

Łódź, 22 May 2019

To: **Shareholders of Redan SA**

Dear Sirs,

I would like to present to you the Consolidated Annual Report of the Redan Group for the year 2018.

The activity of the Redan Capital Group is based on two pillars: the fashion segment (brands of Top Secret, Troll and Drywash) and the discount segment, in which the shopping network of TXM operates.

It should be emphasized that both segments are completely independent of each other. The only element connecting them is the fact of holding by Redan 58,7% of shares in TXM SA under restructuring. Each of the segments conducts separate operations which are unrelated and unshared with the other. In particular, in each segment there are different goods, bought from other suppliers, ordered by other employees, served by other warehouses and sold in other stores. The segments are also separated in financial terms. They use separate sources of financing without mutual guarantees or collateral. The year 2018 is clearly divided into two different halves. In the first half, Top Secret pursued plans and margins of sales, while income levels reached in TXM in April and May gave hope that the trend reversed. Unfortunately, as time passed, the situation was changing. First, since June, we recorded sales declines y / y in the discount segment. Then the warm autumn and the beginning of winter was not favourable for the Top Secret brand, in the collection of which, on the basis of detailed sales analyses in previous years, heavier assortments like jackets and sweaters, had bigger share that year.

Last year 2018 was the second consecutive year in which rehabilitation actions were taken in the discount segment. However, in retrospect it can be clearly seen, they were a reaction to visible problems, i.e., first and foremost, shortages in stock in the shops. We assumed that solving these problems would quickly restore the level of sales. However, it did not happen. Although in August, TXM received additional funds of PLN 31.9 m, which were allocated to increase the working capital, the sales increase did not occur. This led to a decision at the end of 2018 to change the way in which the network of TXM was restructured. Firstly, all operations that result in cash outflows are eliminated. This concerns the closure of around 80 unprofitable TXM stores in Poland, discontinuation of operations on foreign markets (in Romania and Slovakia) and further optimization of operating costs. Secondly, it is necessary to take steps to increase sales and margins. In this respect, changes are introduced to the product portfolio in order to optimally adjust it to needs of the target group of customers and plans of purchase of goods are prepared on the basis of realistic sales forecasts. The optimal allocation of goods in the store chain is also implemented. The rehabilitation plan assuming the above-mentioned points has been prepared by the Management Board and is currently being implemented. In the opinion of the Management Board, the change in the approach to the restructuring plan, compared to actions taken in 2017 and 2018, makes it highly probable that it will be implemented successfully. To confirm its reliability, in March

this year, TXM engaged Ernst & Young, a consulting firm whose task is to support the strategy and restructuring plan in the verification area.

Additionally, we also started the process of financial restructuring. On 15 May 2019, the court initiated a fast-track arrangement procedure. Its objective is: (i) to ensure that TXM is able to continue its trading activities and to implement restructuring measures that will improve its current liquidity and financial performance and (ii) to protect all entities remaining in economic relations with TXM and to safeguard their interests as fully as possible. As part of the restructuring process, TXM will seek to enter into an arrangement with unsecured creditors and to enter into an agreement with banks financing the operations of the discount segment.

In 2019, the discount segment will focus on implementing a modified restructuring programme, including securing supplies of goods from suppliers, as well as negotiating the terms of further cooperation with banks and an arrangement with contractors. The Management Board considers the chances of reaching an agreement with both groups of creditors to be high, as their satisfaction level in the restructuring procedure will be much higher than in the alternative insolvency proceedings of TXM SA under restructuring.

A clear improvement of financial results in the discount segment should take place in 2020. Then the Management Board expects EBITDA to clearly exceed the break-even point.

In 2018, the shopping network of Top Secret in Poland developed in line with our long-term strategy and increased by 10% y/y. Last year, however, we faced two different periods. In the first two quarters, we fully met our sales and margin targets. For the autumn-winter season, based on the results of our sales in 2017 and visible market trends, we introduced assortment changes consisting in increasing the offer of jackets and sweaters. Unfortunately, the change of this offer collided with exceptionally unfavourable weather conditions. High temperatures in September and their continuation in October (periodically even 12 degrees above the historical average), caused a slowdown in the sales pace and then their aggressive clearance sale in November and December, which had a negative impact on sales and margins.

Despite the weaker second half of the year, the Top Secret stores in Poland maintained their profitability y/y, and the e-commerce channel recorded not only a 9% improvement in sales, but also a 3pp improvement in profitability. On the other hand, we recorded a drop in sales and margins on foreign markets. It resulted from the reduction of the sales network in Ukraine by 18% and temporary limitation of the cooperation with the largest online clothing multi-brands in Russia, due to the change in the form of cooperation.

As a consequence of the increase in the order volume in 2018 resulting from the development of a chain of stores in Poland, a higher USD/PLN exchange rate y/y and mainly lower than expected sales of heavy assortments in the autumn-winter collection as at 31 December 2018, the value of the fashion market inventory increased by PLN 24.5 million to a total of PLN 87.5 million. Therefore, reducing the level of inventories is one of the key challenges for the fashion segment in 2019. First of all, the sales of these goods will be intensified in the expanded outlet chain and on foreign markets. Moreover, some goods

from the autumn/winter season, especially those not shipped to stores in the fourth quarter of last year, will be integrated in the collection this year in a rational and selective manner, reducing the value of the new order accordingly.

Despite the above-mentioned tactical challenges related to excessive inventory, which resulted from a significant omission of assumptions concerning the collection for autumn/winter 2018 and the prevailing weather conditions, the achieved results confirm the validity of strategic assumptions for the Top Secret brand. Strategic objectives for the coming years focus on expanding Top Secret's distribution channels by approx. 30% in Poland (offline and online) enabling the use of economies of scale and operating leverage. Ultimately, it is also planned to increase the interest margin by 3 percentage points to the average level in the clothing industry in a sustainable and systematic manner.

In preparing the consolidated financial statements for 2018, the Management Board of TXM SA under restructuring adopted as its basis the principle of continuation of the company's operations. The Management Board based its decision on the elements concerning the discount segment described above, i.e. preparation and commencement of implementation of a new in-depth restructuring plan, commencement of restructuring proceedings and the assessment that for both composition creditors and financial institutions financing TXM the restructuring scenario is significantly more beneficial. However, the chartered auditor auditing the financial statement for 2018 stated that in their opinion they were not able to obtain sufficient evidence confirming the legitimacy of the principle of continuity of activity adopted by TXM SA in restructuring. This led the auditor to refrain from issuing an opinion on the company's financial statements for 2018. As TXM SA under restructuring constitutes a very important part of the Redan Group, the auditor also refrained from issuing an opinion on the consolidated report of the Redan Capital Group for 2018.

I would like to thank our business partners and employees for their contribution to the development of the business. Our customers - for their interest in our brands and the offer. I would also like to thank investors for their trust. At the same time, I would like to assure you that every day we make every effort to ensure that the Redan Group achieves the best financial results.

Yours faithfully

Bogusz Kruszyński

President of the Management Board of
Redan SA