits). The offer of the luxury women's apparel brand, Deni Cler, changed in a similar way in 2020. Wólczanka brand has developed an assortment of, among others for knitwear, dresses and chino trousers.

In these difficult conditions, W.KRUK brand, representing the jewellery segment, was doing well. The brand's revenues amounted to PLN 352.3 million, 6% less than in 2019. Despite the limitations in the marketing budget, the brand marked its 180th anniversary on the market by introducing the jubilee jewellery collection "Blask". In the fourth quarter, W.KRUK offer was enriched with a new brand of exclusive watches. W.KRUK has opened the second boutique at the Raffles Europejski Warsaw Hotel this year, presenting the Patek Philippe offer.

VRG Capital Group comes out of a pandemic in a safe financial situation, more flexible in reacting to sudden changes in the market environment and ready to use its potential for further development. COVID-19 has accelerated many changes in the Group, contributing to its greater stability in the long term. We

believe in the dynamic rebound of the Polish economy along with the reduction of the COVID-19 effect. We hope that the return to normal operations will be possible in the second half of 2021. We will be prepared to be the beneficiaries of this growth. The ambition of the Management Board is to significantly improve the financial results in the perspective of 2021 compared to 2020, and then return of the Capital Group on a steady path of long-term growth, as in the years preceding the crisis caused by the COVID-19 pandemic. The tool for achieving this goal will be the new strategy of VRG Capital Group, in relation to which the Management Board is in advanced works.

*Andrzej Jaworski
President of the Management Board*

Cracow, April 16, 2021

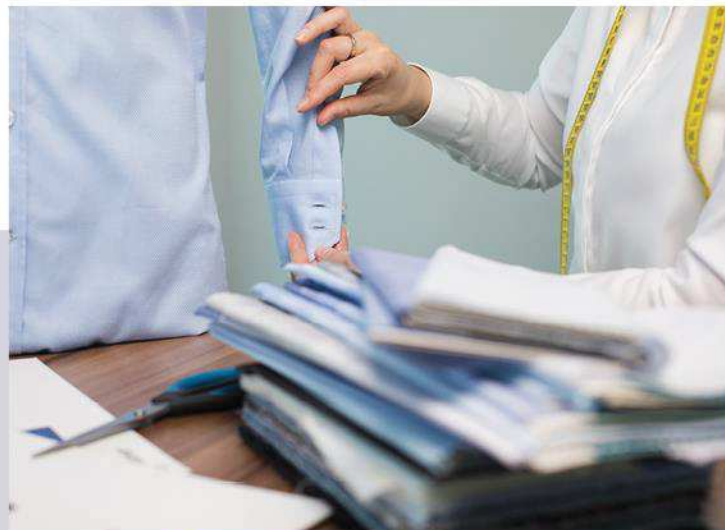
VISTULA

BYTOM
SZTUKA KRAWIECTWA OD 1945

WÓLCZANKA

DENICLER
MILANO

W.KRUK
1 8 4 0



NON-FINANCIAL REPORT

of VRG S.A. and VRG S.A. Capital Group
for 2020

Cracow, April 16, 2021

Table of Contents

| | | |
|------------|--|-----------|
| 1. | INTRODUCTION..... | 3 |
| 2. | BUSINESS MODEL..... | 4 |
| 2.1. | CAPITAL GROUP BUSINESS MODEL OVERVIEW | 4 |
| 2.2. | VALUE CHAIN | 7 |
| 2.3. | GROUP'S STRATEGY AND ITS RESULTS | 13 |
| 2.4. | AWARDS AND ACHIEVEMENTS..... | 19 |
| 2.5. | ORGANISATIONS AND SOCIETIES..... | 20 |
| 3. | CORPORATE GOVERNANCE..... | 20 |
| 4. | STAKEHOLDERS | 23 |
| 5. | SOCIAL AND EMPLOYEE MATTERS..... | 27 |
| 5.1. | POLICIES..... | 27 |
| 5.2. | RISKS | 39 |
| 6. | HUMAN RIGHTS MATTERS | 39 |
| 6.1. | POLICIES..... | 39 |
| 6.2. | RISKS | 44 |
| 7. | ENVIRONMENT AND CLIMATE MATTERS..... | 45 |
| 7.1. | POLICIES..... | 45 |
| 7.2. | RISKS | 54 |
| 8. | ANTI-BRIBERY AND ANTI-CORRUPTION MEASURES | 59 |
| 8.1. | POLICIES..... | 59 |
| 8.2. | RISKS | 60 |
| 9. | RISK MANAGEMENT..... | 60 |
| 10. | NON-FINANCIAL INDICATORS | 63 |

1. Introduction

Sustainable development and corporate responsibility and topics important for VRG S.A. Capital Group and VRG S.A. as well as their stakeholders. 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, VRG S.A. Capital Group is conscious of its impact on surroundings and the weight of actions conducted on ability of current and future generations to realise their goals. While conducting its operations, both VRG S.A. Capital Group as well as VRG S.A. use both financial, natural, intellectual, 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, 2020 and December 31, 2020 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.

The years 2020 and 2019, although close in terms of calendar, differed significantly. 2019 was a year of significant changes for the VRG S.A. Capital Group. and VRG S.A. On November 30, 2018, the Registrar Court in Cracow registered the merger of Vistula Group S.A. with Bytom S.A. changing the name of the combined company to VRG S.A. In 2019, intensive works were carried out involving actual, and not only formal merger, the aim of which was to generate synergies declared to shareholders. As a result, the financial results shown for 2019 were the best in the history of the Capital Group. 2020 was the opposite of 2019 in terms of financial performance, which was significantly adversely affected by the COVID-19 pandemic. As a result, for almost three months of 2020, traditional stores of the brands of VRG S.A. Capital Group, the main source of its revenues, profits and operating flows, did not operate. Deterioration of the situation of households, the need to switch to remote work and significant restrictions in organization of special events (i.e. weddings or proms) translated into lower demand for goods of the Group's brands. However, at the level of the composition of the Capital Group, there were no changes and both financial and non-financial data for 2020 are comparable to the data for 2019.

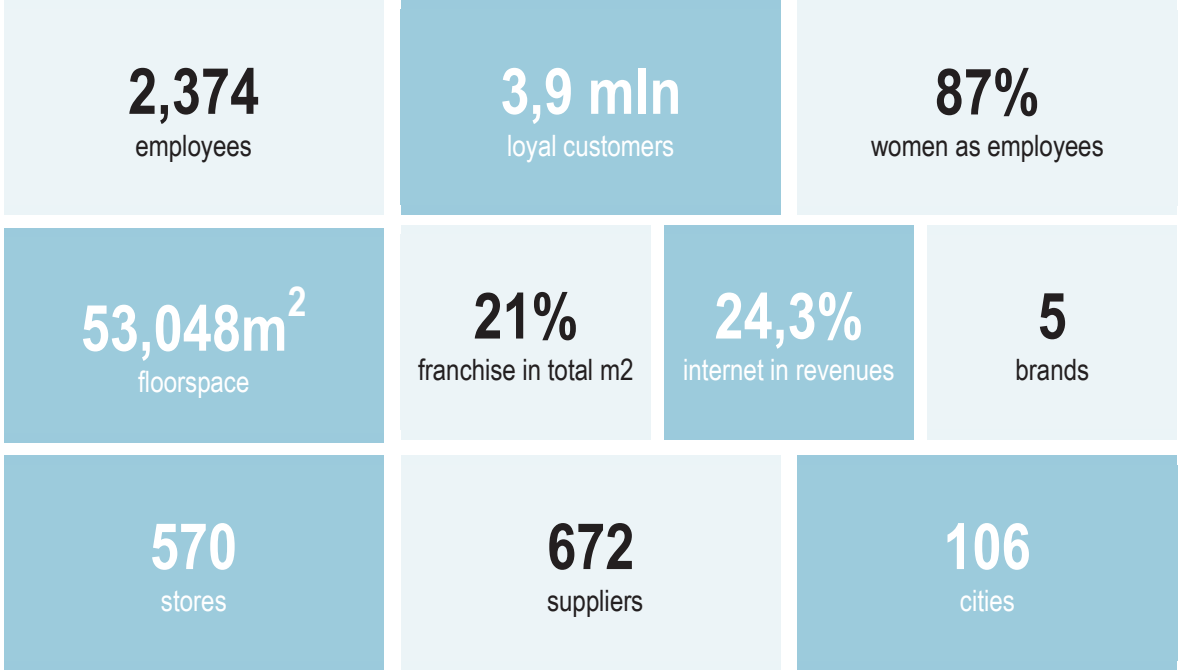
Similarly to last year, the basis for creation of 2020 Non-financial Report were practices and policies of the parent company VRG S.A. (for which descriptions are presented under the apparel segment) and its subsidiaries with which it creates a Capital Group. Despite intensive works related to maintenance of financial stability and adjustments to the pandemic reality, VRG S.A. and VRG S.A. Capital Group continued over the last year actions inscribed in the Sustainable Development Strategy for 2020-22 and increased the scale of non-financial disclosures, especially in relation to waste and packaging. Similarly to last year, the Report also includes a description of selected climate topics, coming across 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.

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. To verify whether disclosures fit the needs of stakeholders and check whether their expectations have changed due to COVID-19 pandemics, VRG S.A. Capital Group conducted a survey among its stakeholders. A vast majority of topics material for stakeholders is included in this Report. 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 pieces to form the Non-financial Report.

The Company and the Group have produced this Non-financial Report based on own methodology created in earlier years. 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. Information presented in this Report contain the majority of topics treated at material according to 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 2020, similarly to 2019, the Company and the Group decided to publish the non-financial information in the form of a report.

KEY NON-FINANCIAL INDICATORS OF VRG S.A. CAPITAL GROUP FOR 2020



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 and watches. The Group owns five highly recognised brands such as Vistula, Wólczanka, Bytom, Deni Cler Milano (the apparel segment) and W.KRUK (the jewellery segment). The brands 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.

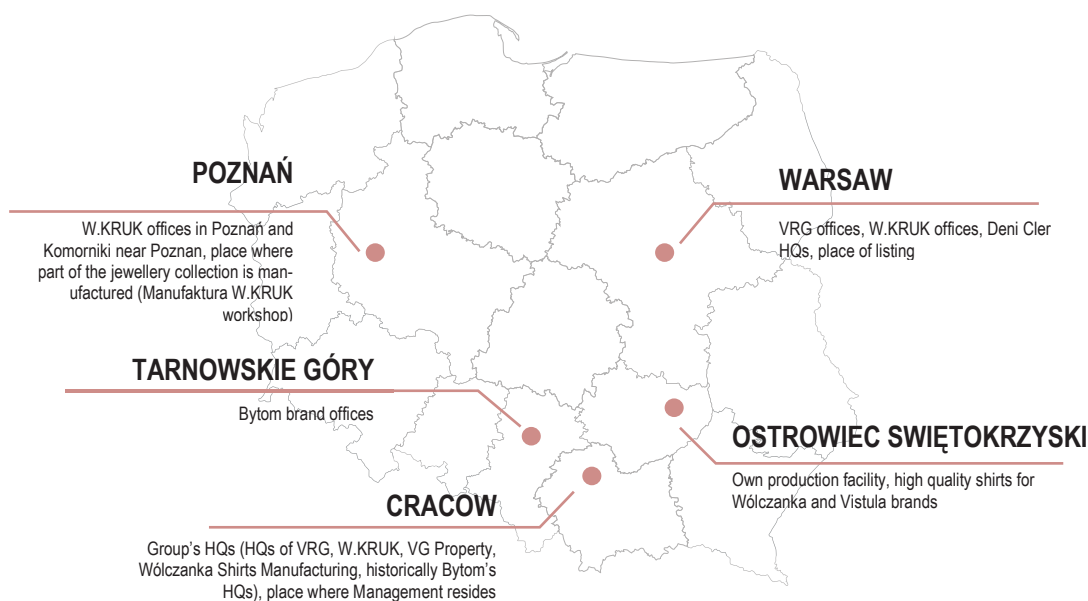
Companies that form the consolidated and non-consolidated financial statements



The Company's origins date back to October 10, 1948 when VRG S.A. legal predecessor was created via Minister of Industry and Trade ordinance on the creation a state-owned enterprise named "Krakowskie Zakłady Przemysłu Odzieżowego" (Cracow Clothing Production Industry). On April 30, 1991, the District Court for Cracow Śródmieście in Cracow, registered the transformation from a state-owned enterprise into a sole-shareholder company of the State Treasury. The Company was one of the first firms that were listed on the Warsaw Stock Exchange. VRG S.A. had its debut on September 30, 1993. In 2008, W.Kruk was taken over and merged into the Capital Group. In 2018 the Group expanded by taking over Bytom S.A. VRG S.A. shares are listed on the main market and belong, among others, to the following indices: sWIG80, sWIG80TR, WIG-ODZIEŻ, WIG-Poland, InvestorMS and WIG.

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. Group's strong competences within production and design of mens' formalwear have long-lasting tradition of design, tailoring and selling dating back to 1948 in terms of Vistula brand and 1945 in terms of Bytom brand. 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 office 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 jewellery 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.

| VISTULA | VISTULA <i>Lantier</i> | VISTULA <small>RED</small> |
|---|---|---|
| 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, also a more casual one. | 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 | Floorspace (m2) | Average store size (m2) |
| 2019: 154 2020: 149 | 2019: 19,320 2020: 18,695 | 2019: 125 2020: 125 |



WÓLCZANKA

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

| WÓLCZANKA | LAMBERT <small>LONDON STYLE SHIRTING</small> | |
|---|---|-------------------------|
| 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 | Floorspace (m2) | Average store size (m2) |
| 2019: 140 2020: 129 | 2019: 4,954 2020: 4,658 | 2019: 35 2020: 36 |

| | |
|--|--|
| BYTOM | DENI CLER MILANO |
| 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. | brand coming from Milan, offering up-market clothing for women. |
| BYTOM | 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. | 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 | |
| 2019: 126 2020: 117 | 2019: 31 2020: 32 |
| Floorspace (m2) | |
| 2019: 16,421 2020: 15,604 | 2019: 3,037 2020: 3,064 |
| Average store size (m2) | |
| 2019: 130 2020: 133 | 2019: 98 2020: 96 |

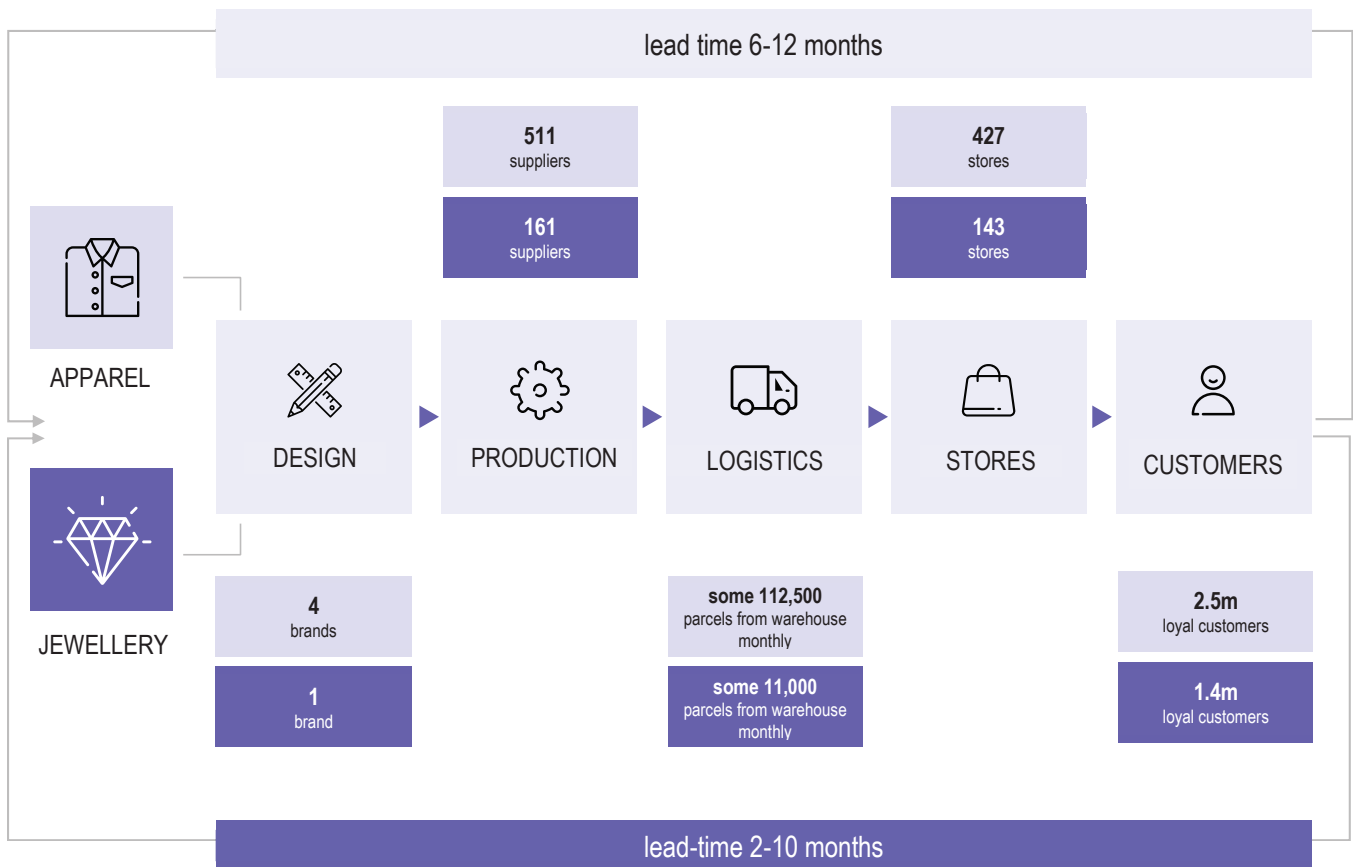
JEWELLERY SEGMENT

| | | |
|--|---|--|
| 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 | | |
|  |  | WATCHES |
| 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, Patek Philippe (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 | Floorspace (m2) | Average store size (m2) |
| 2019: 139 2020: 143 | 2019: 10,647 2020: 11,027 | 2019: 77 2020: 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 6-12 months for the apparel segment and 2-10 months for the jewellery segment. In both segments the pandemic brought changes to lead times, shortening it from 10-12 months for the apparel segment and lengthening from the original 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 are 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 2019 W.KRUK presented a line of signature perfumes for men and women, which continued to be part of the offer in 2020.

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 design and production phase.

Start of cooperation with a new producer needs a sizeable engagement from both parties. New sourcing partners were previously found mainly on dedicated fairs, which took place in Europe and the Far East as well as via business relations with trading partners. In 2020 due to COVID-19 pandemics, establishing new contacts mostly took place via e-mail and in the form of on-line meetings. 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, but also small enterprises, including family companies.

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 knitwear, trousers, jackets, shirts, shoes, leather accessories and other accessories from proven third parties, manufacturing from own fabrics, partially from the Company's designs. Revenues were down in 2020 due to pandemics and as a result there was lower demand for formalwear production, which was conducted in Poland and other European countries. Nevertheless, Poland still remains the largest production and purchase market, while from other European countries, where the Company conducts its production, one can name Italy, Portugal Spain, Turkey and Czech Republic. With growing popularity of casual and smart-casual, sourced mainly from Asia, number of orders from these markets grew, with the Asian markets reaching almost half of the orders. In Asia, the Company sources mainly from China, Bangladesh, Cambodia, Myanmar, India, but also develops sourcing from Mauritius and South Korea. The Mediterranean countries are becoming an increasingly important place of sourcing, especially Egypt and Tunisia to a lower extent. Similarly in case of finished products, fabrics are sourced from various countries depending on their expected qualities, final use, quality and cost criteria. Vast majority of fabrics come from Europe – mainly Italy – from renowned Italian weaving facilities which offer highest quality wool and cotton as well as from Portugal, Spain, Czech Republic, UK, and France. Part of fabrics is sourced from China, India, Turkey and to a lower extent we rely on Thai or Korean (South Korea) suppliers. 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 2020, some 26% of the Company's production-related suppliers had cooperation history of more than 10 years with Vistula, Wólczanka and Bytom brands. Some 29% of suppliers have a cooperation history of between 5 to 10 years, while the remaining 45% was constituted by suppliers with whom cooperation lasted less than 5 years. At Deni Cler the production and sourcing process is similar. Sourcing countries differ however – main countries of apparel and shoe production 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 300 thousand shirts annually. The facility conducts orders both for Wólczanka and Vistula brands as well as for foreign customers. In 2020, due to the pandemic situation, the production structure of the plant changed. Demand for shirts decreased, but the plant used its production capacity to sew face masks. For this reason, the share of shirts sewn for VRG increased from c. 11% of the plant's production in 2019 to c. 15% in 2020.

Number of suppliers cooperating with VRG in 2020 decreased significantly YoY due to: the pandemic, which forced serious adjustments of orders and thus deliveries in 2020, abandonment of production under the Vesari and Intermoda brands - for these brands the Company worked with dedicated suppliers of fabrics and changing the way of cooperation with sewing facilities. Purchases of raw materials for production have been shifted to sewing facilities, which are obliged to make them directly from producers. Thus, some of our suppliers currently invoice their purchases to sewing facilities instead of VRG S.A. Additionally, in terms of finished products, reduction in the number of suppliers YoY in 2020 resulted mainly from adopted strategy of accumulating orders with selected suppliers in order to achieve better prices and payment terms (longer payment terms), i.e. to generate synergy effects after the merger with Bytom .

Jewellery segment

Jewellery is manufactured by proven domestic and foreign producers, while part of the jewellery and the majority of star collections are produced in W.KRUK's Poznan manufacturing facilities called Manufaktura W.KRUK in Kormniki near Poznań and other Polish workshops. W.KRUK cooperates with proven jewellery suppliers. In 2020, main suppliers were jewellery companies from Poland, Italy, China, Hong Kong, Thailand, Spain, Turkey, South Korea and India. Within the watches sub-segment suppliers consists of brand owners, operators and Polish units of selected brands. Choosing of a 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 37% of jewellery suppliers are suppliers with whom W.KRUK has cooperated for less than 5 years, some 34% are suppliers, cooperation with which has lasted between 5 and 10 years, while some 29% are companies with which W.KRUK has cooperated more than 10 years. A 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.

W.KRUK collects statements from its suppliers of gold and precious stones jewellery confirming that gold and platinum as well as gemstones used in the 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 keeps a register of certificates and similar documents held 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 channel, goods are shipped to customers via couriers. Goods can be returned to 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. In 2020, automation of accepting returns from online customers for the Wólczanka brand was implemented. The shipment of goods purchased in on-line stores of brands has also been optimized by improving the complementation processes, thanks to which the delivery time of e-commerce orders to customers has been significantly reduced, as well as accelerated and increased availability of products in e-stores. 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 confirm its quality (composition of precious metals). These return to warehouse from the Assay Office. After receiving the products, a detailed quality control by certified experts takes place. In the next step, a label is attached to the product, which completes the acceptance process and makes the product ready for distribution to own stores or shipment directly to the customer. Warehouse operations for jewellery and watches are carried out by W.KRUK S.A.'s own resources, and to transport goods to stores or transfers between W.KRUK S.A. stores, i convoy transport and a courier company are used. From 2020, all products are available for sale on-line as soon as the quality control is confirmed in the central warehouse. For the on-line sales channel, goods are issued from the central warehouse and the warehouse of the on-line store and delivered to the customer after 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 (traditional stores) 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.

In 2020 due to COVID-19 pandemics and related with it lock-down and temporary closing down of traditional stores, the Company and the Capital Group concentrated on optimisation of its retail network and closing down of unprofitable stores. Both the Company and Capital Group possess company-owned and franchise stores. Additionally, Deni Cler Milano develops a shop-in-shop concept (brands' clothing is available in selected multibrand stores). Despite closing down of traditional stores, selective store openings took place in 2020, especially of the W.KRUK brand. As a result, another year in a row, the Capital Group broadened the number of cities, in which traditional stores are located. The Group focuses on long-term relations with proven partners, whom it acquires at franchise fairs, using its own contacts and messages sent via the Company and the Group via the website. Franchisees run stores on behalf of the Group companies, for which they receive commission-based remuneration. By following the procedures and guidelines in place, the Company and the Group make sure that all franchise stores (even though they are not operated directly by the Company and Capital Group) meet the desired standards. As a result of the dynamic retail network development, the number of cities where the Group's stores are located increased from 104 in 2019 to 106 in 2020. At the end of 2020, the Capital Group's network included 570 stores (compared to 590 at the end of 2019). Capital Group's floorspace amounted to 53,048 m² (compared to 54,378 m² at the end of 2019, a decrease by 2% YoY).

Rental agreements are negotiated by the development and investment division, which possesses long-term relations with the largest shopping mall operators in Poland. Locations are chosen after a careful analysis of: the city, district, and in case of existing shopping malls also based on traffic and floor level. Rental agreements are negotiated based on the Capital Group's development plans. Length of rental agreements varies, the shortest agreement equals to one year while the longest 15 years, while a small portion is signed for an indefinite period. Typically rental agreements are signed for 5 years. The average length of the lease agreement in 2020 at the Capital Group level was 6.15 years compared to 5.2 in 2019 (for own stores). At the level of VRG S.A. the corresponding figures were 6.0 for 2020 and 5.0 for 2019. These increases result from negotiations conducted in 2020 as well as the anti-crisis Act from March 2020, under which the exemption from rentals for the pandemic period was granted in exchange for extending contracts rental.

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 | 2019 | 2020 |
|--------------------------------------|------|------|
| VRG S.A. Capital Group | 19% | 21% |
| Apparel segment | 22% | 24% |
| Jewellery segment | 8% | 10% |
| VRG S.A. | 22% | 24% |

| % of internet in revenues | 2019 | 2020 |
|---------------------------|-------|-------|
| VRG S.A. Capital Group | 13.6% | 24.3% |
| Apparel segment | 17.0% | 31.9% |
| Jewellery segment | 7.4% | 13.4% |
| VRG S.A. | 17.6% | 33.8% |

Customers

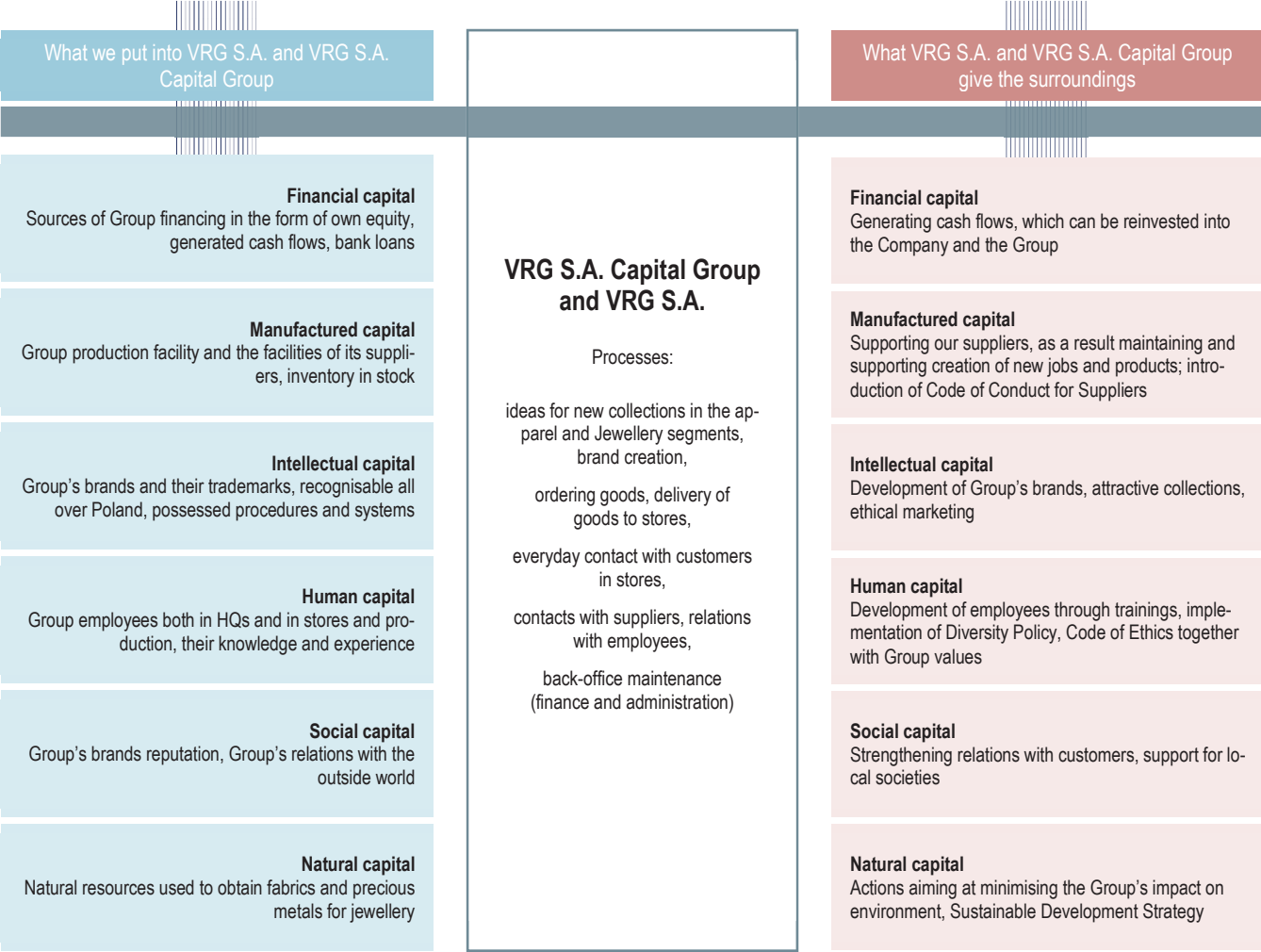
Customers are the most important part of our value chain. These are people who identify themselves with the brands possessed by the Capital Group, people who visit our stores and on-line stores and purchase and use products offered those brands. Due to favourable positioning of the brands and effective marketing, the Capital Group recorded growth in number of customers interested with their brands until the pandemics materialised. In 2020, due to COVID-19 pandemics, Capital Group stores were visited by 13.9m people. Comparing to 2019 data excluding Bytom brand, where changes in traffic meters in stores were taking place, there was a 41% YoY fall. Part of our customers shifted on-line, which resulted in dynamic revenue development in this channel. Part was afraid to go back to traditional stores, which negative affected off-line traffic.

The brands' attractiveness is also increased by well-tailored loyalty programmes. Until September 2020, Vistula and Wólczanka brands possessed a combined loyalty programme The Men's World Club. Now, these programmes have been separated. Vistula brand loyalty programme is called VISTULA Community Club, while Wólczanka loyalty programme is called „My Wólczanka” (“We Wólczanka”). 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 those brands. Loyal customers have priority in benefitting from discounts, special promotions and obtain current information about collections. At the end of 2020, loyalty programmes of Vistula and Wólczanka brands combined had 1.76m users, up 5% YoY. Bytom brand has a dedicated loyalty programme called Bytom Klub, which gathered 0.7m of loyal customers at the end of 2020 (up 5% 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 48 ths of members at the end of 2020 (up 5% YoY). W.KRUK’s loyalty programme Klub Dla Przyjaciół W.KRUK is also a popular one. At the end of 2020 there were 1.37m people registered in it, up 4% 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 3.88m people, up 5% YoY, at the end of 2020.

2.2.1. 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.



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.

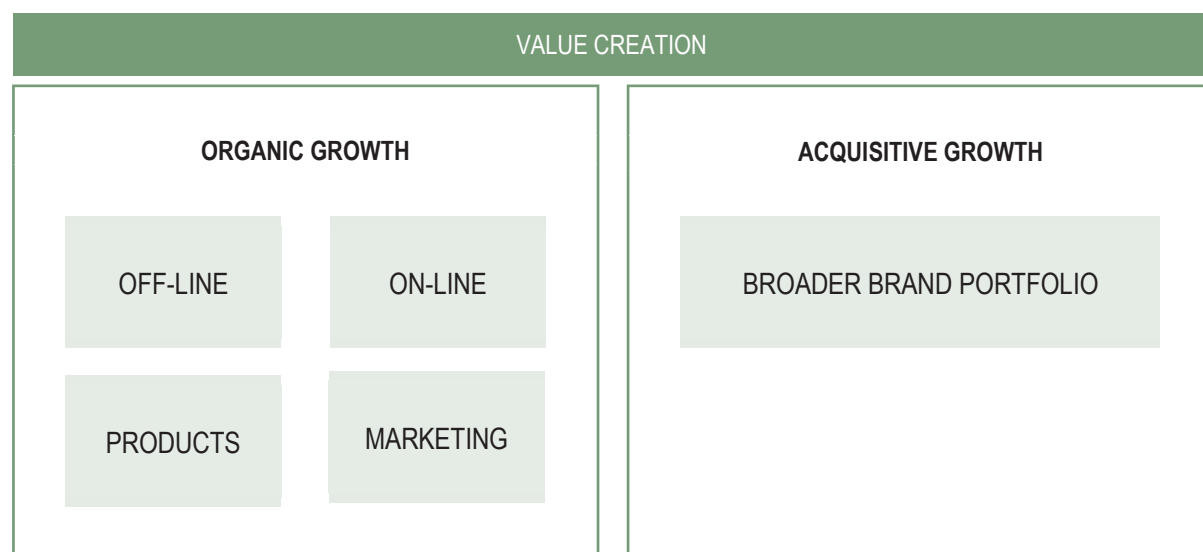
VRG vision is creation of House of Brands and assuring development of each of our brands by respecting their identity and independence and building value added.

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) 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.

CAPITAL GROUP STRATEGY



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. The Group’s target remains to maintain cost discipline in both segments (and in short-term minimisation of fixed costs).

THE GROUP'S AIM IS TO CREATE A

HOUSE OF BRANDS

STRATEGIC TARGET:

gathering under the Group's auspices several related retail brands, which are strong on their local markets.

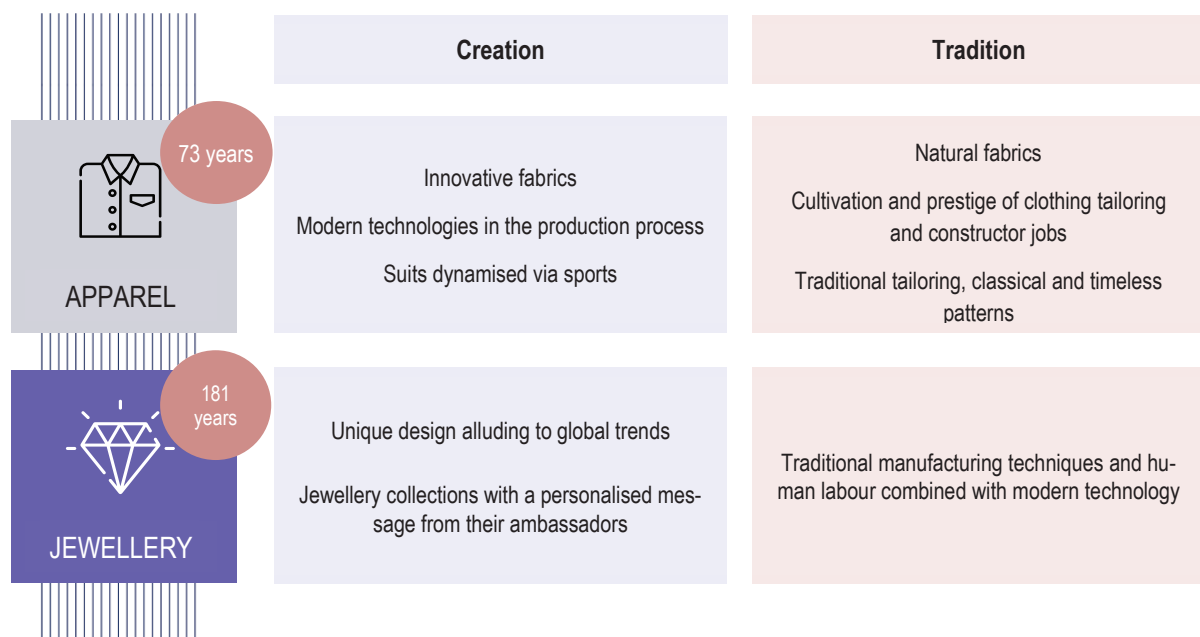
KEY ADVANTAGE OF THIS STRATEGY:

transfer of strategy successfully conducted in Poland on foreign markets, usage of local brands' strength and combined synergies.

At the same time, along with the Group's vision, the Management plans to return to the House of Brands strategy once the pandemic is over. The aim is to obtain, also via M&A, a portfolio of brands that would be strong on their local markets. The strategy would allow to accelerate the Capital Group's growth, diversification by entry to countries outside of Poland and obtaining synergies with new entities. We continue to be 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 possessing five retail brands with a strong local foothold. The Management's 2021 target is to maintain a stable liquidity position of the Company and the Group in light of uncertainties related to coronavirus and to further adapt to changing surroundings.

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 modern chic, while in jewellery maintaining manufacturing tradition in modern designs.



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 in 2020 approved 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. This strategy is not an environmental or climate strategy. The Group and the Company continued collecting data and activities that will allow for the formulation of such a strategy in the future.

The first year of the Strategy's operation coincided with the COVID-19 pandemic, which left its mark on the implementation of some of its goals. Assessment of the advancement of the Strategy implementation for its individual points is presented in the graphs below. With regard to product-related issues, it should be emphasized that the majority of our products in the apparel segment are made of natural raw materials (including wool, cotton, linen, silk, viscose), and not artificial or synthetic raw materials, so they are more easily biodegradable and recycled. We gradually introduce modern and ecological fabrics and other raw materials in our collections. Permanent ecological collections are available under the Vistula brand, and from the Spring/Summer 2021 collection they will be available under the Wólczanka and Deni Cler Milano brands. The jewellery W.KRUK brand uses lab-grown diamonds, a modern alternative to diamonds extracted from earth (traditional method). In the first year of the Strategy implementation, progress has also been made in obtaining signed declarations on the fulfilment of the Code of Conduct for Suppliers from the Company's contractors. With regard to VRG S.A., 53% of fabric and product suppliers have already signed the Code. They are responsible for over 70% of purchases in terms of value. Implementation of the Code will also proceed among VRG's subsidiaries.

From March 2020, the majority of employees worked remotely - only those employees whose duties could not be performed at home physically appeared in the office. In some departments, work has been divided into shifts consisting in interweaving the week of remote work and the week of work in the office. Individuals in each group did not come into contact with each other to reduce the likelihood of contamination.

In 2020, work on reducing the environmental impact was continued in key locations where the Group has its operations (for details, see the section on environmental and climate impact). However, activities related to the promotion of ecological attitudes among employees have often been replaced by the promotion of pro-health activities due to the prevailing pandemic. The approach to stores in shopping malls also changed - instead of openings, stores in the apparel segment were being closed. Network restructuring was a priority.

Product
Our products

We want our products to be safe, eco-friendly and ethical. We promote responsible consumption.

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.



People
Our employees

We want to provide our employees with the best workplace in which they can develop.

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.



Places
Our places

We want our stores to be more and more ecological and our activities have a positive impact on the local community.

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).



advanced



medium-advanced



begining

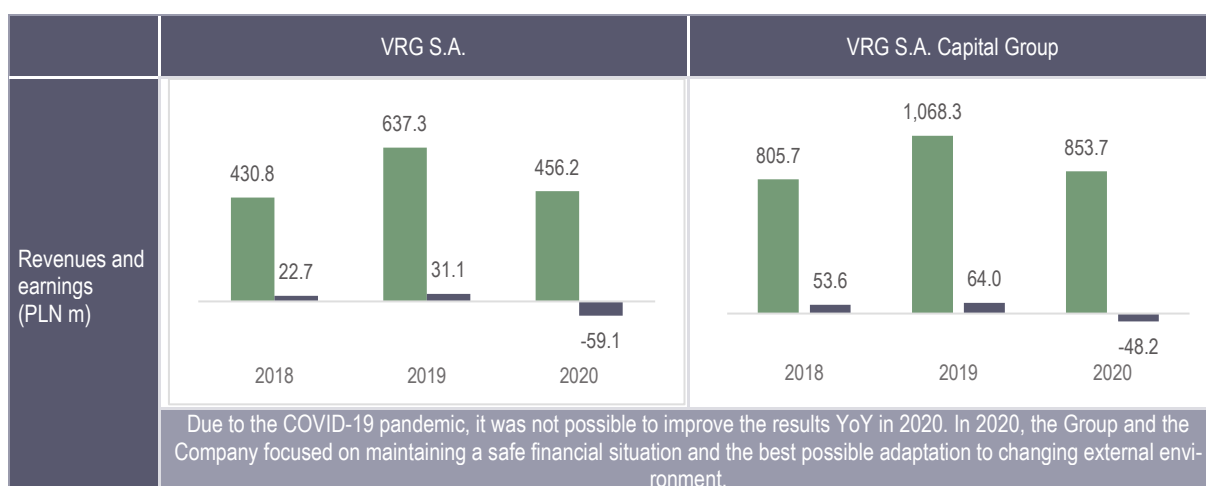
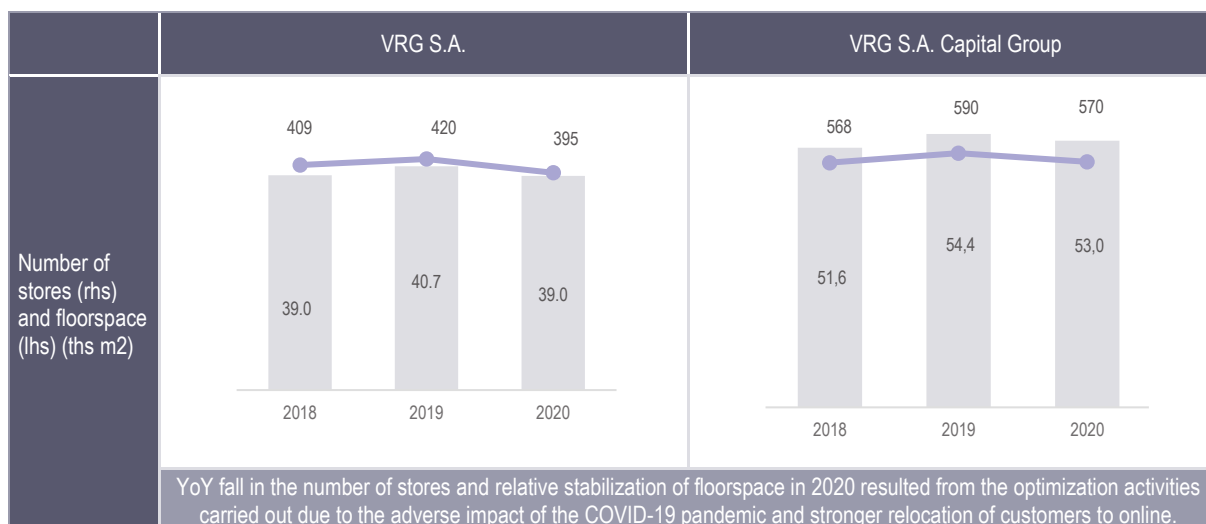
2.3.4. UN Sustainable Development Goals

Even though the key operational activities of VRG S.A. and the VRG S.A. Capital Group were limited to Poland in 2019 and 2020, the Management Board is not indifferent to global challenges regarding sustainable development. 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 |
|---|--|
|  | <ol style="list-style-type: none"> 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. |
|  | <ol style="list-style-type: none"> 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, despite pandemics. |
|  | <ol style="list-style-type: none"> 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). |
|  | <ol style="list-style-type: none"> 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. |
|  | <ol style="list-style-type: none"> 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, e-commerce). |

2.3.5. Financial results of the Company and the Group

The financial results of 2019 and several previous years show that the strategy chosen by the Management Board of the Company and the Capital Group was right. 2020 brought many external challenges. Both the Company and the Capital Group maintained a stable and safe liquidity position. However, administrative lock-down of stores in shopping malls, which lasted for many weeks, made it impossible to show YoY growth in results.



2.4. Awards and achievements

The Group's brands have obtained several awards and designations from their customers. Below are selected ones achieved in 2019 and 2020:

- 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 2020, Wólczanka brand ranked third in the Top Avanti 2019 Plebiscite in the Apparel category for the limited Collection inspired by Japan - Honours in the Super Product of Women's World 2019 competition in the Apparel category.
- In 2019 Wólczanka brand ranked third in Top Avanti contest for women collections.
- For 2020, Deni Cler brand received the title of Fashion Excellence of the Twój Styl editorial in the Foreign exclusive brand category for the Modern Art Autumn/Winter 2020/21 collection.
- W 2020 roku marka W.KRUK otrzymała nagrodę Doskonałość Mody Twojego Stylu 2020 w kategorii biżuteria premium za kolekcję jubileuszową „BLASK”.
- In 2020, W.KRUK brand received the Fashion Excellence award of Twój Styl 2020 in the premium jewelry category for the "BLASK" jubilee collection.

- 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.

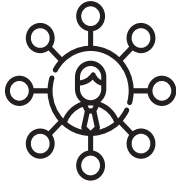
2.5. Organisations and societies

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.
- 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.



▶
APPOINTS



▶
APPOINTS



GENERAL SHAREHOLDER MEETING

- 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

SUPERVISORY BOARD

- 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

MANAGEMENT BOARD

- 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

COMPOSITION

| | | | |
|---------------------------------|--------|---|--|
| Ipopema TFI | 21.34% | Jerzy Mazgaj, Chairman of the Supervisory Board | Andrzej Jaworski President of the Management Board |
| PZU OFE and DFE | 15.37% | Piotr Kaczmarek | Radosław Jakociuk Vice-President of the Management Board |
| NN OFE and DFE | 13.97% | Mateusz Kolański | Michał Zimnicki Vice-President of the Management Board |
| Jerzy Mazgaj with related party | 9.58% | Jan Pilch | Ernest Podgórski Management Board Member |
| Forum TFI | 7.54% | Piotr Stępniaik | Olga Lipińska-Długosz Management Board Member |
| Free-float | 32.2% | Wacław Szary | |
| | | Andrzej Szumański | |

2 Committees in the Supervisory Board

57% of Supervisory Board are independent members

There are 16 directors under the Management Board. 8 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 shareholders which are funds managed by IPOPEMA TFI exceed 21% of votes on the General Shareholder Meeting while the four largest shareholders possess a combined 67.80% 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, 4 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. Also, since June 2019 there is a Nomination and Remuneration Committee within the Supervisory Board. The Supervisory Board also appoints the Management, whose role is to run the Company and the Capital Group. Additionally, the Supervisory Board approves the Rules of 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 social goals) and remuneration 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.

Rules governing the amount of fixed remuneration, variable remuneration (bonuses) and other benefits for members of the Management Board of the Company are set out in the Remuneration Policy for members of the Management Board and Supervisory Board of VRG S.A. adopted by the Ordinary General Shareholder Meeting of the Company on June 29, 2020, amended by the resolution of the Extraordinary General Shareholder Meeting of the Company of March 17, 2021.

C – Chairman

| | Jerzy Mazgaj (C) | Piotr Kaczmarek | Mateusz Kolański |
|---------------------------------------|------------------|-----------------|------------------|
| Independent | | ✓ | |
| Audit Committee | | ✓ | |
| Nomination and Remuneration Committee | ✓ (C) | | ✓ |

| | Jan Pilch | Piotr Stępiak | Wacław Szary | Andrzej Szumański |
|---------------------------------------|-----------|---------------|--------------|-------------------|
| Independent | | ✓ | ✓ | ✓ |
| Audit Committee | ✓ | ✓ | ✓ (C) | |
| Nomination and Remuneration Committee | ✓ | ✓ | | ✓ |

4. Stakeholders

Stakeholder analysis conducted for the purpose of Non-financial Report for 2020 showed that stakeholder groups have not been altered compared previous years. The Management conducted a stakeholder analysis based on the ways: (1) stakeholders 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, it has been confirmed, that the earlier identified seven stakeholder groups are still valid. 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.

While the key stakeholder groups have not changed, the COVID-19 pandemic has changed the way we interact with most of them, from face-to-face to online contact. As the impact of the pandemic remains significant on every element of daily and business life, the Management Board decided to re-do the stakeholder survey. The first survey was conducted for the purposes of the Non-Financial Statement 2017, and then it was extended to Bytom stakeholders after the merger of Vistula Group and Bytom for the purposes of the 2018 Non-Financial Statement. In total, 353 stakeholders took part in the surveys.

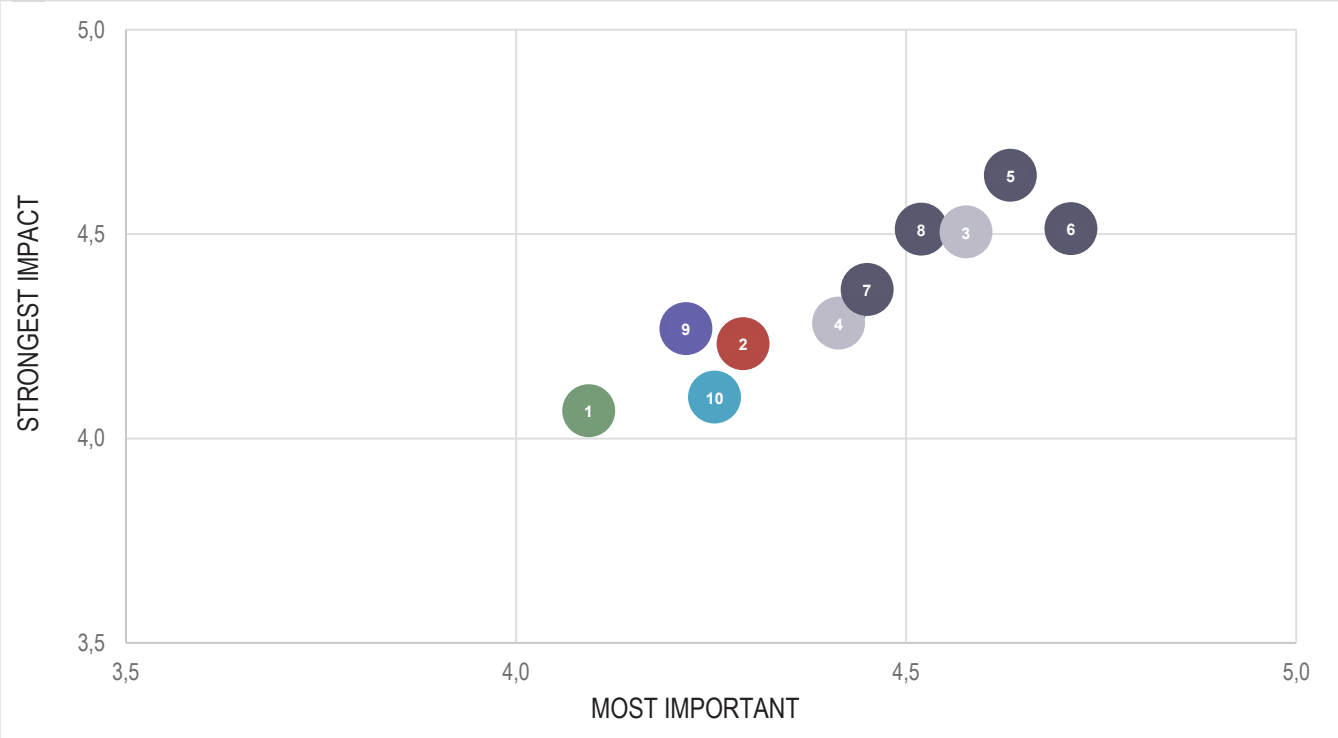
The update of the stakeholder survey was carried out between February 3, 2021 and March 1, 2021 and due to the prevailing conditions, it was carried out through an on-line survey publicly available on the website of VRG S.A. (in Polish and English). Additionally, taking into account the applicable legal regulations, the request to complete the questionnaires was sent to most of the identified stakeholder groups. The survey conducted in 2021 focused on six key areas, i.e. 1) environmental and climate issues, 2) issues related to products and the so-called customer experience, 3) employee and social issues, 4) legal and ethical issues, 5) financial issues and risk management, and 6) issues related to local community. In each of these areas, key elements were selected for which the stakeholders could express their opinions on a scale from 0 (zero, least) to 5 (five, most) how important the topics are for them, and therefore they should be subject of reporting and what impact they will have on VRG S.A. Group in a three-year perspective. In total, 639 stakeholders participated in the survey.



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

| | Who are they? | Why are they important to us? | How |
|---|---|--|--|
| 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 and M&As (broadening the brand portfolio on foreign markets), as well as with M&As (broadening the brand portfolio on foreign markets), transparency of published operational and financial data, regular presentations and excel files, supplementing the quarterly reports. The Management focuses on dialog, regular meetings and videoconferences for listed companies. institutions. |
| 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. To plan the production process in advance, we try to plan the production process in advance to plan production calendars. Additionally, the Group manages the payment term of invoices obtained by the Group despite pandemics. |
| 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 through design, good tailoring and matching their changing lifestyle, combining classical elements and modernity as well as offering its jewellery, occasional collections and a broad offer of services. The managers listen to the clients' needs by communicating via newsletters, social media and brand events. |
| 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 traditional and e-stores. | The Group maintains long-term relations with all key stakeholders. To obtain new locations on terms favourable to the Group, the Group obtains new locations on terms favourable to the Group. The Group also cultivates relations with logistics operators. The Group also cultivates relations with logistics operators. |
| 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 and employees. Store employees have regular meetings with the possibility to develop. Managers monitor the development of employees. The Group offers employees non-financial support in the form of a healthcare system. |
| 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 filings. Group's representatives participate in a dialogue with public institutions. |
| Local community | Local communities 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 Tamowskie 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 conditions and local societies. The Group is an important employer in the region. The Group operates with local schools (e.g. Cracow Art School in Cracow) and offers trainings. At the same time, the Group strives to affect the environment to the lowest possible extent. |

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



Out of the six analyzed areas, in terms of significance for stakeholders, issues related to law and ethics were rated the highest, and environmental and climate issues - the lowest. The elements that were considered the most important by the stakeholders include: respecting human rights in the entire value chain, compliance with the law, cybersecurity and personal data protection, decent employment conditions for employees in the entire supply chain, human capital development via trainings and a transparent career path, sources of supply and transparent information about the place of production.

| Stakeholders' responses: 0 - least significant / least impact; 5 most important / greatest influence | Material and thus necessary to be reported | Impact on business model in the next 3 years |
|--|--|--|
| Environment and climate issues | 3.6 | 3.6 |
| Energy and fuel consumption | 3.3 | 3.4 |
| GHG emissions throughout the supply chain | 3.4 | 3.3 |
| Scale of waste generated and its management | 4.1 | 4.1 |
| Circular economy actions | 3.3 | 3.4 |
| Sustainable development policy with environmental impact reduction targets | 3.9 | 3.9 |
| Product and customer experience | 4.1 | 4.1 |
| Sources of production and information about place of production | 4.3 | 4.2 |
| Eco-friendliness of products as well as materials and raw materials used | 4.2 | 4.2 |
| Eco-friendliness of product packaging (on-line and off-line) | 4.2 | 4.1 |
| Management of chemical substances in supply chain | 3.7 | 4.1 |
| Verification of suppliers and higher responsibility for the supply chain | 4.1 | 3.9 |
| Employee and social issues | 4.1 | 4.0 |
| Decent working conditions for employees throughout the supply chain | 4.6 | 4.5 |
| Human capital development, among others through trainings and transparent career path | 4.4 | 4.3 |
| Support for diversity at all levels of the Group | 4.1 | 4.0 |
| Volunteering projects for employees | 2.9 | 3.0 |
| Flexible time and form of work | 4.2 | 4.1 |
| Legal and ethical issues | 4.5 | 4.4 |
| Abiding the law | 4.6 | 4.6 |
| Respecting corporate governance | 4.2 | 4.2 |
| Respecting human rights throughout the value chain | 4.7 | 4.5 |
| Conducting anti-corruption and anti-bribery activities | 4.4 | 4.3 |
| Ethical and responsible communication with stakeholders | 4.4 | 4.3 |
| Cybersecurity, personal data protection | 4.5 | 4.5 |

As for the impact of individual areas on VRG S.A. Group in the next three years, stakeholders also rated legal and ethical issues the highest and environmental and climate issues the lowest. Similar topics were recognized as those

elements that will have the greatest impact on the business model of VRG S.A. Group in the next three years to those considered significant.

| Stakeholders' responses: 0 - least significant / least impact; 5 most important / greatest influence | Material and thus necessary to be reported | Impact on business model in the next 3 years |
|--|--|--|
| Financial and risk management issues | 4.0 | 4.1 |
| Managing climate risks and opportunities | 3.8 | 3.8 |
| Risk management in the supply chain | 3.9 | 4.0 |
| Managing financial risks | 4.2 | 4.3 |
| Building value for stakeholders | 4.1 | 4.1 |
| Issues related with local communities | 4.0 | 3.9 |
| Support for local initiatives and foundations | 3.8 | 3.7 |
| Creating new jobs in the region | 4.3 | 4.1 |
| Conducting investments in the region | 4.0 | 3.9 |
| Culture and science-related activities | 3.6 | 3.5 |
| Actions to protect the environment and climate | 4.3 | 4.1 |

The results of the stakeholder analysis as well as the materiality matrix are used by the Management Board to further improve policies, activities and reporting aimed at meeting stakeholders' expectations as much as possible. They have also been used in the Report for 2020, which includes additional, compared to previous years, disclosures regarding waste and packaging or the implementation level of the Code of Conduct for Suppliers and Contractors. Elements considered by stakeholders as significant and with significant impact are reported by VRG S.A. and VRG S.A. Capital Group

5. Social and employee matters

5.1. Policies

Social and employee issues are important for the Company and the Capital Group, as they affect internal stakeholders, i.e. employees, as well as external stakeholders, i.e. employees' families, local communities and customers. In employee relations, the Group focuses on diversity, development opportunities, training, a transparent career path and market remuneration. In social relations, the Group is involved in the promotion of sport, as well as valuable social campaigns.

At the end of 2020 the Capital Group employed 2,374 persons, down 6.6% YoY. Employment contracts were the primary form of employment. In 2020 these constituted 91% of all contracts at the Capital Group level, stable YoY. Other contract forms include contracts of mandate and contracts based on civil law. In addition, selected members of the management board perform their functions based on appointment. The most important employer within the Capital Group was VRG S.A. (the Company), which employed 1,073 people, down 9.8% YoY at the end of 2020. In 2020 the Capital Group took 510 new people on board (indicated in FTEs, full-time equivalent), down 40% YoY. The Company hired 200 people in 2019, 51% fewer YoY. 643 FTEs left the Capital Group in 2020, down 24% YoY. The highest attrition was recorded among employees in stores and below 30 years old. 293 FTEs left the Company in 2020, down 27% YoY. Lower employee turnover in 2020 was due to less movement on the labor market caused by the pandemic - jobs in the VRG Group were frozen in 2020.

| EOP employment (people) | 2019 | 2020 |
|-------------------------|-------|-------|
| VRG S.A. Capital Group | 2,541 | 2,374 |
| Apparel segment | 1,571 | 1,414 |
| Jewellery segment | 970 | 960 |
| VRG S.A. | 1,190 | 1,073 |

We emphasise there are differences between the way stores of selected brands operate and their number of employees. 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 (currently part of VRG S.A.) 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 parental leaves. The number of hired and departing employees is shown in FTEs. It does not include persons starting and departing for their parental leaves. Additionally, the numbers of onboarded and leaving employees do not include changes within their working hours, which took place in 2019 and 2020.

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. At the end of 2020, there were no trade unions in the Company compared to one at the end of 2019. There were 2 trade unions in the Capital Group at the end of 2020, 1 fewer YoY (both in Wólczanka Shirts Manufacturing). In 2020 there were no employees in the Company forming trade unions compared to 2019 when there 23 employees. At the level of Capital Group at the end of 2020 there were 148 employees in trade unions (versus 190 earlier). Both in 2020 and 2019 there were no collective disputes with employees at the level of the Company or the Capital Group.

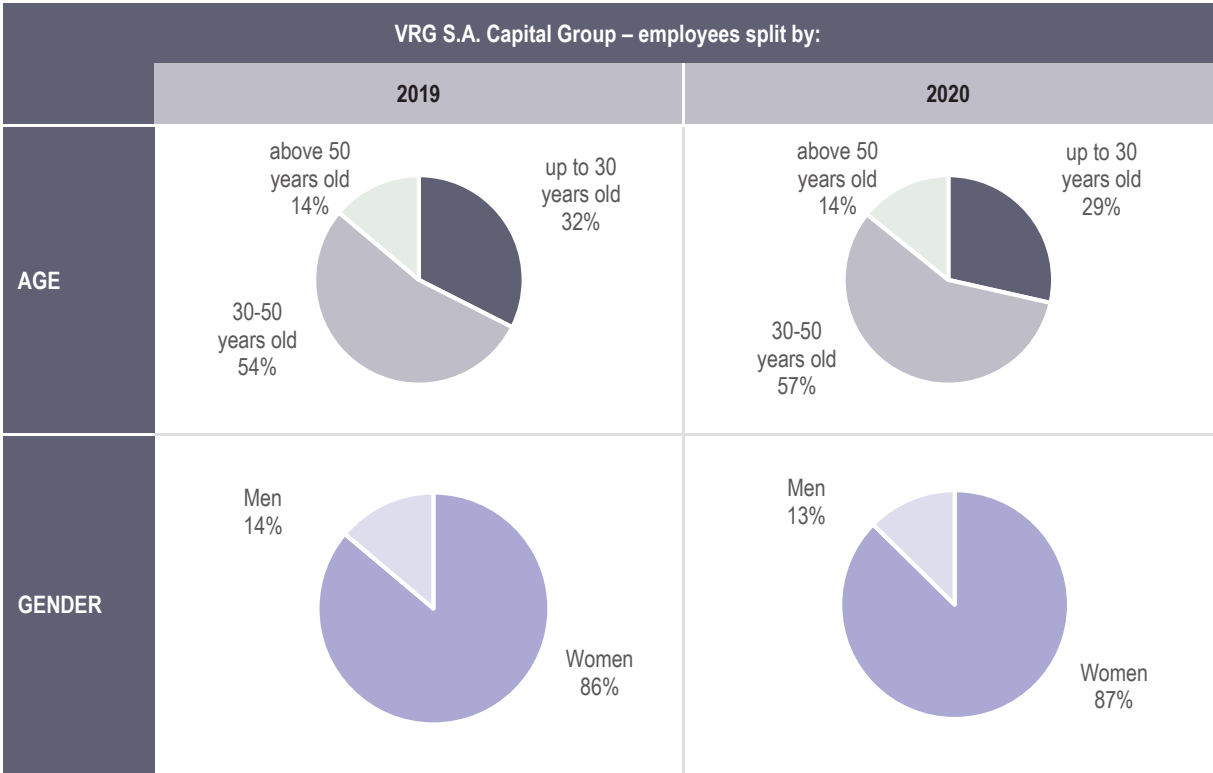
We value diversity and give equal chances

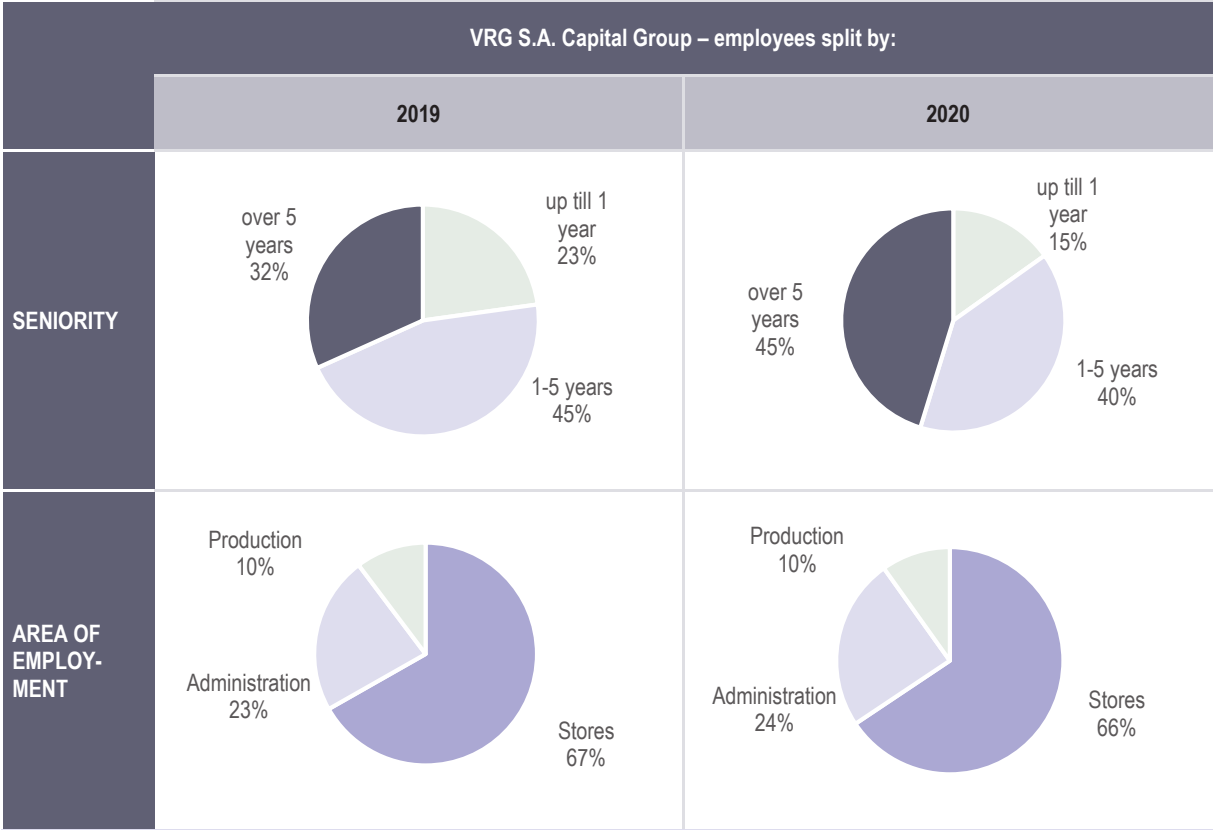
The Capital Group believes that access to a diverse pool of talents helps the organisation as a whole to develop. As a result, differentiation and diversity are valued among employees. It is the effect of accumulation and cooperation of varied experiences and competences that allows the organisation 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 (57% of employees are between 30 to 50 years old), (2) we take actions to balance employment by gender (women constitute 87% of employees), (3) we have employees with different seniority (40%

of employees have been with the Group between 1 to 5 years). The Capital Group also employs disabled persons. In 2020 there were 75 disabled employees, down 11% YoY, while 8 at the Company level, stable YoY.

In 2020, there were changes in the structure of employee experience, both at the level of the Company and the Capital Group. The noticeable higher share of senior employees resulted from two reasons. Firstly, during the pandemic, both the Company and its subsidiaries, instead of dismissing employees, made decisions not to extend contracts that were ending. Therefore, automatically, the termination of cooperation most often concerned people with the shortest seniority (long-term employees have contracts for an indefinite period). Another reason was the non-renewal of employment contracts by people with low seniority, even in a pandemic situation.

At the end of 2020, the number of women on maternity/parental leave was 113, 53% more YoY, at the level of the Capital Group (60 for the Company, + 11% YoY). At the same time, 85 women (18% more YoY) returned from maternity/parental leave in 2020 at the level of the Capital Group, and 42 at the level of the Company, 16% fewer YoY. In 2020, 57 women who returned from maternity leave worked more than 12 months - in 2019 that number came at 32 women. At the Company's level, in 2020 there were 33 women, 120% more YoY. In 2020, 5 men in the Company decided to take the leave, and at the Group level, and in 2019 - 11.





The aim behind creation and implementation of our Group Diversity Policy is creation of such a place and working environment where each employee feels respected, accepted and appreciated in which he/she can realise his/her full potential, develop and as a result contribute to the success of the organisation as a whole. Diversity Policy also aims to build trust and favourable working environment and counteract in case of potential discrimination. Actions undertaken and promoted by the Capital Group include among others: (1) building of teams diverse in terms of gender and age; lack of preferences in these areas allows to obtain a broader perspective in problem solving, allows for a better work atmosphere, inspires creativity and essential knowledge transfer, (2) support in combining professional and private roles via: possibility to work from home, possibility to leave work in emergency family situations, granting holidays in urgent cases, conduct of professional task in a flexible way taking family obligations into account, flexible working hours; and (3) creation of culture which promotes dialogue, openness, tolerance and teamwork, as well as an approach minimising risks related to losing key personnel, assuring equal access to benefits offered.

We offer development possibilities

Career paths within the Company and the Capital Group are related directly to the division, in which a career is started. Due to high numbers, the longest career paths are offered in the trading division i.e. Group stores. One can become a store manager, a regional manager or a visual merchandiser. HQs and administrative personnel can develop within expert fields which offer more development opportunities than vertical promotions (due to a low number of such openings). Every employee has equal chances for promotion. The Capital Group maximise the number of internal promotions, especially in stores. This allows to grow people and guarantees continuation of knowledge of store sales standards as well as increases the engagement of employees and brand awareness. Only if internal recruitment does not bear the expected fruit do we engage in external hiring. In case of positions in headquarters, typically internal recruitment (publication on corporate webpage, available for everyone) is launched

on par with external one (publication of offering on job portals) as these posts require specialists knowledge confined to a small group of experts. If the employee is interested in the published vacancy, he/she participates in the recruitment process on an equal basis as the external candidates after having received the consent of his/her manager for such a step.

| VRG S.A. (the Company) – employees split by | | |
|---|---|--|
| | 2019 | 2020 |
| AGE | <p>above 50 years old 9%</p> <p>up to 30 years old 40%</p> <p>30-50 years old 51%</p> | <p>above 50 years old 10%</p> <p>up to 30 years old 33%</p> <p>30-50 years old 57%</p> |
| GENDER | <p>Men 14%</p> <p>Women 86%</p> | <p>Men 13%</p> <p>Women 87%</p> |
| SENIORITY | <p>up to 1 year 23%</p> <p>over 5 years 40%</p> <p>1-5 years 37%</p> | <p>up to 1 year 13%</p> <p>over 5 years 46%</p> <p>1-5 years 41%</p> |
| AREA OF EMPLOYMENT | <p>Administration 28%</p> <p>Stores 72%</p> | <p>Administration 29%</p> <p>Stores 71%</p> |

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 as well as managerial trainings. Before pandemic language trainings were available, yet these have been suspended due to COVID-19. The employees are delegated to certain trainings in teams or individually or an employee comes forward with a training initiative for which he/she can obtain consent after proving its usefulness to his/her competences’ development. For sales personnel the Group organises cyclical and regular product and sales trainings which help to obtain competences of a real customer advisor. Persons starting work at the Capital Group take part in a specially prepared process adapting them to work at stores and in retail overall. The Group also offers dedicated trainings to 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. In 2020 almost all the trainings were transferred on-line. 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). In 2020, the number of trained employees amounted to 2,331 people at the level of the Capital Group. The decrease by 11% YoY resulted from lower number of people hired for work, from the relatively high base of 2019, when the Group introduced the Code of Ethics and the Anti-Corruption Procedure, and resignation from some trainings (preference for off-line versus on-line and no such possibility during a pandemic). At the level of the Company, the number of trained people amounted to 1,336 in 2020, falling by 17% YoY for the same reasons as those observed at the level of the Capital Group. The number of training days at the Capital Group level in 2020 decreased by 12% YoY, similar to the number of trained people. At the level of the Company, the decrease in number of training days was stronger and amounted to 32% YoY due to shorter on-line trainings. In addition, the training departments were not expanded, on the contrary, they decreased in size, which lowered the training capacity. Difference in the number of training days between the apparel and jewellery segments results from the nature of the training - in subsidiaries being part of the apparel segment, short trainings on COVID-19 was dominant.

| Number of employees and co-workers who participated in trainings | 2019 | 2020 |
|--|-------|-------|
| VRG S.A. Capital Group | 2,622 | 2,331 |
| Apparel segment | 1,948 | 1,601 |
| Jewellery segment | 674 | 730 |
| VRG S.A. | 1,603 | 1,336 |
| Number of training days | 2019 | 2020 |
| VRG S.A. Capital Group | 1,077 | 943 |
| Apparel segment | 445 | 293 |
| Jewellery segment | 632 | 650 |
| VRG S.A. | 374 | 256 |

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 2020 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. The aim is support for Polish sport and popularisation of sport as a healthy lifestyle. Through the project "Vistula with Passion", Vistula also draws attention to niche sports, including motocross or freerunning.

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 the above mentioned 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), Maciej Synówka (tennis coach) Krzysztof Starnawski (extreme cave diver, TOPR rescuer), Bartek Królik (musician and composer), Mikołaj Tempka (freestyle motocross player), Krystian Kowalewski (freerunner). 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 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. In 2020, despite pandemic related hardships, five teams participated in the on-line organised run, once again taking high places in the rankings.

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 2020 the Company invited its employees to an on-line training on time management and ability to balance private with business lives. The training took place in an on-line form. 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. 2020 introduced big changes in the field of remote work. Starting from March 2020, vast majority of employees of the Company's and Group's headquarters worked from home due to the epidemiological threat. Both the Group and its employees adjusted themselves well to the above situation, and the possibility of at least partially work from home will become a permanent part of the company's operations.

The change in the style of work also affected the number of reported overtime. In total, in 2020, the Company's employees worked 1,048 overtime hours, a decrease by 81% YoY due to the high base in the form of additional obligations related to the merger with Bytom S.A. (legal merger in 2018, merger works ongoing in 2019). In 2020, employees of the Capital Group worked 7,018 overtime hours, a decrease by 38% YoY. The smaller decrease at the level of the Capital Group than at the level of the Company results from the increase in number of overtime hours YoY at the WSM level (due to changes in the product mix, mask sewing) and at W.KRUK. Lower number of overtime hours in non-production companies is also due to the fact that in 2020 part of the year was subject to a ban on trading in shopping malls, where most stores are located, which means that employees employed there (the vast majority of employees) and professionally related to these places could not automatically generate overtime. Moreover, a significant part of office workers worked remotely, which could have had a negative impact on the number of reported overtime hours. Additionally, due to the pandemic, sales departments had less work, similarly reducing the number of overtime hours.

W misję tę wpisuje się także współpraca z państwowymi instytucjami kultury i sztuki. VRG S.A. sponsoruje stroje do wybranych sztuk teatralnych, ubierała pracowników Muzeum Narodowego w Krakowie, a w ramach współpracy ubrała pracowników Łazienek Królewskich w Warszawie. W 2019 roku Vistula została partnerem przedstawienia „Lalka”, które było wystawiane przez Teatr im. Juliusza Słowackiego w Krakowie, ubierając aktorów do spektaklu. W roku 2020 Vistula nawiązała współpracę z Och teatr, w ramach której przekazała odzież aktorom do spektaklu „Oszuści”. Po raz kolejny marka Vistula ubrała czołowych polskich artystów na ceremonię wręczenia Polskich Nagród Filmowych Orły 2020.

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. 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 cooperation, dressed employees of Łazienki Królewskie in Warsaw. In 2019, Vistula became a partner of the play "Doll", which was staged by Teatr im. Juliusz Słowacki in Cracow, dressing actors for performances. In 2020, Vistula established a cooperation with Och Teatr, as part of which it donated clothing to actors for the play "Cheaters". Once again, the Vistula brand has dressed leading Polish artists for the Eagles 2020 Polish Film Awards ceremony.

In addition, through the Bytom brand, the Company promotes Polish culture and the vision of modern tailoring by presenting in its collections and marketing messages, works and outstanding figures of Polish art, including Zbigniew Rogalski, Tomasz Musiał, actors (Jacek Koman and Maciej Musiałowski, campaign ambassadors in the Spring/Summer 2020 season; Jan Frycz and Kamil Nożyński, campaign ambassadors in the Autumn/Winter 2019/20 season; Dawid Ogrodnik, ambassador of the Spring/Summer 2019 campaign), photographers, musicians (Spring/ Summer 2019 campaign with the participation of Tomek Lipiński) and writers (Szczepan Twardoch, ambassador of the Winter 2020 evening collection). For many years, the brand has also presented icons of Polish culture in its collections - a limited series of products with the figure of Chopin (Winter 2020) The Bytom brand promotes art also through cooperation with various institutions - the photos for the Autumn / Winter 2020 campaign were shot at the National Museum in Warsaw.

VRG S.A. cooperates with the career office of selected universities, and some employees cooperate with vocational universities sharing their knowledge about the art of tailoring and design with students. In addition, various departments within the Group's organizational structure assist students in creating selected Master's theses by providing data and explanations as well as offering internships. In 2020, the Company hosted students from the last classes of the Clothing Technical School in Krakow at the headquarters - as part of cooperation with EASME (Executive Agency for Small and Medium Enterprises), showing them the practical side of the work of a designer and designer of clothing. Unfortunately, the pandemic prevented the continuation of similar meetings at the Company. At the Capital Group level, this activity is enriched by the jewellery segment.

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 Bachleđa-Curuś, Kinga Rusin, Anna Maria Jopek.

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 2020, the following activities with the participation of VRG S.A.:

- (1) Career Days were prepared - shaping the cooperation of producers with schools of the fashion industry,
- (2) an update of the communication strategy was developed to improve the flow of information between the stakeholders of the sector and the authorities and administration, and to strengthen the social message through media channels to the society in terms of rebuilding the image of the sector,
- (3) strategic recommendations were developed for the sector until 2027 in the field of development of, inter alia, increasing importance of e-commerce, searching for product niches, internationalization, development of circular economy in the sector,
- (4) recommendations of the council were updated with current changes in the area of sectoral education in the field of development of competence centers, in which competences will be raised and new skills of sectoral staff will be shaped,
- (5) key competences for the sector were developed, broken down into the apparel and textile sectors, with particular emphasis on the development of e-commerce and green technologies,
- (6) another 2 educational and information films were produced on dedicated Internet channels, incl. approach to ecological aspects in the sector,
- (7) 4 sponsored articles were published illustrating the development of competences in the sector and activities promoting the sector as an attractive place for career development,
- (8) research was carried out on the staffing needs and competences of employees in the sector as well as on the demand for staff training,
- (9) three studies were conducted on a group of over 900 enterprises in connection with the COVID-19 pandemic, the aspect of business activity, mainly the problem of employment and production;
- (10) the Council Recommendation to PARP was updated with regard to the modification of the program for enterprises for personnel training and technical and technological consulting. The result of the update are two projects implemented for the MODA 1 and Fashion 2 sectors - "Recipe for Success - Tailored Competences". VRG participated in all of the above activities as a sector employer, sector consultant or consultant of documents developed by experts.

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

The project in 2020 was devoted to an information campaign and a series of events aimed at:

- rebuilding the sector's reputation as a good working environment with many opportunities,
- raising awareness of 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 the chance to gain first-hand knowledge of the sector. I

In 2020, the following activities with the participation of VRG S.A.:

- an international on-line conference was prepared and conducted to promote the potential of the sector;
- regional workshops for pupils and students were organized with industry experts "My competences and the expectations of employers".

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

ENTeR Project focused on reducing waste in the apparel and textile sectors to prevent the depletion of non-renewable resources. This approach was based on cooperation between enterprises and regional innovation systems. The project was to find: new ecological outlets for sectoral waste, recycling possibilities for textiles or alternative solutions for raw materials.

In 2020 VRG SA: as part of supporting project activities, participated in:

- 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 across sectors and territories. It is useful for: identifying successful pilot cases between companies offering waste streams and those that need them as starting materials (secondary raw materials) Wólczanka Shirts Manufacturing Sp. z o. o. has been entered on this platform and offers post-production waste for potential recipients from the clothing plant in Ostrowiec Świętokrzyski,
- modular training of staff in the use of possible and available technologies for the recycling of apparel and textiles, shaping an ecological supply chain and the possibility of obtaining support within the EU for pro-ecological activities,
- the development of the "Partners Agreement" to establish a platform for cooperation, in which the competences of each partner related to Circular Economy were analyzed, the results of the Strategic Agenda for the Cooperation Model were combined, in which resources, functions and added value from the exchange were concentrated. Cooperation model - the agreement provides for the implementation of the following lines of activity: a) maintenance and development of the M3P platform, b) communication and dissemination of information, c) matchmaking and networking, d) support for technology transfer, e) sharing training modules.

Participation in the ENTeR Project means demonstrating the company's conscious business responsibility and focusing on the Circular Economy, which is part of social responsibility. The project ended on November 30, 2020.

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. YoY falls in the number of accidents take place both at the level of the Company and the Capital Group. They result from the greater use of remote work and fewer days during which shopping malls were open - both elements are related to the COVID-19 pandemic.

| Number of accidents at work | 2019 | 2020 |
|-----------------------------|------|------|
| VRG S.A. Capital Group | 11 | 6 |
| Apparel segment | 8 | 5 |
| Jewellery segment | 3 | 1 |
| VRG S.A. | 5 | 2 |

| Accident frequency indicator | 2019 | 2020 |
|------------------------------|------|------|
| VRG S.A. Capital Group | 4.3 | 2.5 |
| Apparel segment | 5.1 | 3.5 |
| Jewellery segment | 3.1 | 1.0 |
| VRG S.A. | 4.2 | 1.9 |

| Number of days with inability to work | 2019 | 2020 |
|---------------------------------------|------|------|
| VRG S.A. Capital Group | 870 | 85 |
| Apparel segment | 588 | 82 |
| Jewellery segment | 282 | 3 |
| VRG S.A. | 305 | 31 |
| Accidents severity indicator | 2019 | 2020 |
| VRG S.A. Capital Group | 79.1 | 14.2 |
| Apparel segment | 73.5 | 16.4 |
| Jewellery segment | 94.0 | 3.0 |
| VRG S.A. | 61.0 | 15.5 |

Low accident rate and severity ratios are also the result of regularly and scrupulously conducted health and safety trainings. Sizeable falls in number of days with incapacity for work and as a result in the severity rate of accidents in 2020 resulted from the pandemics and fewer working days. 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 2020, VRG S.A. trained a total of 414 people in the area of occupational health and safety (down 45% YoY), and the Capital Group 802 (down 54% YoY). The decrease in the total number of people trained is due to the decrease in initial training (fewer people accepted YoY) and the impact of COVID-19. An additional element was the introduction of the so-called anti-crisis package in March 2020, thanks to which, inter alia, the validity dates of the trainings that expired during an epidemiological emergency or a pandemic state were extended for the entire pandemic period and additionally 60 days after the end of the state of emergency. Therefore, trainings, the implementation of which took place during the absence of employees in stores due to the limitation of their activities, are carried out in 2021, since stores were re-opened.

| Number of trained employees in the initial work health and safety trainings | 2019 | 2020 |
|---|------|------|
| VRG S.A. Capital Group | 856 | 386 |
| Apparel segment | 473 | 226 |
| Jewellery segment | 383 | 160 |
| VRG S.A. | 425 | 194 |

| Number of trained employees in periodical work health and safety trainings | 2019 | 2020 |
|--|------|------|
| VRG S.A. Capital Group | 876 | 416 |
| Apparel segment | 562 | 284 |
| Jewellery segment | 314 | 132 |
| VRG S.A. | 325 | 220 |

| Overall number of trained employees in work health and safety trainings | 2019 | 2020 |
|---|-------|------|
| VRG S.A. Capital Group | 1,732 | 802 |
| Apparel segment | 1,035 | 510 |
| Jewellery segment | 697 | 292 |
| VRG S.A. | 750 | 414 |

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 significant activities for employees, local communities and their customers. In 2019, the Capital Group and the Company cooperated with the Great Orchestra of Christmas Charity (Wielka Orkiestra Świątecznej Pomocy, WOŚP) - a professional metamorphosis was provided for the auction of the Things from the Heart Auction and the opportunity to take part in a photo session as a model. During the auction, which lasted over a month, the amount of PLN 8,600 was reached. Bytom brand, through its projects, spread the knowledge of art and reminded of the works of outstanding artists as well as outstanding personalities, incl. Fryderyk Chopin. In 2019 W.KRUK was involved as a partner in a number of events as an expert in the field of the highest quality design and the production of jewellery and accessories (including designs and production of unique statuettes and awards in projects, for example for the Silver Apples Plebiscite of the PANI magazine, distinguishing the couples who in a given year told the stories of their love in the PANI magazine).

Due to the pandemic, 2020 has brought changes to the way people are engaged. All brands of the VRG S.A. Capital Group undertook activities supporting other entities. Vistula brand organized a campaign to sell specially designed T-shirts "pieces", 100% of which was donated to the University Hospital in Cracow. In March 2020, Bytom brand launched a pro-social campaign, under which it launched "MISSION: HELP" T-shirts, 100% of which was donated to the Provincial Specialist Hospital in Tychy Megrez Sp. z o.o. to fight COVID-19. As part of the # MyWólczanka Pomagamy (WeWólczanka Help) campaign, Wólczanka donated to the Wł. Bieganski Hospital in Łódź financial support collected as part of the sale of a collection of shirts and T-shirts from a dedicated mini collection. Deni Cler brand carried out a charity campaign „Pomagam z Deni” (I help with Deni). 100% of revenue from the sale of items marked with #PomagamzDeniCler was donated to the Siepomaga.pl foundation to support the Polish health service in the fight against COVID-19. W.KRUK, on the other hand, introduced the charity campaign #Blask (Shine) from helping. The brand supported the Supreme Chamber of Nurses and Midwives in order to equip them with the necessary protective products.

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 undertook the Sustainable

Development Strategy. Given the environmental issues and ethics in fashion, and 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.

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 the right employees,
- expected pressure on salaries, despite further possible restrictions related to COVID-19.

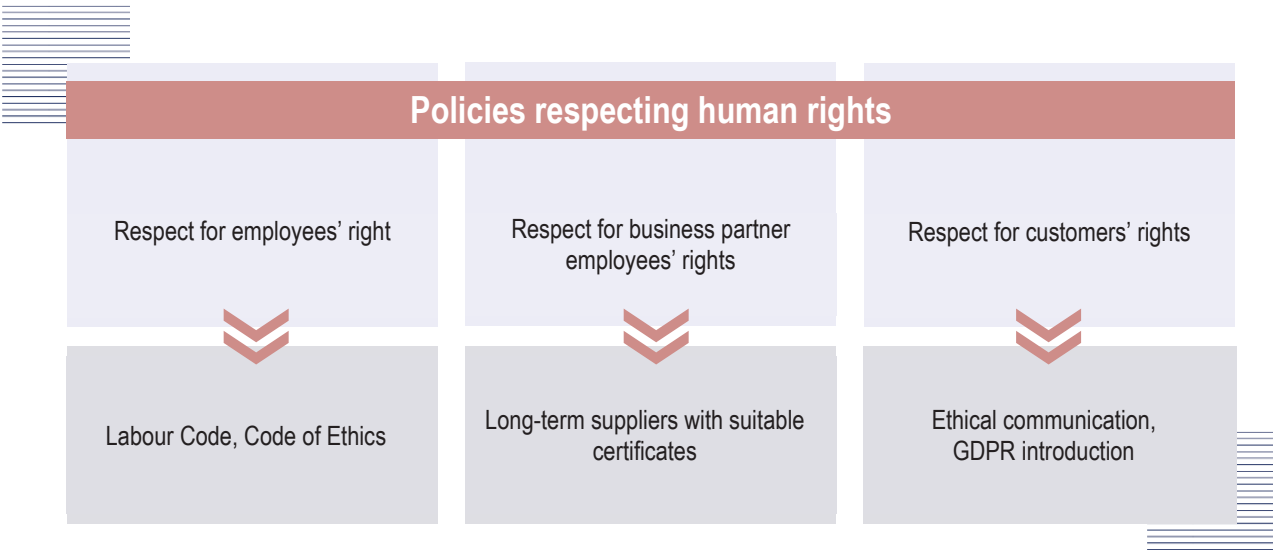
Risk related to the social and employment area is significant for both the Company and the Capital Group. High employee rotation means higher salary costs and possibility of deterioration in service quality. Inability to attract talent exposes VRG and the Capital Group to the risk that its projects and 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.

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, adjusting benefits to the possibility of their application during the COVID-19 pandemics.

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 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 (74% of applications to VRG SA headquarters in 2020 came from women, at W.KRUK S.A. this indicator is 83%). 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 board of W.KRUK S.A. and VRG S.A. Supervisory Board nominated by shareholders). 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 brand persons working in stores are employed based on a contract of employment by store managers and not by the Company.

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. As a result, 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 counter the potential negative effects of the activities of enterprises and their supply chains, and to strengthen mutual trust between enterprises and the societies in which they operate.

In order to formalize the requirements for its suppliers and contractors, exert more influence on them and transfer the values of the VRG Group, in 2020 the Management Board created the Code of Conduct for Suppliers and Contractors of the VRG S.A. (hereinafter: the Code), which defines the requirements of the Group towards its suppliers, their sub-suppliers and other contractors, both domestic and foreign. In the construction of the Code, the Capital Group used, inter alia, OECD guidelines for the clothing segment and RJC (Responsible Jewellery Council) requirements in the jewelry segment, as well as UNGC (United Nations Global Compact) rules for both segments. Its basic goal is to ensure safety in production plants, the best possible working conditions and the most comprehensive protection of the natural environment. The Code was implemented in the Company and the Capital Group in March 2020. The Code is being implemented successively at suppliers. Over 50% of suppliers of the apparel segment have signed commitments resulting from the Code for Suppliers and Contractors of VRG S.A. The key elements of the Code are presented in the table below.



Code of Ethics of VRG S.A. Capital Group

The Code includes 4 key values of the Capital Group

The purpose of the Code is to promote preferred attitudes of all employees of the Capital Group and to spread the norms and values of the Capital Group. The Code is publicly available, posted on the website of VRG S.A. It covers not only the parent company but also all subsidiaries. Anonymity is offered to anyone reporting violations of the Code together with legal advice.

COOPERATION

Cooperation on the basis of balance, mutual respect and taking into account the needs of the other party, as well as striving for a compromise, shapes not only the relations of the Capital Group with external entities, but above all within itself, at the level of relations between colleagues.

PROFESSIONALISM

Continuous improvement of qualifications combined with a reliable approach to tasks entrusted allows effective implementation of tasks, for the benefit of the Group and its business partners, positively affecting the Group's image and reputation in the eyes of third parties, especially customers.

RESPECT

Respect for both co-workers and third parties, respect for their dignity and taking into account their needs is one of the basic principles defining the direction of the Group's activities. The Group emphasizes that equality is associated with diversity of its employees. All forms of discrimination, regardless of nationality, age, sex, race, fitness, sexual orientation, religion or political beliefs, deserve only condemnation.

TRANSPARENCY

The Group cannot function without a bright and clear definition of requirements and rights. Informing employees about their statuses, responsibilities and decisions taken in relation to them is done in a manner understandable to employees. The same idea guides the Group in its relations with third parties, where transparency is necessary to avoid misunderstandings and disputes.

The Code addresses such important issues as avoiding a conflict of interest, indicates the desired actions of employees and shapes relations with third parties (business partners, clients, competitive environment). The Code also addresses the importance of local communities for the Group, involvement in local initiatives, as well as environmental awareness and promoting active attitudes to achieve sustainable growth.

Most European and Far Eastern suppliers are large companies that have been operating in the international environment for many years and produce goods for many well-known European and world brands. Many of them are audited by their clients and independent institutions. Reports on these audits are made available to the Company. The vast majority of suppliers in the applicable segment, both Polish and foreign, have OEKOTEX Standard 100 certification for textile products (fabrics and accessories) and meet the REACH standards applicable to European Union producers. At the end of 2020, 73% of VRG S.A. suppliers had OEKOTEX certificates and / or compliance with the REACH standard (85% in terms of value). The relevant certificates are verified by the Company. Certificates are collected on an ongoing basis, at the time of sending inquiries and placing orders. They are usually sent by suppliers electronically or made available on their websites. Moreover, some raw materials, especially fabrics,

are randomly checked by the Company for the presence of chemicals and other hazardous compounds in certified research laboratories. So far, the test results have never been outside the acceptable standards.

In previous years, the Company did not include in its contracts for purchases in the apparel segment obligations relating to the observance of human rights and not employing and not using child labour, however, it required its suppliers to respect these rights in their production plants and to have they had the appropriate certificates (e.g. BSCI, SMETA / SEDEX) and were able to present them on request to VRG S.A. Appropriate certificates are held by all major suppliers for VRG brands. They are also required for all new suppliers and are a criterion for starting cooperation. As the Company focuses primarily on the quality of products, and not only on their price, it uses more specialized producers, not focused mainly on large volumes and low costs. Additionally, a significant share of the production of basic products sold by VRG S.A. takes place in Polish facilities where the national labour code is complied with. In addition, production takes place in Poland on the basis of entrusted own fabrics and accessories, under the supervision of technologists. There is a manufacturing facility within the Capital Group, and VRG S.A. cooperates with facilities that have historically been part of it. In the area of social audit reports (in particular BSCI / Sedex, less often STeP by OEKOTEX) certification was held by 34% of our suppliers, 62% in value.

In the jewellery segment, W.KRUK jewellery producers take the ethical dimension of their business into account - around 50% of foreign suppliers have international certificates or belong to organizations associating responsible entrepreneurs. Selected suppliers regulate the issues of standards internally, creating Code of Conduct documents, specifying requirements for standards and working conditions. Leading contractors belong to RJC (Responsible Jewellery Council, extended name: Council for Responsible Jewellery Practices Ltd.) - an international non-profit organization that sets ethical standards in the jewellery industry and certifies companies that meet the highest criteria. The organization is primarily interested in marketing precious metals and stones that have a certificate confirming that they have been obtained in a responsible manner and that the working conditions are complied with. Many W.KRUK suppliers meet the ISO 14001, ISO 9000 and ISO 9001 standards, some belong to Sedex, and as a result are subject to the SMETA (Sedex Members Ethical Trade Audit) procedure.

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.

Guarding the image of its brands, the Capital Group places particular emphasis on ethics of operations, creating marketing communication based on the highest standards. The marketing teams of individual brands in their daily work use the procedures and set of good practices developed by the Group. Depending on the scale of activities, ideas are consulted at various organizational levels of the Company and the Group. Strategic projects are consulted with the Management Board of the Company. Before the message or creation is made public, each time they are subject to substantive and visual verification by the team of a given brand. Any doubts, remarks and opinions that arise are subject to discussion, thanks to which the preparation of an inappropriate marketing message is minimized.

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.

Natural environment

5

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.

Production sites; Subcontracting production

6

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.

Special rules for suppliers of W.KRUK jewellery segment

7

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.

Anti-Corruption Policy

8

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.

Compliance with international standards

9

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.

Implementation of the Code by suppliers and contractors

10

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.

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

11

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.

Final provisions

12

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

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. In December 2015, the President of the Office of Competition and Consumer Protection (UOKiK) imposed on VRG S.A. PLN 0.86 million of a fine, considering as a practice restricting competition the conclusion of an agreement restricting competition on the domestic market of online retail sale of watches, consisting in setting minimum retail selling prices for watches and ordering the abandonment of the above-mentioned practices. As a result of an appeal lodged by the Company, the District Court in Warsaw, XVII Division of the Court of Competition and Consumer Protection, on October 19, 2018, issued a judgment changing the contested decision in relation to VRG S.A. stating the discontinuation of this practice as of March 31, 2015, and also reducing the fine imposed to the amount of PLN 0.7 million. The Company's appeal against this judgment was dismissed by the judgment of the Court of Appeal in Warsaw of September 21, 2020.

The Capital Group also performs due diligence in the context of storing and processing the data of its clients. The transmission of customer data is encrypted, and the servers on which the data are stored are located in the Capital Group or its proven suppliers. Currently, store customers can enter and edit their data in the mobile system. This applies to all brands, including Bytom. The only exception is Deni Cler Milano brand. In Deni Cler Milano stores, the paper form of customer registration is still in force. Vistula and Wólczanka mobile application was implemented in 2017, W.KRUK application was implemented in 2018. In 2020, the mobile system was implemented in Bytom stores. In 2020, a new functionality was implemented in Wólczanka application, allowing customers to purchase directly from a mobile device. In March 2021, Vistula sales application was implemented, and the implementation for Bytom brand is planned for 2021. In 2018, the Capital Group implemented new procedures regarding the personal data protection policy in connection with the entry into force on May 25, 2018 of the Regulation of the European Parliament and of the Council (EU) 2016/679 of April 27, 2016 on the protection of individuals in connection with the processing of personal data and on free movement of such data, and repealing Directive 95/46 / EC (General Data Protection Regulation). The Group conducts annual audits by both specialized external auditors and the internal controlling unit. An analysis is made of places, procedures and IT systems in which the data of its clients and employees are processed, as well as places and situations in which customer data are entrusted to other entities for processing. In 2020, it was planned to implement an e-learning platform for training in the provisions of the GDPR for current and new employees. Due to the COVID-19 pandemic, deadline was postponed to 2021. There were several data protection incidents in 2020, similar to 2019. Those violations were incidental and met the condition of a low probability of an effect in the form of violation of the rights or freedoms of natural persons. The company tried to explain it quickly. In 2020, 1 violation of personal data protection was reported to the President of the Office for Personal Data Protection in the Company and in the Group (no violations were reported in 2019).

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.

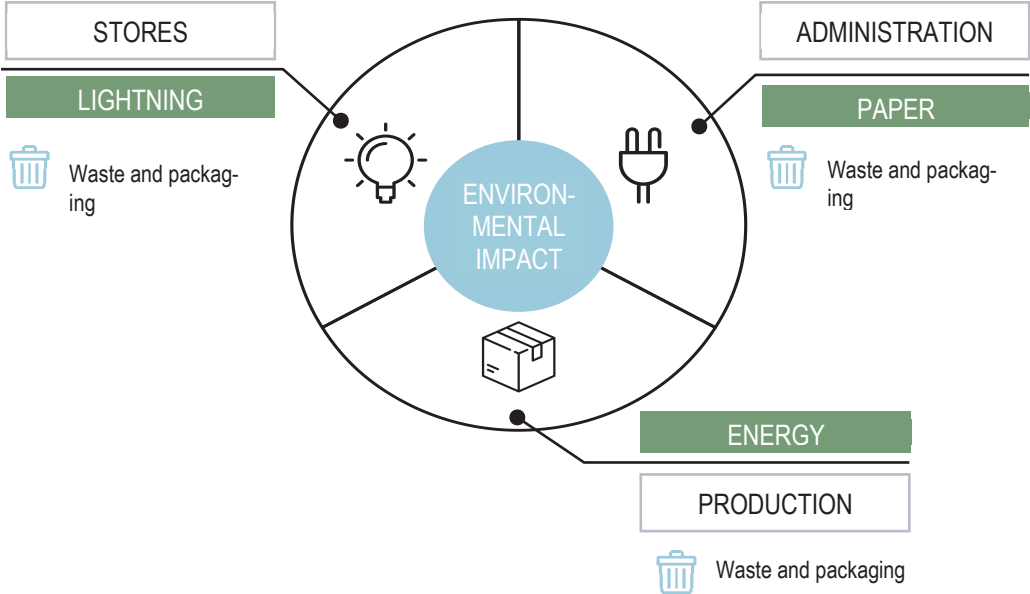
The risk of human rights is a wide-ranging risk for both the Company and the Capital Group, as it affects such key issue as the reputation of the Company and the Capital Group. Although VRG operates mainly in Poland, a country that is a member of the EU, where human rights regulate both national codes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



Capital Group stores

Majority of the Group's stores are located in shopping malls. Their greatest impact on the environment is the electricity they use, due to the need to properly illuminate stores during working hours. The Capital Group systematically undertakes new activities related to electricity consumption in order to rationalize the impact of the growing number of stores on the environment and climate. Firstly, since mid-2013, the Group has been using LED lighting in company stores. This applies to both new and upgraded/ modernised floorspace. At the end of 2019, 224 VRG S.A. stores (brands Vistula, Wólczanka, Bytom) had LED lighting, which translates into 75% of own stores. At the level of the Capital Group, at the end of 2019, 359 stores had LED lighting, which accounts for 81% of own stores. In 2020, due to the pandemic, investments in LED lighting were not a priority, just like renovations - apart from closing shopping malls, the Company and the Group also limited investments to maintain financial stability. At the end of 2020, 213 stores of the Company had LED lighting. Although this number is nominally lower than the year before, it translates into a higher percentage share in the number of own stores (79%) due to the closing of stores due to COVID-19. At the Capital Group level, this number was 341 stores, 82% of own stores at the end of 2020.

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 2019 at VRG S.A. 45% of company-owned store agreements contained a clause regarding respect for the environment, while 44% at the level of Capital Group. In 2020 statistics improved, thanks to newly signed contracts. At VRG S.A. and VRG S.A. Capital Group the percentage of contracts increased to some 48% of own stores.

In addition to the two most important initiatives, the Capital Group also carries out a number of other activities aimed at reducing the impact on the environment. The air-conditioning systems in stores use automatic temperature sensors, thanks to which energy consumption is minimized. Automatic water saving systems are installed in selected premises. The logistics process is related to stores. Due to planned development, W.KRUK changed the location of its distribution warehouse at the beginning of 2020. The current warehouse is more functional and meets the criteria of a modern distribution point. It was arranged according to the current needs of W.KRUK. Modern lighting, ventilation and air conditioning systems have been installed.

Administration

The Capital Group's administration is the second area that has an impact on 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 terms of company cars, both the Company and the Group allow for three ways of their operation: ownership, leasing and rental. Company cars are awarded to a few people in the organization. At the end of 2020, there were 77 of them at the level of the VRG S.A. Capital Group. (+2 YoY) and 43 at the level of VRG S.A. (+3 YoY). A 23% YoY decrease in the number of kilometers traveled at the Group level and an 11% decrease at the Company level are due to the lower use of company cars during the COVID-19 pandemic, due to more frequent work at home-office. The Company and the Group also have Instructions on the use of company cars.

| Business cars | 2019 | 2020 |
|------------------------|------|------|
| VRG S.A. Capital Group | 75 | 77 |
| Apparel segment | 52 | 55 |
| Jewellery segment | 23 | 22 |
| VRG S.A. | 40 | 43 |

| Number of driven km | 2019 | 2020 |
|------------------------|-----------|-----------|
| VRG S.A. Capital Group | 2 306 783 | 1 766 013 |
| Apparel segment | 1 696 245 | 1 368 710 |
| Jewellery segment | 610 538 | 397 303 |
| VRG S.A. | 1 143 225 | 720 825 |

Although the Group does not have a written policy regarding business travel, the preferred means of transport is rail. The Company and the Group have a Procedure for settling domestic and foreign business trips. The number of journeys is minimized by the use of modern tools at various levels and in many fields. The year 2020 also forced quick changes in this respect by introducing remote talks and meetings to the organization as a company-wide standard. Firstly, recruitment to locations geographically distant from the headquarters of the Capital Group in Cracow and to all positions in the Company's headquarters at the first stage (and often comprehensively - until the decision on employment) are currently conducted using modern technologies, thus the necessity to travel, both for the recruiter and the recruited person. Secondly, the IT department in the field of IT support provided to employees of the Capital Group software enabling remote access to computers, eliminating the need for business trips related to hardware and software maintenance. Third, to the extent possible, the Group currently uses conversations via IT tools and videoconferences to communicate with suppliers.

Data on business delegations understood as a business trip of an employee of the Company or the Capital Group are presented below. One delegation corresponds to a minimum of two journeys or flights, i.e. moving from the place of departure / departure to the destination and back. Data on the Capital Group include all companies from the Group, i.e. VRG S.A., DCG S.A., WSM (apparel segment) and W.KRUK S.A. Data shows a YoY decline in the number of business trips in 2020 in the Company and the Capital Group, the main cause of which was the pandemic. Significant limitation of the possibility of traveling to many foreign countries, from which the key suppliers are located, resulted in the number of trips being reduced (with a few exceptions) to domestic trips. The reduction covered travel and business trips by all means of transport, with company and private cars trips being the least affected, due to their relative safety during the pandemic. Larger YoY declines in the jewellery segment than in the apparel segment resulted, among others, from a high base for W.KRUK in 2019, when some trips were conducted 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 company and private cars).

| Number of delegations | 2019 | 2020 |
|------------------------|-------|-------|
| VRG S.A. Capital Group | 4,077 | 1,366 |
| Apparel segment | 2,247 | 934 |
| Jewellery segment | 1,831 | 432 |
| VRG S.A. | 1,817 | 777 |

| Number of delegations by means of transportation | 2019 | 2020 |
|--|-------|-------|
| VRG S.A. Capital Group | 4,077 | 1,366 |
| PKP (rail) | 2,319 | 652 |
| PKS (bus) | 544 | 172 |
| Airplane | 137 | 31 |
| Car | 1,077 | 511 |
| VRG S.A. | 1,817 | 777 |
| PKP (rail) | 960 | 400 |
| PKS (bus) | 233 | 66 |
| Airplane | 49 | 23 |
| Car | 575 | 288 |

The number of kilometers traveled is shown as the sum of kilometers traveled in all business trips (from the workplace to the destination and back). The structure of the division of kilometers traveled by means of transport differs from the number of delegations. Although most kilometers are traveled by rail, the third place is taken by plane flights, which are made over significant distances, e.g. to Asia.

| Number of km driven | 2019 | 2020 |
|------------------------|-----------|---------|
| VRG S.A. Capital Group | 2,846,975 | 771,055 |
| Apparel segment | 1,654,426 | 584,810 |
| Jewellery segment | 1,192,549 | 186,245 |
| VRG S.A. | 957,869 | 502,634 |

| Number of km driven by means of transportation | 2019 | 2020 |
|--|-----------|---------|
| VRG S.A. Capital Group | 2,846,975 | 771,055 |
| PKP (rail) | 1,166,466 | 328,361 |
| PKS (bus) | 159,869 | 40,153 |
| Airplane | 709,795 | 172,558 |
| Car | 810,845 | 229,983 |

| Number of km driven by means of transportation | 2019 | 2020 |
|--|---------|---------|
| VRG S.A. | 957,869 | 502,634 |
| PKP (rail) | 461,691 | 215,856 |
| PKS (bus) | 61,977 | 20,362 |
| Airplane | 219,466 | 142,436 |
| Car | 214,735 | 123,980 |

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. In 2020 these indicators improved among others due to home office. In 2020 the Company used 14.35 tons of paper while W.KRUK 9.2 tons.

To ensure equal access for each employee, in 2019 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

There are two production plants within the Capital Group, the first is WSM (Wólczanka Shirts Manufacturing) and the second is Manufaktura (facility belonging to W.KRUK), whose energy and water consumption profile differs from stores and administration. WSM carries out a number of activities related to reducing its impact on the environment. They include the following areas: (1) reduction of electricity consumption (including implementation of LED lighting, energy-saving drives in all new machines and some older ones), (2) ongoing control of operation of the compressor, steam generators, and heat substation; thanks to such actions, it is possible to react quickly in the event of any failure, e.g. undesirable leakage of water at the place of origin, (3) reduction of water consumption by installing aerators in taps, (4) reduction of water consumption and energy consumption by conducting training and making employees aware of the need for saving energy and water, e.g. turning off the machine, lighting after leaving the room or when it is not needed, not using water in excess, being alert to checking the actual condition of taps, (5) waste segregation and disposal by appropriate companies (all types waste is segregated and registered in the Database on Products and Packaging and on Waste Management BDO); (6) performing noise and dust measurements in production halls (noise and dust levels do not exceed NDN, NDS), (7) increasing the flow of information in the form of e-mail, and thus reducing the amount of paper, (8) reducing business trips by replacing them e.g. with tele- and videoconferences, (9) monitoring the company's impact on the environment by conducting energy

audits (the last energy audit carried out in 2017). In addition, in 2020 WSM joined the ENTeR program piloted by the Association of Employers of the Clothing and Textile Industry PIOT. The ENTeR project focuses on the preparation and implementation of a tool - the M3P platform - for waste reduction in the textile industry. The project covers the countries of Central Europe.

Monitoring of the environmental impact also takes place at the W.KRUK jewellery workshop. Manufaktura carries out the following activities: (1) examines its energy balance, conducts internal environmental audit (by commissioning cyclical tests of lighting, dust, noise, concentrations of harmful substances), testing sewage and emissions, and environmental measurements (by commissioning cyclical tests to an external business partner in terms of safety and environmental protection), (2) reduces water consumption through a system of training and procedures (sensitization to checking the actual condition of valves, not using water in excess, procedures for turning off the water circuit before the end of work), (3) applies time switches to machines, using only their active working time, (4) collects grinding waste (in the filters of hoisting machines and in tanks at grinding plants), which are sent for refining /recovery/utilization by external companies (which purify the collected material into metal recyclable fractions or for waste), (5) reduces the consumption of chemical preparations by adjusting the size of the working vessels to production volume and improving work efficiency (less polluted work environment and more precisely carried out regeneration) as well as (6) reduces heat consumption - an air supply and exhaust device has been installed in the plant 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; (7) in accordance with the water law, a sewage pre-treatment plant is installed, where the sewage from the electroplating plant is monitored and treated to the appropriate parameters.

In 2019, the Manufaktura W.KRUK production plant was moved from Poznań to Komorniki near Poznań. The two elements that decided about 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) the ecological ineffectiveness of the previous building, in particular when it comes to using energy to insulate the building with due to its outdated structure (lack of thermal insulation on the facade, thermal bridges, uninsulated roof). In the new location, LED lights are installed throughout the building. It also applies devices that use energy more efficiently (metal melting furnace with 30 kW of installed capacity was replaced with 10 kW, and the chamber for soaking semi-finished products was changed from 20 kW installed capacity to 2.4 kW). All these activities, more than a year after the move, have their real dimension. Data for 2020 and data from the energy audit of the previous location indicate a decrease in energy consumption needed to produce one piece by 78%, while the energy consumption itself decreased by 66%. Lowering the impact of production in Manufaktura W.KRUK on the environment took place without any reduction in scale of operations or a decrease in employment.

Waste and packaging

The Company and the Capital Group fulfil their current obligations in the field of environmental protection in matters relating to waste. According to the current act on waste, all entrepreneurs who produce, collect, process or transport waste, place products, packaging on the market, introduce electrical and electronic equipment, vehicles, batteries, and accumulators to the market are obliged to keep records of waste and are required to register in the Database on Products and Packaging and Waste Management (BDO). The Company and the Capital Group, manage waste in accordance with applicable regulations, keep a record of waste through an individual account in the electronic BDO system. Waste generated (chemicals, textile scrap, paper, cardboard, metal waste, electric and electronic scrap, toners) is stored selectively, in compliance with the applicable environmental protection requirements. Then, depending on its type, waste is transferred to other entities who have appropriate permits for further waste management. After being handed over to authorized external entities, waste generated is subjected to recycling or disposal processes as needed. In addition, the workshop in Komorniki (Manufaktura) conducts cyclical tests of the composition and condition of industrial wastewater - discharged in accordance with the water permit. When it comes to the Company's and the Capital Group's stores, located in shopping malls, all lighting waste from stores is disposed of by specialist disposal companies. Everyday waste (paper and plastic) is segregated and utilized by shopping malls. The Company and the Capital Group make every effort to best fulfil their legal obligations.

| Amount of waste generated (tons) | 2019 | 2020 |
|----------------------------------|------|------|
| VRG S.A. Capital Group | 22.5 | 43.3 |
| Apparel segment | 19.5 | 42.7 |
| Jewellery segment | 3.0 | 0.5 |
| VRG S.A. | 3.7 | 13.6 |

In 2020, there was an increase in the amount of waste generated both at the level of the Capital Group and the Company. In relation to the Company, the YoY increase resulted from higher e-commerce sales as a consequence of the pandemic and, consequently, higher consumption of packaging materials. The apparel segment was also influenced by higher amount of waste generated by WSM. On the other hand, different trends were visible at the level of W.KRUK, in which a significant YoY decline resulted from change in manufacturing location - transfer of Manufaktura to a new, more ecological location from the center of Poznań to Komorniki near Poznań.

Another area of monitoring the environmental impact is also the amount of packaging placed on the market. In 2020, there was an increase in the mass of packaging introduced to the Polish market, which resulted from higher e-commerce sales volumes caused by the COVID-19 pandemic. Calculations presented do not include WSM, which does not introduce packaged products - it manufactures products and places them on the market, among others. under the brands of VRG S.A. and other third-party brands, which are obliged to settle the packaging on their own.

| Mass of packaging introduced on the Polish market (kgs) | 2019 | 2020 |
|---|---------|-----------|
| VRG S.A. Capital Group | 535,266 | 1,152,303 |
| Apparel segment | 296,707 | 918,092 |
| Jewellery segment | 238,559 | 234,211 |
| VRG S.A. | 290,707 | 912,272 |

In 2020, there was a significant change in the type of packaging introduced to the Polish market. Both the Company and the Capital Group eliminated plastic bags (at the end of 2020, they were not present in any brand). The described tendencies are confirmed in data on the split of packaging placed on the market by type – a decrease in the weight of plastic packaging in 2020 is accompanied by an increase in the weight of paper and cardboard packaging. In 2020, 100% of the packaging used by VRG for e-commerce shipments (Vistula, Wólczanka, Bytom) was recyclable / FSC certified.

| Mass of packaging introduced onto Polish market by type (kgs) | 2019 | 2020 |
|---|---------|-----------|
| VRG S.A. Capital Group | 535,266 | 1,152,303 |
| Paper and cardboard packaging | 484,529 | 1,131,995 |
| Plastic packaging | 50,537 | 20,058 |
| Wooden packaging | 200 | 250 |
| VRG S.A. | 290,707 | 912,272 |
| Paper and cardboard packaging | 262,197 | 900,406 |
| Plastic packaging | 28,510 | 11,866 |
| Wooden packaging | 0 | 0 |

VRG S.A. Capital Group when placing products in packages on the market, in accordance with the provisions of the Act on the management of packaging and packaging waste, it is obliged to recover, including recycling, packaging waste. The above obligation is fulfilled on the basis of relevant agreements concluded with packaging recovery organizations, which fulfil the obligation of recovery and recycling on behalf of the Group through cooperation with waste holders involved in waste recycling, as well as by carrying out public educational campaigns on behalf of the Group.

| Recovery and recycling of packaging waste introduced to the Polish market (in kg) | 2019 | 2020 |
|---|---------|---------|
| VRG S.A. Capital Group | 283,314 | 638,758 |
| Paper and cardboard packaging for recycling | 271,336 | 633,917 |
| Plastic packaging for recycling | 11,876 | 4,714 |
| Wooden packaging for recycling | 102 | 128 |

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 CO₂ equivalent). All subsidiaries are included in the calculations and estimates below, as in the case of other non-financial data. Data collected shows a decrease in electricity, heat and water consumption, due to the greater use of remote work in 2020 due to the pandemic.

| 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 |
| Consumption in 2020 | Electricity (MWh) | Natural gas (GJ) | Thermal energy (GJ) | Water (m3) |
| VRG S.A. Capital Group | 7,990 | 921 | 4,151 | 4,507 |
| Apparel segment | 5,698 | 635 | 3,909 | 3,192 |
| Jewellery segment | 2,292 | 287 | 242 | 1,315 |
| VRG S.A. | 4,830 | 0 | 1,032 | 891 |

Analysis and estimates of greenhouse gas emissions were carried out on the basis of the GHG Protocol A Corporate Accounting and Reporting Standard. This standard divides emissions into Scope 1 (direct), Scope 2 (indirect, but within corporate boundaries) and Scope 3 (indirect, value chain). Analysis of activities of the Company and the Group showed that corporate cars and energy produced in the Group's production facility (W.KRUK) will be included in Scope 1. Scope 2 emissions are emissions related to energy consumption in places under the control of the Company and the Group, which include leased administrative areas, warehouses and stores. Both the Company and the Capital Group did not have the full amounts of electricity consumed in stores. The estimates for each brand network were made on the basis of a representative sample of stores of each brand. For the purposes of estimating data for 2020, a larger sample of stores was used than for 2019. Scope 2 emissions were calculated in accordance with the so-called location-method. In the Scope 3 2019 emissions data, the Company and the Group show only data on business trips of employees (without taking into account company cars, which are included in Scope 1). Data for 2020 has been broadened to include emission estimates related to the impact of employee commuting.

Depending on the scope for which emissions of CO₂ equivalents were calculated, emission factors publicly available on the websites of KOBiZE, URE, GHG Protocol and IPCC were applied. The applied GWP (global warming potential) factors were taken from materials publicly available on the GHG Protocol website. Biogenic emissions have not been calculated.

| GHG emissions (CO ₂ e) 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 (business trips only) | 223.9 | 87.5 |
| GHG emissions (CO ₂ e) in tonnes 2020 | VRG S.A. Capital Group | VRG S.A. |
| Scope 1 | 362.2 | 165.6 |
| Scope 2 | 6,529.0 | 3,767.0 |
| Scope 3 (business trips only) | 61.8 | 42.7 |
| Scope 3 (employees' commuting) | 1,647.7 | 1,257.8 |

The pandemic had a positive effect on greenhouse gas emissions in carbon dioxide equivalents in the Scope 1 and 2, both at the level of the Company and the Capital Group. This is due to lower number of kilometers traveled by company cars (Scope 1) as well as lower energy consumption by the Group's brand stores, temporarily closed down due to lock-down (Scope 2). In Scope 3, reductions took place due to fewer business trips that were converted to videoconferencing.

Due to significant changes in external surroundings, it is worth analyzing emissions not only in nominal terms, but also per item sold. For comparisons, we use emissions in Scope 1 and 2 - emissions in Scope 3 were calculated in the report for 2020 in a broader scope than in the report for 2019. So the results would not be comparable. Scope 1 and 2 emissions have been normalized by the number of products sold. A 26% decrease in emissions and a 2% increase in the number of items of clothing sold translated into a 28% decrease in emissions per item, which amounted to 0.8 kg CO₂e in 2020 compared to 1.1 kg CO₂e in 2019. Additionally, we would like to point out that the structure of products sold in 2020 changed YoY. The key reason was growing production at WSM due to production of face masks. Excluding the impact of WSM from the number of items, we achieve a 9% decrease in volumes in 2020 and a 19% decrease in emissions per item of products sold in 2020.

| Znormalizowane emisje gazów cieplarnianych Grupy Kapitałowej | 2019 | 2020 |
|--|-----------|-----------|
| Scope 1 + 2 emissions (CO ₂ e tons) | 9,347.4 | 6,891.2 |
| Number of sold items | 8,464,126 | 8,615,513 |
| Scope 1+2 emissions per item (kg CO ₂ e) | 1.10 | 0.80 |
| Number of items sold excl. WSM | 8,149,564 | 7,375,863 |
| Scope 1+2 emissions per item excl. WSM (kg CO ₂ e) | 1.15 | 0.93 |

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:

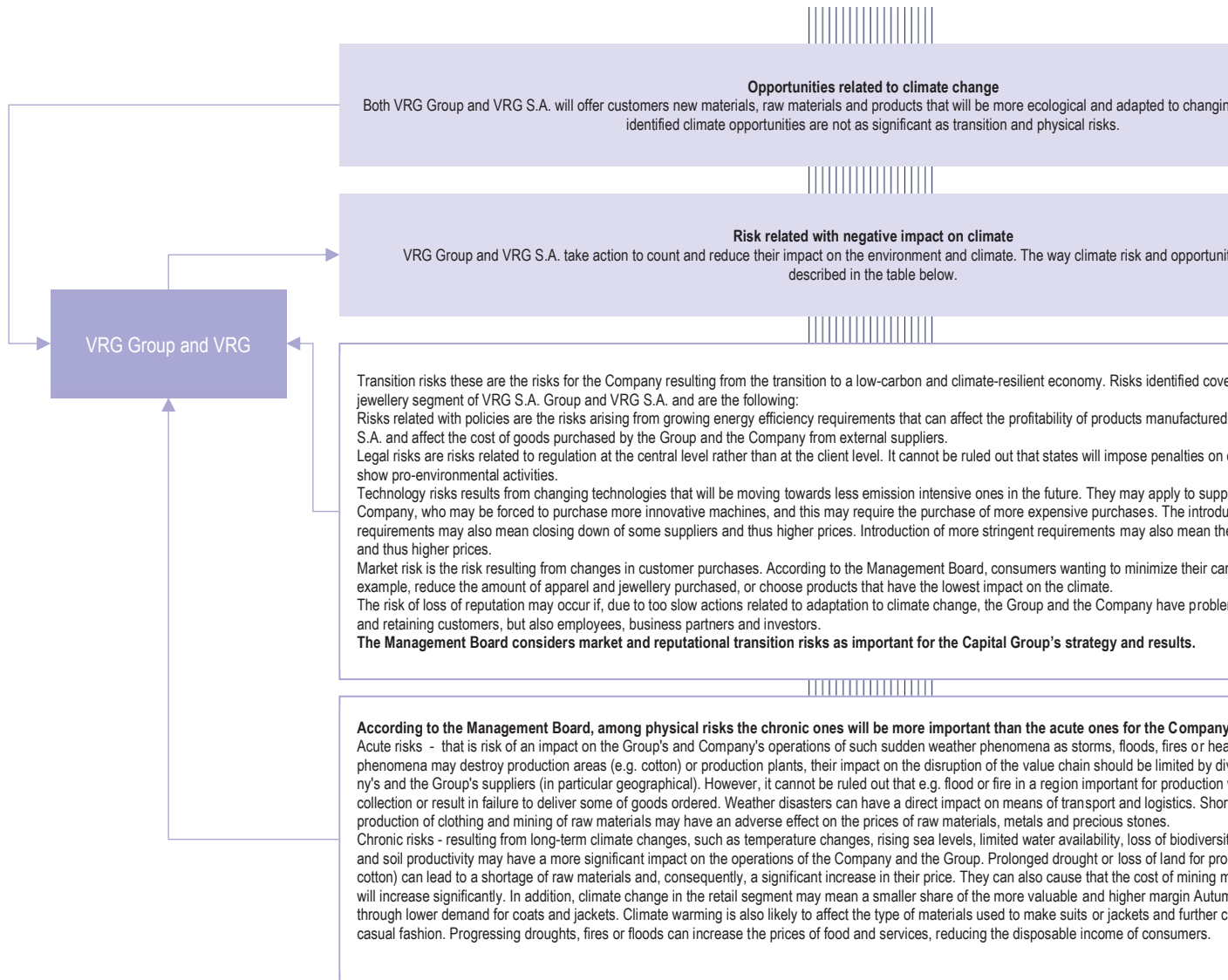
- issues related with production,
- energy and raw material consumption,
- impact of everyday activities on environment.

Environmental risk includes several areas in which the activities of the Company and the Capital Group may affect the environment. Production of both apparel 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. The Company and the Capital Group also focus on 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 dependencies, possibilities and risks of the business model of the Company and the Group 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. The Management Board believes that market and reputational risks are the most important from the group of transition risks. In terms of physical risks, the Management Board considers chronic risks as material.

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 CO₂ 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.



| | Area of climate changes impact | Risks and possible range of climate change impacts | Impact on various types of capital |
|-----------------|--|--|--|
| 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 environmentally friendly by our suppliers should have a positive impact. Climate change alone can potentially lead to a decline in the availability of raw materials, e.g. lack of water in some areas, which can contribute to a smaller surface area of raw materials for crops. Climate change can also promote pest resistance and lead to increased consumption of pesticides, e.g. cotton. Droughts, fires and floods can threaten the availability of raw materials, which can increase prices and reduce the availability of raw materials. |
| | 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 environmentally conscious, they can start looking for goods in terms of transparency, and in terms of the environmental qualities of materials. In addition, with the increase in consumer awareness, the need for knowledge about the products offered by brands may also increase. The Group, in order not to lose social capital in the form of trust and human capital in the form of employees and their loyalty, will have to take measures to meet these expectations. Increasing pressure from customers can be placed on taking measurable activities, and this can be reflected in the company's message. |
| | 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 popular in the apparel segment than Spring/Summer. VRG S.A. revenue in the second half were 20% higher than for the first half. In addition, heavy coats are an important assortment of the Autumn / Winter collection. Vistula and Bytom brands (some 4% and some 7% of the total Group sales in 2019, respectively). The narrowing of the differences between the seasons may result in lower demand for the products with a possible negative impact on sales and profits (these products are characterized by high unit prices). The increase in demand for heavy coats may lead to an increase in the purchase prices of this raw material, and companies are faced with the decision to increase their selling prices and thus their margins. |

| | Area of climate changes impact | Risks and possible range of climate change impacts | Impact on various types of capital |
|-------------------|--|--|--|
| 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 affect the process of mining metals and precious stones, efficiency of mining machinery or transport infrastructure, the inability to obtain ores (e.g. due to flooded mines or typhoons preventing mining, typhoons preventing diamonds or their distribution). However, global warming may open up new mining opportunities that could not be exploited until now, giving the segment a chance for further development. |
| | 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 and social pressure (increasingly aware consumers and investors) contribute to the necessity of introducing new technologies and reducing harmful impact on the environment. The consequences for the jewellery industry may be the high costs of changes. The time needed to replace existing technologies and contribute to this. The time to learn how to use the new technologies and the period of reaching full potential will generate additional costs. A pro-environmental approach may be required not only by W.KRUK employees. |
| | | | Financial capital: The risk of reducing jewellery production with higher jewellery prices (if the increase is not passed on to the customer) may negatively impact the jewellery segment. |

| | Scenario description | Business model resilience |
|-------------------------------|--|---|
| | <p>In each of the selected climate scenarios presented by IPCC, world temperatures in the 21st century will rise. According to IPCC, it is almost certain that there will be 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 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.</p> | |
| <p>Scenario RCP2.6</p> | <p>The RCP2.6 IPCC scenario assumes a strong reduction of the CO₂ 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.</p> | <p>Apparel segment: It is possible that the need to significantly reduce emissions in particular for suppliers. It would mean the necessity of the Company to change climate requirements and would change the offer of the Company and the goods come from organic farming. There is a risk, therefore, that this would involve an increase for suppliers to be able to meet the requirements in a relatively short time, the requirements or international institutions. Transport is another issue. There is a risk that possible, selected governments would impose a tax on CO₂ emissions, which would increase the price of goods from the manufacturer. Therefore, there is a possibility that in this scenario suppliers and transfer production either to the country or to neighbouring countries (e.g. place in Poland). Another element is the possible reaction of consumers. Assumptions in this scenario house gas emissions in many respects would lead to a decrease in disposable income for scenario customers would be looking for things that would be more ecological and durable, which durability can be counted on in years. It seems that in this scenario, the company will offer an ecological offer and change the communication regarding the quality of its products. If this scenario is implemented, the Management Board will take all necessary actions.</p> <p>Jewellery segment: The need to implement quickly changes reducing the emissions for changes at W.KRUK suppliers. The use of less emissive fuel for mining will lead to a need for investment in new machinery and technologies. This could increase the costs due to their use in other industry segments. Similarly, higher transport costs will lead to higher prices for customers. As in the apparel segment, decreasing disposable income will lead to a more particular impulsive). The company will continue its marketing message based on its offer in the future.</p> |
| <p>Scenario RCP6.0</p> | <p>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 CO₂ equivalents will hinder activities in the future.</p> | <p>Apparel segment: The scenario assumes that no significant measures will be taken in the next several years. This does not mean that climate issues will not be relevant to the company's development can be increasingly important, especially for younger generations. In the long run, it will lead to slowly force changes on producers and suppliers, and the apparel segment will be affected by chemicals. In this scenario, the Company will continue its activities aimed at the offer of Autumn/Winter collections to changing climate conditions. The lack of quick actions, however, lead to a significant intensification of adverse weather changes over the long term, in particular after 2035, which could have a negative impact on both the cost of raw materials and physical risks in this scenario is possible.</p> <p>Jewellery segment: A similar situation would take place in the jewellery segment. Lack of quick adaptations to the changing environment would probably start. Lack of quick actions, however, lead to a significant intensification of adverse weather changes over the long term, in particular after 2035, which could have a negative impact on the availability of metals and the areas where these raw materials are extracted. The Management Board will take all necessary actions.</p> |

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, favorable changes also took place in the area of compliance, which will support the Group in its activities against corruption and bribery. In October 2020, a compliance and risk management position was established in the Company, the purpose of the position is to ensure compliance with standards, recommendations or relevant practices, to ensure compliance with the law, to prevent corruption, including updating the risk management system in the Capital Group. Along with the development of the scale of the Capital Group and its complexity, and meeting the recommendations of the Best Practices of Listed Companies 2016, the Management Board decided to expand the Internal Audit Department with new employees. The Internal Audit Department is responsible for compliance in all companies of the Capital Group. The person holding the position of the Internal Audit Director is responsible for verifying the procedures of the Company and the Capital Group companies and their effectiveness in terms of business, law and risk. The Internal Audit Director 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 superior, a member of the management board responsible for a given area, compliance positions or an 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 2020, 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 winning 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

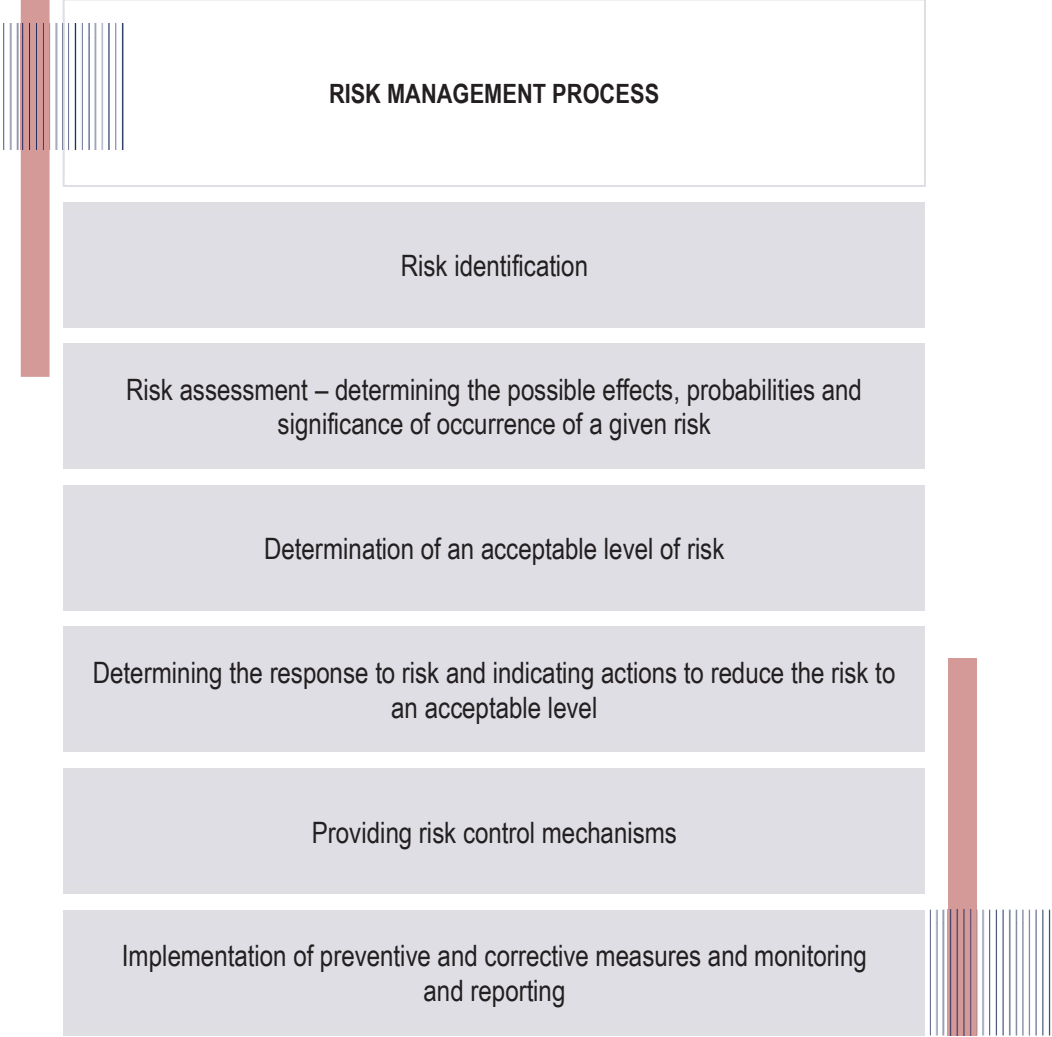
The characteristics of the apparel and jewellery segment in Poland as well as global trends affecting the business environment in the country make risk management one of the Capital Group's priorities. The aim is to minimize the possible adverse impact of external and internal factors, with the simultaneous 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 VRG S.A. Capital Group risk management regulations apply. According to regulations, a register of identified risks together with the corresponding risk maps was 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 type | Probability | Power of influence | |
|---|-------------|--------------------|--|
| Strategic risks | | | |
| Undertaking a wrong strategy | ●●○○○○ | ●●●○○ | The Management Board on an ongoing basis in the formation of floorspace for future and brand development. on an ongoing basis and the Supervisory Board. |
| Change in consumer tastes | ●●○○○○ | ●●●●○ | The Management focuses on meeting the tastes of target jewellery segments. Active channel, adapting on-line solutions dedicated to market. |
| Potential M&A project | ●●●○○ | ●○○○○ | In addition to organic growth potential of the Capital Group Poland. The Management seeks and cost synergies from market. |
| Operating risks | | | |
| Inventory management | ●●○○○○ | ●●●●○ | A quantitative and qualitative analysis. On its basis, the Group identifies and any possible write-downs. Inventory held and sale of current purchases for subsequent. |
| 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: W.KRUK S.A., DCG S.A. The Group monitors the operational analysis of operating results. |
| The risk related to disruptions in the functioning of information systems | ●●●○○ | ●●●●○ | IT systems register economic. chase of goods and settlement terms employing competitive using a backup centre. |

●○○○○○ very low

●●○○○○ low

●●●○○○ medium

●●●●○ high

●●●●● critical

10. Non-financial indicators

The Management Board of the Company and the Capital Group has defined a list of key non-financial ratios that are presented in this statement. The indicators were selected in terms of their relevance to stakeholders and in order to create the most complete picture of non-financial policies. The ratios are presented at the level of the Company, i.e. the parent company, VRG S.A. and at the Capital Group level. Additionally, in order to better illustrate the nature of individual segments and make it easier for stakeholders to relate non-financial data to financial information contained in the Consolidated Financial Statement and the Report on the Capital Group's operations, at the Capital Group level, selected indicators and non-financial data have been presented for the apparel segment and the jewellery segment. The table below presents the most important non-financial indicators and the methodology adopted for the calculations.

| Non-financial indicator | Methodology | Page number |
|--|--|-------------|
| Retail network | Number of stores and floorspace in m2 of all brands (both franchise and own stores) | 4,6,7,8,12 |
| Average store size | Floorspace divided by number of stores end of period | 6,7 |
| 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 |
| 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 | 8 |
| Number of customers | Traffic in stores i.e. total number of people entering stores in a calendar year | 12 |
| Number of loyal customers | Customers who participate in one of the loyalty programs offered by Capital Group's brands | 4,8,13 |
| Average lease length | Average lease length for own stores | 12 |
| Share of franchise in floorspace | Area of franchise stores of a given segment / entity divided by floorspace of the segment / entity | 4,12 |
| Share of internet in revenues | Sales of e-stores in proportion to the total sales of the Company / Capital Group | 4,12 |
| Number of employees | The number of people employed under a contract of employment, excluding persons on maternity leave | 4,27,28 |
| 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) | 27 |
| Number of disabled people | Number of persons employed with a recognized degree of disability | 29 |
| Diversity factors | Employees split by gender, age, seniority, place of work | 4,29,30,31 |
| Overtime | Number of hours worked over the standard working time by employees of the Company and the Capital Group in a given year | 33,34 |
| Trade unions | Number of trade unions and number of people who belong to them | 28 |
| Number of women / men on maternity / parental leaves | Number of women and men on maternity and parental leaves, number of women returning from maternity leave and staying in the Company / Group for more than 12 months | 29 |
| 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. | 32,37,38 |

| Wskaźnik niefinansowy | Metodologia | Strona |
|---|---|-------------|
| Number of accidents | Number of accidents among group employees and employees of subcontractors working on the premises. | 36 |
| Accident frequency indicator | Number of accidents at work per 1,000 employees | 36 |
| Days of incapacity for work | Total number of days of incapacity for work caused by accidents | 37 |
| Accident severity indicator | Number of days of inability to work / number of accidents | 37 |
| Suppliers' certification | Percentage of suppliers that signed the Supplier Code of Conduct and the percentage of having the relevant certificates | 16,40,41,42 |
| Percentage of stores with led lighting | Percentage of stores with led lighting | 46 |
| Percentage of stores with an environmental clause | Number of stores for which an environmental contract is signed in relation to number of own outlets | 46 |
| Business cars | Number of cars rented, leased or owned by the Company / Capital Group | 46,47 |
| Number of kilometres driven | Number of kilometres driven by rented, leased and owned vehicles in a given calendar year | 47 |
| Delegations | Number of delegations (business trips) | 48 |
| Number of kilometres driven | Number of kilometres driven by rented, leased and owned vehicles in a given calendar year | 48 |
| Energy and water consumption | Data on electricity, natural gas, thermal energy and water consumption | 52 |
| Waste | Amount of waste generated (tons) | 51 |
| Packaging | Kilograms of packaging introduced to the Polish market and recycled | 51,52 |
| Emissions | CO2 equivalent emissions in Scope 1, Scope 2 and selected Scope 3 elements and normalised values | 53 |
| Reported irregularities | Number of cases reported for inboxes related to corruption and irregularities | 60 |

Andrzej Jaworski

Radosław Jakociuk

Michał Zimnicki

Ernest Podgórski

Olga Lipińska-Długosz

President of the Management Board

Executive Vice-President of the Management Board

Executive Vice-President of the Management Board

Management Board Member

Management Board Member

Cracow, April 16, 2021

VISTULA

BYTOM

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MILANO

W.KRUK
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VRG

VISTULA RETAIL GROUP



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 April 16, 2021 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 2020, 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 2020, 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 2020 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.

Andrzej Jaworski

Radosław Jakociuk

Michał Zimnicki

President of the
Management
Board

Executive Vice-
President of the
Management Board

Executive Vice-
President of the
Management Board

Olga Lipińska-Długosz

Ernest Podgórski

Management
Board Member

Management Board
Member

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 2020 (extract from Resolution No. 1 of the Supervisory Board of VRG S.A. in Cracow of April 16, 2021)

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.