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

VRG

VISTULA RETAIL GROUP

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CONDENSED INTERIM

FINANCIAL REPORT

of VRG S.A. Capital Group for 1Q19
prepared in accordance with IFRS
approved by the European Union

Cracow, May 20, 2019

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PLN 214.4m
of revenues,
+ 33.5% YoY

CONDENSED INTERIM CONSOLIDATED

FINANCIAL STATEMENTS

FOR 3 MONTHS ENDING MARCH 31, 2019

SELECTED FINANCIAL DATA TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATMENTS

	PLN ths		EUR ths	
	1Q19 January 1, 2019 to March 31, 2019	1Q18 January 1, 2018 to March 31, 2018	1Q19 January 1, 2019 to March 31, 2019	1Q18 January 1, 2018 to March 31, 2018
Revenues	214,425	160,558	49,891	38,426
Profit (loss) from operations	- 1,241	1,931	- 289	462
Pre-tax profit (loss)	- 3,969	418	- 923	100
Net profit (loss)	-2,408	111	- 560	27
Net cash flows from operating activities	- 50,866	- 23,434	- 11,835	- 5,608
Net cash flows from investing activities	- 6,239	- 3,064	- 1,452	- 733
Net cash flows from financing activities	44,137	18,725	10,270	4,481
Total net cash flows	- 12,968	- 7,773	- 3,017	- 1,860
	31.03.2019	**31.12.2018**	**31.03.2019**	**31.12.2018**
Total assets	1,425,948	1,113,351	331,516	258,919
Liabilities and provisions	623,046	308,254	144,851	71,687
Long-term liabilities	281,242	74,561	65,385	17,340
Short-term liabilities	331,222	220,440	77,005	51,265
Total equity	802,902	805,097	186,665	187,232
Share capital	49,122	49,122	11,420	11,424
Shares outstanding	234,455,840	234,455,840	234,455,840	234,455,840
Diluted number of shares	241,505,840	241,505,840	241,505,840	241,505,840
Earnings (loss) per ordinary share (in PLN/EUR)	- 0.01	0.29	0.00	0.07
Diluted earnings (loss) per share (in PLN/EUR)	- 0.01	0.28	0.00	0.07
Book value per share (in PLN/EUR)	3.42	3.43	0.80	0.80
Diluted book value per share (in PLN/EUR)	3.32	3.33	0.77	0.77
Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

CONDENSED INTERIM CONSOLIDATED

STATEMENT OF FINANCIAL POSITION

AS OF MARCH 31, 2019

	PLN ths				
	1Q19 March 31, 2019	January 1, 2019 after restatement	2018 December 31, 2018	1Q18 March 31, 2018	2017 December 31, 2017
Non-current assets	**881,069**	**892 829**	**593,249**	**424,065**	**425,471**
Goodwill	324,033	324,033	324,033	242,590	242,590
Other intangible assets	183,051	183,220	183,220	116,080	116,208
Fixed assets	79,003	78,046	78,046	58,087	59,380
Investment property	874	874	874	874	874
Assets held for sale	-	-	-	-	-
Right of use assets	284,921	299,580	-	-	-
Long-term receivables	570	586	586	515	518
Shares and stakes	27	27	27	29	31
Other long-term investments	4	4	4	4	4
Deferred tax assets	8,530	6,429	6,429	5,834	5,831
Other non-current assets	56	30	30	52	35
Current assets	**544,879**	**520,102**	**520,102**	**350,475**	**353,354**
Inventory	488,904	460,781	460,781	315,340	315,282
Trade and other receivables	32,159	23,907	23,907	24,183	20,204
of which corporate income tax receivables	*163*	-	-	*1,570*	-
Short-term loans	-	-	-	-	-
Cash and cash equivalents	20,555	33,523	33,523	8,647	16,420
Other short-term assets	208	8	8	-	-
Other current assets	3,053	1,883	1,883	2,305	1,448
Total assets	**1,425,948**	**1,412,931**	**1,113,351**	**774,540**	**778,825**
Dominating entity's equity	**802,902**	**805,097**	**805,097**	**542,662**	**542,491**
Share capital	49,122	49,122	49,122	38,070	38,070
Other reserves	14,181	13,968	13,968	13,790	13,729
Retained earnings	742,007	688,435	688,435	490,691	447,484
Net profit (loss) for the current period	-2,408	53,572	53,572	111	43,208
Non-controlling interest	-	-	-	-	-
Total equity	**802,902**	**805,097**	**805,097**	**542,662**	**542,491**

	PLN ths				
	1Q19 March 31, 2019	January 1, 2019 after restatement	2018 December 31, 2018	1Q18 March 31, 2018	2017 December 31, 2017
Long-term liabilities	**281,242**	**296,849**	**74,561**	**83,738**	**83,973**
Liabilities due to purchase of fixed assets	186	176	176	111	111
Lease liabilities	210,533	225,915	3,627	1,652	1,737
Including IFRS16	*207,289*	*222,288*	-	-	-
Loans and borrowings	70,523	70,758	70,758	81,975	82,125
Deferred tax liabilities	1,259	1,320	1,320	576	795
Long-term provisions	907	907	907	535	536
Total long-term liabilities and provisions	**283,408**	**299,076**	**76,788**	**84,849**	**85,304**
Short-term liabilities	**331,222**	**297,732**	**220,440**	**138,983**	**143,335**
Lease liabilities	80,275	79,031	1,739	548	548
Including IFRS16	*78,835*	*77,292*	-	-	-
Trade and other liabilities	159,239	192,820	192,820	85,599	109,854
of which corporate income tax liabilities	-	*4,897*	*4,897*	-	*2,618*
Loans and borrowings	80,454	14,627	14,627	41,800	20,446
Short-term part of long-term loans and borrowings	11,254	11,254	11,254	11,036	12,487
Short-term provisions	8,416	11,026	11,026	8,046	7,695
Total short-term liabilities and provisions	**339,638**	**308,758**	**231,466**	**147,029**	**151,030**
Total liabilities and provisions	**623,046**	**607,834**	**308,254**	**231,878**	**236,334**
Total equity and liabilities	**1,425,948**	**1,412,931**	**1,113,351**	**774,540**	**778,825**
Book value of equity	802,902	805,097	805,097	542,662	542,491
Shares outstanding	234,455,840	234,455,840	234,455,840	179,194,964	179,194,964
Book value per share	3.42	3.43	3.43	3.03	3.03
Diluted number of shares	241,505,840	241,505,840	241,505,840	181,194,964	181,194,964
Diluted book value per share	3.32	3.33	3.33	2.99	2.99

CONDENSED INTERIM CONSOLIDATED OFF-BALANCE SHEET ITEMS AS OF MARCH 31, 2019

	PLN ths			
	1Q19 March 31, 2019	2018 December 31, 2018	1Q18 March 31, 2018	2017 December 31, 2017
bank guarantees issued for store rental expenses	44,821	37,462	29,519	29,023
open letters of credit	23,683	36,819	11,824	12,201
bills of exchange securing lease liabilities	598	634	554	582
Total off-balance sheet items	**69,102**	**74,915**	**41,897**	**41,806**

CONDENSED INTERIM CONSOLIDATED

STATEMENT OF COMPREHENSIVE INCOME

FOR 3 MONTHS ENDING MARCH 31, 2019

CONDENSED INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	PLN ths	
	1Q19 January 1, 2019 to March 31, 2019	1Q18 January 1, 2018 to March 31, 2018
Revenues	**214,425**	**160,558**
Cost of sales	109,407	82,755
Gross profit on sales	105,018	77,803
Other operating income	288	535
Gain from sale of non-financial non-current assets	24	9
Selling costs	85,928	59,611
Administrative expenses	20,225	15,841
Other operating costs	418	964
Loss from sale of non-financial non-current assets	-	-
Profit (loss) from operations	- 1,241	1,931
Financial income	273	64
Gain from sale of subsidiaries	-	-
Financial costs	3,001	1,577
Loss from sale of subsidiaries	-	-
Pre-tax profit (loss)	- 3,969	418
Income tax	- 1,561	307
Net profit (loss) for the period	**- 2,408**	**111**
Attributed to dominating entity	-2,408	111
Attributed to non-controlling interest	-	-
Weighted average number of ordinary shares	185,829,119	179,194,964
Diluted weighted average number of ordinary shares	192,879,119	181,194,964
- basic	- 0.01	0.00
- diluted	- 0.01	0.00

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	PLN ths	
	1Q19 January 1, 2019 to March 31, 2019	1Q18 January 1, 2018 to March 31, 2018
Net profit for the period	**- 2,408**	**111**
Other comprehensive income, including:	-	-
Revaluation of financial assets available for sale	-	-
Income tax related to other comprehensive income	-	-
Total comprehensive income	**- 2,408**	**111**

CONDENSED INTERIM CONSOLIDATED

STATEMENT OF CHANGES IN EQUITY

FOR 3 MONTHS ENDING MARCH 31, 2019

	Share capital	Capital reserves	Retained earnings	Dominating entity's equity	NCI	Total equity
1Q18 period between January 1, 2018 and March 31, 2018						
Balance at 01.01.2018	38,070	13,729	490,692	542,491	-	542,491
Consolidation adjustment		1	-1			-
Net profit (loss) for the period			111	111		111
Stock option programme valuation		60		60		60
Share issuance						
Balance at 31.03.2018	**38,070**	**13,790**	**490,802**	**542,662**	**-**	**542,662**
2018 period from January 1, 2018 to December 31, 2018						
Balance at 01.01.2018	38,070	13,729	490,692	542,491	-	542,491
Consolidation adjustment			2,547	2,547		2,547
Net profit distribution			53,572	53,572		53,572
Net profit (loss) for the period			- 141	- 141		- 141
Stock option programme valuation		239		239		239
Share issuance	11,052		195,337	206,389		206,389
Balance at 31.12.2018	**49,122**	**13,968**	**742,007**	**805,097**	**-**	**805,097**
1Q19 period from January 1, 2019 to March 31, 2019						
Balance at 01.01.2019	49,122	13,968	742,007	805,097	-	805,097
Consolidation adjustment						
Net profit distribution						
Net profit (loss) for the period			- 2,408	- 2,408		- 2,408
Stock option programme valuation		213		213		213
Share issuance						
Balance at 31.03.2019	**49,122**	**14,181**	**739,599**	**802,902**	**-**	**802,902**

CONDENSED INTERIM CONSOLIDATED

STATEMENT OF CASH FLOWS

FOR 3 MONTHS ENDING MARCH 31, 2019

	PLN ths	
	1Q19 January 1, 2019 to March 31, 2019	1Q18 January 1, 2018 to March 31, 2018
Pre-tax profit (loss)	- 3,969	418
Amortization and depreciation	26,027	4,155
Profit (loss) on investing activities	84	-9
Income tax paid	-5,513	- 4,594
Interest costs	1,911	890
Change in provisions	-2,610	- 1,346
Change in inventories	-28,123	- 59
Change in receivables	-8,740	- 2,500
Change in short-term liabilities, excluding bank loans and borrowings	-30,245	-20,302
Other adjustments	312	- 87
Net cash flows from operating activities	**-50,866**	**- 23,434**
Interest received	1	-
Dividends from subsidiaries	-	-
Inflows from sale of intangibles	-	-
Inflows from sale of fixed assets	736	252
Disposal from investment property	-	-
Repayment of loans granted	-	-
Purchase of intangible assets	-29	-
Purchase of fixed assets	-6,947	- 3,316
Purchase of investment property	-	-
Net cash flows from investing activities	**-6,239**	**- 3,064**
Proceeds from issuance of shares and other capital instruments and additional payments to capital	-	-
Inflows from loans and borrowings	65,827	26,443
Other financial inflows	-	-
Dividends and other distributions to owners	-	-
Repayment of bank loans and borrowings	- 235	- 6,690
Redemption of debt securities	-	-
Finance lease payments	-19,543	- 138
Interest paid	-1,912	- 890
Other financial expenses	-	-
Net cash flows from financing activities	**44,137**	**18,725**
Change in cash and cash equivalents in the balance sheet	**-12,968**	**- 7,773**
Opening balance of cash	**33,523**	**16,420**
Change in cash due to foreign currency translation	-	-

	PLN ths	
	1Q19 January 1, 2019 to March 31, 2019	1Q18 January 1, 2018 to March 31, 2018
Closing balance of cash	**20,555**	**8,647**

The value shown under "Other adjustments" consists of:

	PLN ths	
capital reserves increase – valuation of stock options	213	60
fixed assets - impairment - liquidation	99	- 147
interest received	-	-
Total	**312**	**- 87**

IFRS16 applied for the first time in 1Q19

INFORMATION AND EXPLANATIONS

TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR 1Q19

1. General information

1.1. Name, registered office, business activity

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

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

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

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

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

The Company's key corporate milestones

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

The lifespan of the Issuer is indefinite.

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

As at the end of 1Q19 VRG S.A. Capital Group consisted of the following entities:

1. **VRG S.A.** - Parent Company

2. **W.KRUK S.A.** based in Cracow, Pilotów 10 St.; post code 31-462. The company was registered in the District Court for Cracow Śródmieście, XI Commercial Division of the National Court Register (KRS) under number KRS 0000500269.

   The company specialises is design, manufacturing and retail sales of brand luxury products such as jewellery, watches and accessories.
   Share in equity: 100.0%. Share in votes at the General Shareholder Meeting: 100.0%.

3. **DCG S.A.** based in Warsaw, Bystrzycka 81a St., post code 04-907. The company was registered in the District Court for Warsaw, the XXI Commercial Division of the National Court Register (KRS) under number KRS 0000285675.

   The company specialises in retail sale of clothing.
   Share in equity: 100.0%. Share in votes at the General Shareholder Meeting: 100.0%.

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

   The company specialises in confectioning of clothing at the request of the parent company, in particular including shirts branded Wólczanka, Lambert, Vistula and Lantier. The company also conducts confectioning of women's shirts and blouses under export contracts concluded by VRG S.A.
   Share in equity: 100.0%. Share in votes at the General Shareholder Meeting: 100.0%.

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

   The company specialises in renting and managing of own or leased real estate.
   Share in equity: 100.0%. Share in votes at the General Shareholder Meeting: 100.0%.

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

   The company obtains intellectual property rights and undertakes activities related to the management of such rights (including their legal protection).
   Share in equity: 100.0%. Share in votes at the General Shareholder Meeting: 100.0%.

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

The consolidated financial statements for 1Q19 include data of the Parent Company and subsidiaries: W.KRUK S.A., DCG S.A., Wólczanka Shirts Manufacturing Sp. z o.o., VG Property Sp. z o.o., BTM 2 Sp. z o.o.

<u>Changes in Capital Group structure in 1Q19.</u>

Between January 1, 2019 and March 31, 2019 there were no changes in VRG S.A. Capital Group structure.

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

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

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

In the period from January 1, 2019 to the date of approval of these financial statements, the composition of the Management Board has not changed.

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

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

In the period from January 1, 2019 to the date of approval of these financial statements, the composition of the Supervisory Board has not changed.

On April 9, 2019, the Company received a statement from Ms. Katarzyna Basiak-Gała about resignation from the position of a member of the Company's Supervisory Board as of the day of the next General Shareholder Meeting. The statement of Ms. Basiak-Gała, referred to above, was made on the basis of art. 26 of the Act of August 21, 1997 on limitation of conducting business activity by persons performing public functions (Official Journal of Laws of 2017, item 1393, as amended).

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 May 20, 2019.

1.5. Going concern

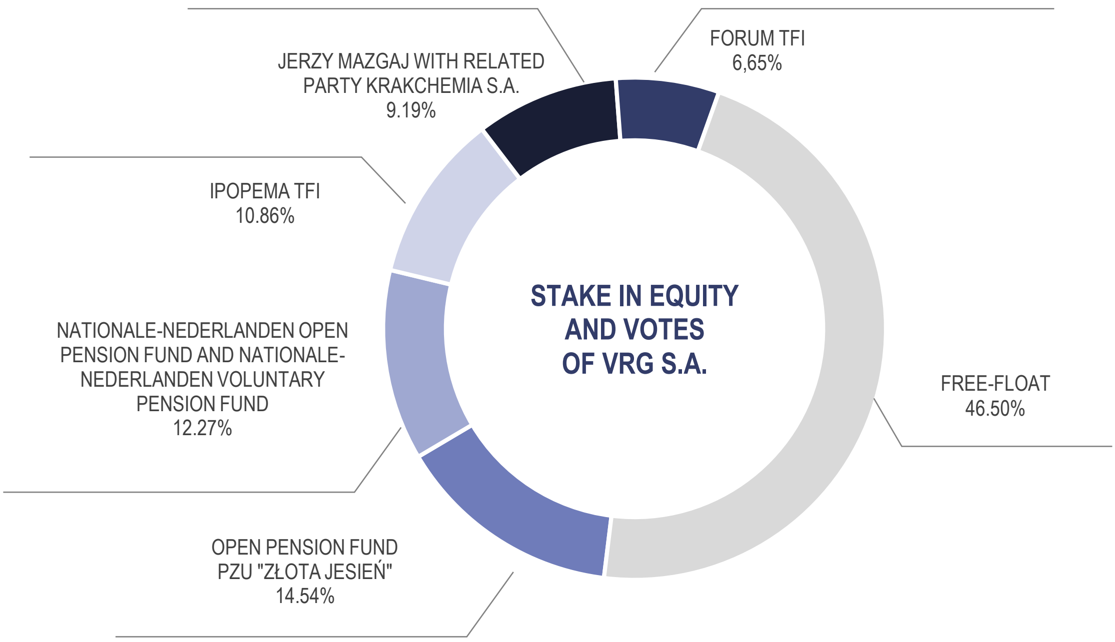
Consolidated financial statements of the VRG S.A. Capital Group (hereinafter also referred to as the "Capital Group" or "VRG Group"), have been prepared assuming a going concern of companies forming the Capital Group in an unchanged form and scope for at least 12 months from the date of the financial statements, i.e. March 31, 2019. In the opinion of the Management Board of the Parent Company as at the date of approval of these consolidated financial statements, there are no indications or circumstances indicating going concern threats to companies of the Group in the foreseeable future.

1.6. Share capital and shareholders

Shareholders owning directly or indirectly through subsidiaries at least 5% of the total number of votes at the Company's General Shareholder Meeting as at the date of publication of the consolidated quarterly report and indication of changes in the ownership structure of significant stakes in VRG S.A. in the period from the date of submitting the previous consolidated interim report in accordance with information possessed by the Company.

1) Ownership structure of the share capital, in accordance with the information possessed by the Company as at the date of signing (May 20, 2019) of the consolidated quarterly report for 1Q19

As at the date of signing (May 20, 2019) of the consolidated quarterly report for the first quarter of 2019, the share capital of VRG S.A. was divided into 234,455,840 ordinary bearer shares, which gives a total of 234,455,840 votes at the Company's General Shareholder Meeting ("Parent company").



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

No.	Shareholders	Number of shares held	Share in equity (in %)	Number of votes at the AGM	Share in the total number of votes at the AGM (in %)
1	Open Pension Fund PZU „Złota Jesień"[1]	34,093,568	14.54	34,093,568	14.54
2	Nationale-Nederlanden Open Pension Fund and Nationale-Nederlanden Voluntary Pension Fund [2]	28,777,370	12.27	28,777,370	12.27
3	IPOPEMA TFI S.A.[3]	25,455,558	10.86	25,455,558	10.86
4	Jerzy Mazgaj with related party Krakchemia S.A[4]	21,544,333	9.19	21,544,333	9.19
5	Forum TFI S.A.[5]	15,580,800	6.64	15,580,800	6.64

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

[2] information on number of shares quoted in accordance with the notification received by the Company pursuant to art. 69 par. 2 point 1a and art. 87 par. 1 point 5 of the Act of July 29, 2005 on public offer and conditions for introducing financial instruments to organized trading system and on public companies, concerns shares held

jointly by Nationale-Nederlanden Otwarty Fundusz Emerytalny and Nationale-Nederlanden Voluntary Pension Fund. According to the above Nationale-Nederlanden's Open Pension Fund alone holds 28,408,370 shares of the Company, which constitutes 12,117% of the Company's share capital and is entitled to 28,408,380 votes at the Company's General Shareholder Meeting, which constitutes 12.117% of the total number of votes at the General Meeting of the Company.

[3] information on the number of shares given in accordance with the notification received by the Company pursuant to art. 69 par. 1 point 1, art. 69a par. 1 point 1 and art. 87 par. 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 companies, applies to shares held jointly by all funds managed by IPOPEMA TFI S.A. In accordance with the notification received by the Company on 6/12/2018 from IPOPEMA TFI S.A. drawn up on the basis of art. 69 par. 1 point 2, art. 69a par. 1 point 1 and art. 87 par. 1 point 2 of the Act of July 29, 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies, managed by IPOPEMA TFI S.A. the IPOPEMA 2 FIZ Fundusz Aktywów Niepublicznych fund had 21,177,000 shares of the Company, which constituted 9.02% of the Company's share capital and gave 21,137,000 votes and represented 9.02% of the total number of votes at the Company's General Shareholder Meeting. According to the notification received by the Company on May 17, 2019 based on art. 19 MAR IPOPEMA 2 FIZ Fundusz Aktywów Niepublicznych sold 2,500,000 shares of the Company.

[4] information on the number of shares presented in accordance with the notifications received by the Company pursuant to art. 69 of the Act of July 29, 2005 on public offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies and in accordance with notifications received by the Company pursuant to art. 19 MAR. According to the information possessed by the Company, Mr. Jerzy Mazgaj owns 17,544,333 shares of the Company independently, which constitutes 7.48% of the Company's share capital and is entitled to 17,544,333 votes at the Company's General Shareholder Meeting, which constitutes 7.48% of the total number of votes at the Company's General Shareholder Meeting.

[5] information on the number of shares given in accordance with the notification received by the Company pursuant to art. 69 par. 1 point 2 in conjunction from art. 87 par. 1 point 2 lit. a) The Act of July 29, 2005 on public offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies, applies to shares held jointly by the following funds managed by Forum TFI SA: (i) Forum X Closed-end Investment Fund holding 8,429,760 shares in the Company representing 3.59% of the Company's share capital and entitling to 8,429,760 votes at the Company's General Shareholder Meeting, representing 3.59% of the total number of votes in the Company and (ii) Forum XXIII Closed Investment Fund, holding 7,415,040 shares of the Company constituting 3.05% of the share capital of the Company and entitling to 7,151,040 votes at the Company's General Shareholder Meeting, constituting 3.05% of the total number of votes in the Company.

2) Changes in the ownership structure of significant blocks of shares in accordance with the information available to the Company from the date of publication of the last periodical report, i.e. the annual report for 2018 and the consolidated annual report for 2018 (March 19, 2019)

To the best of the Company's knowledge in the period from the date of publication of the annual report for 2018 and the consolidated annual report for 2018 (March 19, 2019) until the day of signing (May 20, 2019) of the consolidated quarterly report for the first quarter of 2019, the following changes occurred in the ownership structure of significant blocks of shares in the Company

a)

Nationale-Nederlanden Open Pension Fund and Nationale-Nederlanden Voluntary Pension Fund	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 %)
As at 19.03.2019	24,535,000	10.46	24,535,000	10.46
As at 20.05.2019	28,777,370	12.27	28,777,370	12.27

b)

Jerzy Mazgaj with related party Krakchemia S.A.	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 %)
As at 19.03.2019	21,944,333	9.36	21,944,333	9.36
As at 20.05.2019	21,544,333	9.19	21,544,333	9.19

c)

Forum TFI S.A.	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 %)
As at 19.03.2019	b. d.	b. d.	b. d.	b. d.
As at 20.05.2019	15,580,800	6.64	15,580,800	6.64

3) Changes in the ownership of VRG S.A. shares and rights to those shares by Management and Supervisory Board

a) changes in the ownership of the Company's shares by key personnel

Management Board	Number of shares held at the time of signing 1Q19 report	Number of shares held at the date of publishing separate and consolidated 2018 report
Grzegorz Pilch – President of the Management Board	604,504	604,504
Michał Wójcik – Vice-President of the Management Board	1,200,000	1,351,422
Mateusz Żmijewski – Vice-President of the Management Board	200,000	200,000
Erwin Bakalarz – Management Board Member	19,332	19,332

b) changes in the holdings of key personnel of the first tranche of F-series subscription warrants entitling to subscribe for new P-series shares, issued in connection with the implementation of the stock option program in 2018 on the basis of resolution No. 17/06/2018 of the Company's Ordinary General Shareholder Meeting on June 27, 2018 regarding the adoption 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 share capital increase by issuing new shares with the exclusion of the pre-emptive right, changing the Company's Articles of Association, authorizing the Management Board of the Company to conclude an agreement on the registration of newly issued shares in the National Depository of Securities S.A. (KDPW S.A.) and authorizing the Management Board of the Company to take all appropriate actions to allow newly issued shares to be traded on a regulated market (the "Resolution")

Management Board	Number of F-series subscription warrants held at the time of signing 1Q19 report	Number of F-series subscription warrants held at the date of publishing separate and consolidated 2018 report
Grzegorz Pilch – President of the Management Board	296,199	0
Mateusz Żmijewski – Vice-President of the Management Board	168,577	0
Erwin Bakalarz – Management Board Member	20,982	0

c) changes in the holdings of the Company's shares by supervising persons

Supervisory Board	Number of shares held at the time of signing 1Q19 report	Number of shares held at the date of publishing separate and consolidated 2018 report
Jerzy Mazgaj – Chairman of the Supervisory Board	17,544,333	17,944,333
Jan Pilch – Member of the Supervisory Board	0	360,000

2. Principles for preparation of the financial statements

The basis for preparation of this condensed interim financial report 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 condensed interim financial report for 1Q19 has 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.

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 interim condensed financial statements for 1Q19 have been prepared in Polish zloty, rounded up to full thousands (ths).

The condensed interim consolidated financial statements are presented for the period from January 1,2019 to March 31, 2019 and as of March 31, 2019. The fiscal year is the calendar year. Comparable financial data are presented for the period from January 1, 2018 to March 31, 2018 and in case of statement of financial position and statement of changes in equity also as of December 31, 2018 and January 1, 2019 due to first time IFRS16 application.

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

The consolidated financial statements for 1Q19 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.

The consolidated financial statements are prepared for the period of the first quarter of 2019, when there was no merger of companies.

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

In the period from January 1, 2019 to March 31, 2019, no changes to the accounting principles and methods of preparing the financial statements were made at the Group. The accounting principles adopted by the Capital Group were applied continuously in relation to the period presented in the financial statements.

Standards and interpretations that have been published and approved by the EU and entered into force from or after January 1, 2019

- Amendments to IFRS 9 "Right of Prepayment with Negative Remuneration" modify the applicable rights requirements for early termination of the contract to enable the valuation at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in case of negative compensation payments. The amendments provide that the sign (plus or minus) of the prepayment amount is not material – i.e., depending on the interest rate applicable at the time of termination of the contract, payment may be made to the party resulting in early repayment. The calculation of this compensation must be the same for both penalty for early repayment and early repayment gains. Date of application - annual periods commencing on January 1, 2019 or after this date.
- IFRS 16 "Leases" - In accordance with IFRS 16, the lessee recognizes the right to use an asset and liability under leasing. The right to use an asset is treated similarly to other non-financial assets and depreciated accordingly. Lease liabilities are initially measured at the present value of lease payments payable during the lease period, discounted at the rate included in the lease, if it is not difficult to determine it, or at the marginal interest rate. IFRS 16 defines the lease period as a total, irrevocable period during which the lessee has the

right to use the asset. The leasing period also includes optional periods when the entity is confident of the option of renewing (or not executing the termination option) of the lease. Date of application - annual periods commencing on January 1, 2019 or after this date. Earlier application is permitted for entities that apply IFRS 15 “Revenue from contracts with customers” from or before the date of first application of this standard.

- Interpretation of IFRIC 23 "Uncertainty in income tax settlement" - it may be unclear how the tax law relates to a specific transaction or circumstances or whether the tax authority will accept tax records of the entity. IAS 12 “Income Taxes” defines the method of settling current and deferred taxes, but does not reflect the effects of uncertainty. IFRIC 23 contains guidelines that supplement the requirements of IAS 12, specifying how to reflect the effects of uncertainty when recognizing income tax. Date of application - annual periods commencing on January 1, 2019 or after this date.
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" - long-term stakes in associates and joint ventures were introduced to clarify that an entity applies IFRS 9 (including impairment regulations) to long-term involvement in associates or joint ventures that are included in the net investment in an associate or joint venture, for which the equity method was not applied. The amendments also remove paragraph 41, as it was considered that this paragraph only repeated the requirements contained in IFRS 9 and caused confusion regarding the settlement of long-term stakes. Date of application - annual periods commencing on January 1, 2019 or after this date.
- Amendments to IFRS (cycle 2015-2017) - changes made as part of the process of introducing annual amendments to IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) mainly focused on solving incompatibilities and refinement of vocabulary (valid for annual periods starting on January 1, 2019 or after that date).
- Amendments to IAS 19 "Employee benefits" - change, limitation or settlement of the plan require that after the plan change, updated valuation assumptions are applied to determine current service costs and net interest for the remainder of the reporting period. Date of application - annual periods commencing on January 1, 2019 or after this date.

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

Standards and interpretations that have already been issued by the IASB, but have not yet come into force

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

- Amendments to IFRS 3 "Business Combinations" - the amendment clarifies the definition of a business and aims to distinguish between acquisitions of business and groups of assets for the purpose of settlement of mergers (effective for annual periods beginning on January 1, 2020 or after this date).
- Changes in the scope of references to IFRS Conceptual Framework - they will apply as of January 1, 2020.
- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting principles (policy), changes in estimates and correcting errors" - these clarify the definition of materiality and increase consistency between standards, but are not expected to have a significant impact on the preparation of financial statements. The change is mandatory for annual periods beginning on January 1, 2020 or after that date. As at the date of preparation of these financial statements, these changes have not yet been approved by the European Union.
- IFRS 14 "Regulatory Deferral Accounts" - this standard allows entities that prepare financial statements in accordance with IFRS for the first time (as of 1 January 2016 or after that date) to recognize amounts resulting from regulated activity, in accordance with accounting principles applied so far. To improve comparability with entities that already apply IFRS and do not show such amounts, according to published IFRS 14, amounts

resulting from regulated activity should be presented in a separate item in the statement of financial position as well as in the profit or loss account and statement from other comprehensive income. By the decision of the European Union, IFRS 14 will not be approved.

- Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its affiliates or joint ventures. The changes solve the problem of the current inconsistency between IFRS 10 and IAS 28. The accounting treatment depends on whether non-cash assets sold or contributed to an associate or joint venture constitute a "business". In the event that non-monetary assets constitute a "business", the investor will show a full profit or loss on the transaction. If, however, assets do not meet the definition of a business, the investor recognizes a gain or loss excluding the part constituting shares of other investors. The changes were published on September 11, 2014. The date of application of the amended regulations has not been determined by the International Accounting Standards Board. As at the date of preparation of these financial statements, the approval of this change is postponed by the European Union.
- IFRS 17 "Insurance Contracts" - was issued by the International Accounting Standards Board on May 18, 2017 and is effective for annual periods beginning on January 1, 2021 or after that date. The new IFRS 17 Insurance Contracts will replace the current IFRS 4, which allows for a variety of practices in the field of settlement of insurance contracts. IFRS 17 will fundamentally change the accounting for all entities that deal with insurance contracts and investment contracts. The Group will apply IFRS 17 after its approval by the European Union. As at the date of preparation of these financial statements, the new standard has not yet been approved by the European Union.

The Group is in the process of analysing the impact of the above-mentioned standards, interpretations and changes to standards. According to the Group's current estimates, they will not have a material impact on the financial statements during their first application.

IFRS 16 Leasing since January 1, 2019.

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

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

The application of IFRS16 required the Group to analyse data and make estimates and calculations that affected the measurement of lease liabilities and the valuation of assets under the right of use. These include: assessing whether the contract includes leasing in accordance with IFRS16 and determining the period of application. The Group performs a detailed analysis of the duration of its contracts, in particular in terms of extension options that are available to it in selected contracts. The described analysis concerns contracts that end with a 12-month period. If the Management Board decides to extend such a lease agreement, its length used for valuation purposes is extended by the activated period of the extension option resulting from the contract.

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

The Group decided to implement IFRS16 using a simplified approach, i.e. retrospectively with the combined effect of the first application of this standard recognized on the first application date. In the opinion of the Management Board, the implementation of IFRS16 has a significant impact on the financial statements, because it increases the total value of assets and liabilities and thus the levels and values of financial ratios, including debt ratio, EBITDA, net profit, profit per share, operating cash flow. At the same time, the implementation of the new standard increases depreciation and financial costs (interest on discounted lease liabilities and exchange rate differences due to valuation of these liabilities) while reducing third-party costs of services (i.e. rental costs of premises previously presented in selling costs) and, hence, improves EBITDA.

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

The impact of applying IFRS 16 on Profit or Loss Statement in the period between January 1, 2019 to March 31, 2019 is presented in the table below:

Item	PLN ths		
	1Q19 excl. IFRS16	Impact of IFRS 16 (on rental agreements)	1Q19 as published
Gross profit on sales	105,018	0	105,018
Selling and general and administrative costs	105,982	171	106,153
Result on operations	-1,070	-171	-1,241
Financial costs	1,970	1,031	3,001
Net profit (loss) for the period	**-1,205**	**-1,203**	**-2,408**

The impact of applying IFRS16 on balance of opening as of January 1, 2019 and March 31, 2019 on selected items of Statement of Financial Position is presented below:

ASSETS	PLN ths		
	As at 31.03.2019	Balance of opening as at 01.01.2019	As at 31.12.2018
Right of use assets	284,921	299,580	0
	284,921	**299,580**	**0**

EQUITY & LIABILITIES	PLN ths		
	As at 31.03.2019	Balance of opening as at 01.01.2019	As at 31.12.2018
Finance leases IFRS16	286,124	299,580	0
	286,124	**299,580**	**0**

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.

Acquisition of subsidiaries by the Group is accounted for using the acquisition method.
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 recognised directly in the profit or loss statement.

The subsidiaries' financial data are included in the consolidated financial statements using the full method from the moment control is taken over the entity up to the date on which the Company ceases to exercise control.
The financial statements of subsidiaries are prepared for the same period as financial statements of the parent company. Accounting principles applied by subsidiaries have been changed, where it was necessary to ensure compliance with the Capital Group's accounting principles.

Consolidation exclusions

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

3.2. Transactions in foreign currencies

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

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

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

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

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

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

3.3. Financial instruments

Classification of financial instruments

The Group classifies financial instruments in accordance with the requirements of IFRS 9. The classification of financial instruments is based on the business model of managing groups of financial assets and the characteristics of contractual cash flows for a given financial asset and financial liability.
Classification is made at the moment of initial recognition, except for items recognized at the time of the first application of IFRS 9. The classification of derivative instruments depends on their intended use and compliance with the requirements contained in IFRS 9.
Financial instruments are classified into the following categories:

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

Financial assets measured at amortised cost

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

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

Financial assets at amortised 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 statement. 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 fair value of financial assets classified in this category of financial assets (fair value through profit or loss) are recognized in the financial result in the period in which they arose.
The financial result also includes interest income and dividends received from capital instruments listed on an active market.

Financial assets measured at fair value through other comprehensive income

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

Financial liabilities measured at amortized cost

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

Impairment of financial assets

IFRS 9 introduces a new concept for estimating impairment losses on financial assets - expected losses model.
The Group establishes revaluation write-offs in accordance with the model of expected credit losses for items subject to IFRS 9 in respect of impairment losses.
The expected loss model applies to financial assets at amortised cost and to debt financial assets measured at fair value through other comprehensive income, as well as to financial guarantees and loan commitments granted (except for those measured at fair value).

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

In the case of other financial assets, the Group measures the write-off for expected credit losses in the amount equal to 12-month expected credit losses, unless there was a significant deterioration of credit risk or default. If the credit risk related to a given financial instrument has significantly increased since the initial recognition, the Group measures the write-off for expected credit losses from the financial instrument in an amount equal to the expected credit loss over the whole life. On each reporting day, the Group analyses whether there were any reasons indicating a significant increase in the credit risk of owned financial assets.

Fair value of derivatives and other financial instruments

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

3.4. Non-current assets available for sale

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

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


Safe
indebtedness
level

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. Tangibles 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 at each balance sheet date. Land is not depreciated.

For individual groups of tangible 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.

Goodwill recognised in the financial statements relating to an 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 or loss statement 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 amortisation. The value of components with an indefinite useful life is tested for permanent impairment for each balance sheet date.

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

3.9. Shares and stakes in controlled entities

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

3.10. Impairment of non-financial assets

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

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 statement.

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

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

3.11. Inventory

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

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

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

The distribution of inventories is accounted as follows:

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

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

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

3.12. Trade and other receivables

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

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

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

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

3.13. Cash and cash equivalents

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

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

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 capital reserves consists of: - share premium from issuance of shares at a price that exceeds their nominal value, reduced by issuance 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 January 1, 1995.
Other reserves	Other reserves are created from 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 adjustment of the financial result from previous years, resulting from errors in previous years or changes in accounting principles.
Capital management	The Group's capital management is aimed at maintaining the ability to continue operations, with consideration of planned investments, so that the Capital Group could generate returns and economic benefits for shareholders/investors in the future. The use of capital is monitored on an ongoing basis by analysing indicators and comparing the situation of the Capital Group against the industry in which the Capital Group operates. The Capital Group does not have externally imposed capital restrictions. In relation to the previous reporting period there were no changes in terms of rules and processes for capital management.

3.15. Liabilities

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

Trade and other liabilities are recognised at fair value.

3.16. Provisions

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

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

Adequacy of provisions is assessed at each balance sheet date.

3.17. Leases

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

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

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

3.18. Revenues

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

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

3.19. Costs

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

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

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

3.19a Costs of employee benefits

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

3.20. Income tax

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

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

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

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

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

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

3.21. Share-based compensation (stock options)

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

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

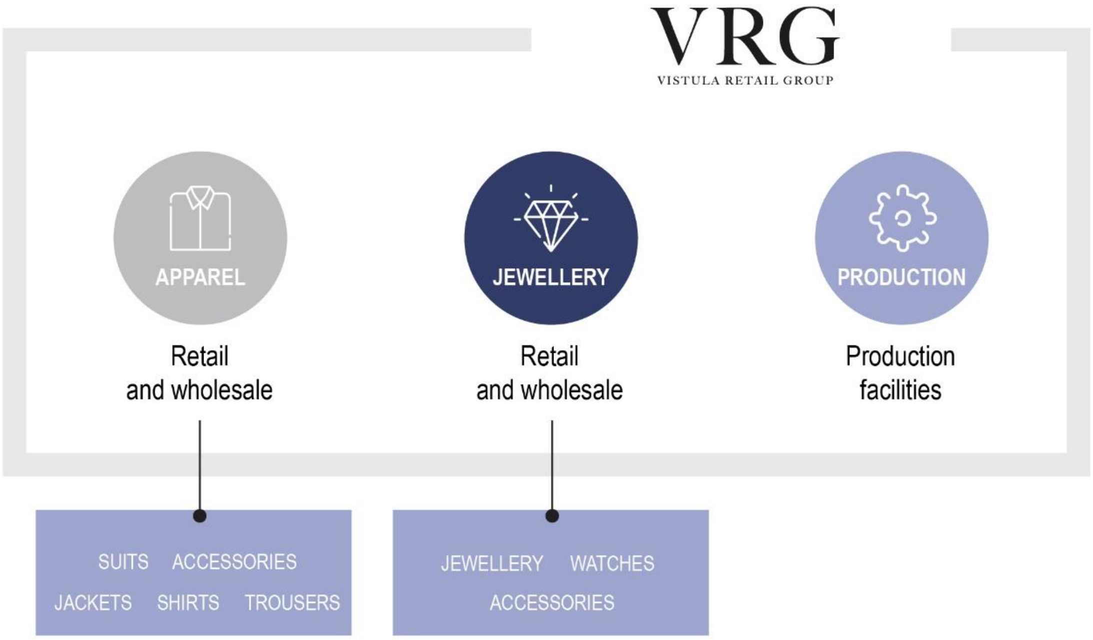
The fair value of options granted is recognized in the profit or loss statement in correspondence with reserve capital. The options fair value is measured as of the grant date and is recognized in the vesting period. This value is measured based on Monte Carlo valuation model, which is an extension of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

VRG Group specialises in design and retail sales of branded clothing for men and women in the medium-price segment and up-market. As a result, the Group recognises its primary operating segment – retail and wholesale sale of apparel. On November 30, 2018, the Group merged with Bytom S.A. and also possesses the Bytom and Intermoda brands.

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



Leading brands of the Vistula business line:

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

Leading brands of the Wólczanka business line:

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

Leading brands of the Bytom business line:

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

Other own brands in the apparel segment:

Apparel segment	DENI CLER MILANO	The brand's clothing is dedicated to the upper segment of the women fashion. The brand's products were introduced to the Polish market in the early 90's. Deni Cler offering is sewn from Italian fabrics, with the majority of accessories used being of Italian origins as well. Fabrics used to make branded clothes are mostly cashmere and wool with silk. The brand's assortment includes mostly: skirts, jackets, pants, blouses, coats and dresses. The owner of the Deni Cler brand originating in Milan is DCG S.A. based in Warsaw (the Company's subsidiary). The main activity of DCG S.A. focuses on the design, production and distribution of exclusive women's clothing.

Own brands in jewellery segment:

Jewellery segment	W.KRUK 1840	The scope of activity of VRG Group in the area of W.KRUK brand, currently managed by the subsidiary W.KRUK S.A. in Cracow, includes design, manufacturing and retail sales of branded luxury products such as jewellery, watches and accessories. W.KRUK has one of the highest brand recognition in comparison to other competitors operating on the jewellery market in Poland. Every year, under the brand name of W.KRUK, new original jewellery collections are introduced to the market. The main sales market for the W.KRUK brand remains Poland. W.KRUK's offer includes gold and platinum jewellery, in which the basic category of products is jewellery with diamonds and natural stones. The W.KRUK brand also sells jewellery made of silver and other metals. The assortment of this brand is additionally supplemented with gifts and accessories, e.g. cuff links, key rings, etc. In addition to classic jewellery, W.KRUK offers collections under the brand KRUK Fashion following the latest fashion trends. Introduction of the KRUK Fashion collection in 2001 was a breakthrough of many stereotypes prevailing on the Polish jewellery market. At least several times a year, unique brand collections, designed and manufactured by W.KRUK, are launched. The use of innovative solutions in the field of material selection and form distinguishes the brand on the Polish market.
	WATCHES	Selected jewellery stores of W.KRUK brand also distribute luxury Swiss watches of such brands as ROLEX (VRG Group is the sole distributor of this brand in Poland), HUBLOT, GIRARD PERREGAUX, OMEGA, TUDOR, TAG HEUER, LONGINES, RADO, FREDERIQUE CONSTANT, TISSOT, CERTINA, DOXA, EPOS, VICTORINOX, INGERSOLL, CK, SKAGEN, ROTARY, SWATCH and also fashion brands: Gucci, Michael Kors, DKNY, Versace, Diesel, Fossil, E. Armani. Watches of renowned brands sold in W.KRUK stores occupy a strong position on the Polish market and the value of their sales is systematically increasing.

Manufacturing operations:

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

Seasonality and cyclicality of operations

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

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

3.23. The exchange rates used to value assets and liabilities

Selected items of assets and liabilities were converted into EURO according to the average exchange rate of 29.03.2019 announced by the National Bank of Poland, which amounted to 4.3013 PLN/EUR. Selected items of the profit or loss statement were converted into EUR at the rate of 4.2978 PLN/EUR, which is the arithmetic average of the average EURO rates set by the National Bank of Poland on the last day of each completed reporting month.

To calculate the average exchange rate, the following EURO rates were adopted: 31.01.19 – 4,2802 PLN/EUR, 28.02.19 – 4,3120 PLN/EUR, 29.03.19 – 4,3013 PLN/EUR.

4. Information on significant changes in estimates, including adjustments to provisions, deferred tax liability and deferred tax assets as well as impairment losses on assets:

a)	change in the balance of deferred income tax assets to the amount of:	+ PLN 2,101 ths
b)	change in the provision for deferred income tax for an amount of:	- PLN 61 ths
c)	change in the balance of impairment losses on receivables in the amount of:	+ PLN 19 ths
d)	change in the balance of write-downs for impairment of inventories to net realizable value in the amount of:	- PLN 454 ths
e)	change in revaluation write-offs, the value of fixed assets and intangible assets in the amount of:	PLN 0 ths
f)	change in provisions for costs and other liabilities:	- PLN 2,610 ths

5. Issuance, redemption and repayment of debt and securities

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

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

At the same time, the Company informed 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 Program"), established by resolution No. 21/04/2015 of the Company's Ordinary General Shareholder Meeting of April 15, 2015, about which the Company informed in current report No. 25/2015, who exercised the right of their respective E-series subscription warrants. The above shares were taken up and paid on April 11, 2018 at the price of PLN 2.00 per share, for a total amount of PLN 4,000,000.00.

According to art. 451 § 2 and art. 452 § 1 of the Code of Commercial Companies, the acquisition of rights from N-series shares and the increase in the share capital of the Company took place upon the registration of N-series shares on the securities account of the Entitled Persons, i.e. on April 11, 2018.
In connection with the above, the share capital of the Company increased from the amount of capital PLN 38,069,932.80 divided into 179,194,964 shares with a nominal value of PLN 0.20 (representing 179,194,964 votes at the General Shareholder Meeting of the Company) to the capital amount of PLN 38,469,992.80 divided into 181,194,964 shares with a nominal value of PLN 0.20 (representing 181,119,964 votes at the General Shareholder Meeting of the Company).
The Company informed in a separate current report on the registration of the above-mentioned increase in the share capital of the Company resulting from the issuance of N-series shares in the registrar of entrepreneurs of the National Court Register, the entry in the register is declaratory.

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

On 18.12.2018 in the current report No. 72/2018, the Company informed that it received information on the adoption by the Management Board of the National Deposit of Securities of S.A. on December 18, 2018 of a resolution No. 754/2018 of 17.12. 2018 regarding the conditional registration in the securities depository of 53,260,876 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 day 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 S.A. in the National Depository for Securities in the Issuer type ceases.

At the same time, the Company informed that on December 21, 2018, in its current report No. 74/2018, the Company informed that it received information on the adoption of resolution No. 1295/2018 of the Stock Exchange Management Board in Warsaw S.A. from 21.12.2018 concerning the admission and introduction to trading on the main market of WSE O-series bearer ordinary shares of the VRG S.A., in which the Stock Exchange Management Board stated that in accordance with § 19 par. 1 and 2 of the Exchange Rules, the 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 S.A. on the main market of the exchange 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 an announcement from the National Depository for Securities S.A. of December 27, 2018 on December 28, 2018 on the basis of resolution No. 754/2018 of the Management Board of the National Depository for Securities S.A. of December 17, 2018, 53,260,876 ordinary bearer O-series shares issued by VRG S.A. in connection with the merger of VRG S.A. and Bytom S.A. conducted by replacing the shares of Bytom S.A. for shares of VRG S.A. will be registered in the National Depository for Securities under ISIN PLVSTLA00011.

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

Shareholder Meeting of the Company) to the amount of PLN 49,122,108.00 PLN divided into 234,455,840 shares with a nominal value of PLN 0.20 (representing 234,455,840 votes at the General 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 O-series shares in the registrar of entrepreneurs of the National Court Register, the entry in the register is declaratory.

In the first quarter of 2019, this type of event did not take place.

6. Paid and declared dividends

In 1Q19, the Group did not pay or declare dividend payment. There are no preferred shares in terms of dividend payments.

7. Pending court or public administration or arbitration proceedings

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

8. Related party transactions

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

9. Guarantees and pledges granted

In the first quarter of 2019, the parent company did not grant a loan or a loan and additional sureties to subsidiaries in relation to those described in the consolidated and separate annual report for 2018.

10. Information on financial instruments

The parent company uses currency derivatives to hedge future cash flows against exchange rate risk. As a hedging transaction, the parent company has forward contracts for the purchase of currency. Derivative instruments are denominated in USD and EUR. As at 31/03/2019, the balance in the nominal value amounts to PLN 1,830 thousand. USD and 100 thousand EUR and after conversion at the transaction exchange rate of PLN 7,238 ths. As at the balance sheet date, the Company carried out the valuation of its transactions at fair value, the difference from the valuation in the amount of PLN 201 ths was recognized in financial revenues and other short-term financial assets.

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

11. Significant risk factors

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

Economic risk related to the macroeconomic situation	The level of the Group's revenues depends on the economic situation, including: dynamics of economic growth, level of unemployment, level of household income and indebtedness, individual consumption, consumer optimism indicators, level of the euro against the Polish zloty exchange rate, interest rates and the state fiscal policy. There is a risk that if the economic situation weakens or deteriorates again, there will be fluctuations in the demand for products offered by the Group, which will adversely affect the results and financial position.
Risk related to the instability of the Polish legal system, including tax system	The potential risk for the Group's operations, just as for all entities with commercial activity, may be the volatility of the law and its interpretation. Changes in commercial law, tax regulations, 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. The factors described above may have a material adverse effect on the Group's growth outlook, results and financial position.
Risk associated with introduction of a trade ban on Sundays	In March 2018, regulations that introduced a trade ban on Sunday entered into force. Introduction of such a prohibition may mean for the Company a significant drop in revenues realized in brick-and-mortar stores. Before partial Sunday trade ban introduction, Sunday was the fourth most important trading day in the week, and its percentage share in sales in 2017 was 14% and fluctuated depending on the individual brands in the Company from 11 - 17 %. Between March – December 2018 the share of sales on Sundays amounted to 9%. We do not assume a proportional translation of the restrictions introduced into the drop in sales and operating result. The Company has taken all the necessary steps, including cost reduction, to minimize the impact of restrictions introduced, however, loss of some of the revenues realized by the Company on Sundays should be reckoned with. Sales data after the gradual expansion of the Sunday trade ban in 2018-19 show that the consumer demand partly shifts to Saturdays and Mondays and migrates to the Internet, however, this effect is not neutral. The increase in sales in e-commerce channel as well as the declining profitability of the traditional stores is noticeable. The impact of this risk on the Group's financial results may grow in the face of current regulations, which assume further restriction of trade on Sundays.
Risk of retail sales tax introduction	In connection with the possibility of introducing a tax on retail sales, and in particular the provisions of the currently passed and suspended Act, there is a risk of encumbering part of the Issuer's Capital Group's revenues with this tax. The impact on the Company's financial result would be visible from 2020.
Risk associated with adopting the wrong strategy	There is a risk that the adopted development strategy of the Group, whose basic assumptions are presented in point 2 "Planned development activities" of the Management's Commentary to financial information presented in the condensed interim consolidated report for 1Q19, proves to be inadequate to the changing expectations of customers or market conditions. There is a risk that implementation of the strategy will be delayed or some elements will not be implemented or will not give the expected results. There

	is, among others, a risk that the Group will not be able to obtain the planned new floorspace, the launch will be delayed or new locations will not achieve the assumed sales results.
Risk related to intensification of competition	VRG S.A. operates in a highly competitive segment of men's fashion. This segment is characterized by fragmentation: on one hand, we possess established Polish brands such as Vistula, Bytom, Wólczanka, W.KRUK but on the other hand there are global brands that aggressively enter the Polish market. This market is characterized by quite low entry barriers. We are also dealing with the emergence of competition from newly established brands. The VRG Group may be forced to look for new supply markets to keep its offer competitive. In addition, it may be necessary to increase marketing and promotion expenditures to reach the target customers. In order to reduce this risk, the Management Board monitors the competitors' activities on an ongoing basis in terms of floorspace development, products offered and the level of prices.
Risk of changing the tastes and behaviours of buyers	An important factor in the success of an apparel company is the sense of changes in fashion trends and current consumer preferences. There is a risk that individual collections or part of the Company's offer, despite the efforts made, will differ from the expectations of customers in a given season, which may cause problems with sales, the need to reduce sales prices or 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. VRG S.A. is aware of the changes taking place and undertakes a number of activities aimed at meeting the requirements of today's customers of the clothing market. These activities include: developing an on-line sales channel, customizing the websites of on-line stores to the expectations of the customers (paying attention to whether the website is friendly and easy to use) and mobile devices, shortening the time of the delivery.
Risk related to lease agreements	The operations of the Company are based in a predominant part on retail sale of goods through its own network of stores. One cannot exclude the risk of losing one or several locations, for example in connection with the intention to modernize the entire shopping mall or change in the pricing policy of the landlord. A risk of termination of the lease agreement cannot be excluded if the Company breaches the terms of the rental agreement or due to lack of renewal of the lease agreement in locations characterized by the highest profitability for the Company or bringing satisfactory financial results. There is a risk that the lease terms proposed to the Company for the next period may unfavourably deviate from the previous conditions in a given location. Loss of existing locations may cause that it will be necessary to temporarily limit operations in a given area or finding attractive locations will involve increased costs.
Risk related to inventory management	The management of finished products and trade goods is one of material factors affecting the sales results in the Company's industry. On one hand, the level of inventory should make it easier to make a purchasing decision when offering a given seasonal collection, which leads to an increase in inventory at each point of sale. On the other hand - a higher level of inventories generates additional need for working capital and may lead to accumulation of difficult to sell inventory (seasonal products, "fashion", unsuccessful collections).

	Inappropriate inventory management constitutes a risk for prices, margins and the necessary level of working capital, which may adversely affect the development prospects, results and financial position of the Company.
FX risk	The Group generates revenues primarily in PLN, while it incurs significant costs in EUR and USD, which results in exposure of the financial result to exchange rate risk. In periods of PLN depreciation in relation to the main settlement currencies, the Company incurs higher costs due to accounting for foreign exchange rate differences. In currencies other than PLN, the Company bears the costs of (a) purchasing materials for production (fabrics, accessories, jewellery materials), jewellery, watches and supplementary items in the apparel segment (shoes, knitwear, leather and other accessories) and (b) resulting from lease contracts of commercial space. In case of significant and long-term depreciation of the Polish currency against the euro and the dollar, there is a risk of a significant deterioration in the financial results achieved by the Group.
Risk related to hedging policy	In recent years, the Company has undertaken measures to limit the impact of the exchange rate increase on the level of the achieved in- take margin mainly in terms of the USD / PLN exchange rate. The above mentioned changes encompass implementation of the hedging policy, which is to significantly reduce the risk of possible strengthening of the USD, which could have a material adverse effect on the margin realized by the Company. Forward contracts are related to particular deliveries of goods, especially in the fashion segment, and they do not concern the neutralization of possible risk related to increase in rental payments due to a change in the EUR / PLN exchange rate. However, it should be emphasized that while the hedging policy is intended to protect the Parent Company against the risk of significant depreciation of the Polish zloty, especially against the USD, at the same time, in case of the trend reversal and a significant strengthening of the Polish currency it may have a negative impact on the financial results. This impact will be visible in the valuation of currency liabilities related to forward contracts.
Risk of higher prices of raw materials and production costs of suppliers	The Company purchases imported materials for production, especially high-quality fabrics and sewing accessories as well as gold, silver, diamonds and other gems. The cost of the above materials is an important factor affecting the cost of manufacturing of individual products in the Company's offer. In addition, the Company purchases clothing accessories as well as jewellery and luxury watches. The Company, with regard to the required quality, actively seeks the optimal service providers and suppliers. There is a significant risk that with further increase in prices of raw materials or production costs of suppliers / service providers, with little room to alter prices, it will not be possible to maintain margins appropriate to a given type of assortment.
Risk of cost of external services	External services have a significant share in operating costs. These services consist primarily of rents and other fees for lease of commercial space, costs related to sewing services and costs related to transportation and logistics. The Company also purchases a number of standard services (e.g. advertising, telecommunications, legal, consulting, etc.). One cannot exclude the risk of worsening the commercial conditions of one or more external services purchased by the Company, in particular rental costs.
Interest rate risk	As at 31.03.2019, the Company held loan liabilities measured at amortized cost in the amount of PLN 162,231 ths. Therefore, the Company is exposed to interest rate risk due to a change in the debt valuation based on a variable interest rate. An increase in the level of interest rates may increase the cost of financing and, consequently, reduce the Group's profitability.

Risk of termination of loan agreement	The Company concluded on March 9, 2015 loan agreements regarding investment financing with PKO BP S.A. bank i.e. a term loan agreement (Loan A) up to PLN 47.6 million and a term loan agreement (Loan B) up to PLN 71.4 million taken on March 31, 2015 by a subsidiary of the Company, i.e. W.KRUK S.A. while maintaining a guarantee from the Company. The above Loan Agreements have been concluded in accordance with the Loan Market Association standards and include a number of covenants to be fulfilled by the Company and W.KRUK S.A. In case of a deterioration of economic situation and a weakening of consumer demand, meeting of covenants may be threatened and thus the risk of terminating contracts by the financing bank arises. Due to the large value of financing, the Parent Company will not be able to refinance it at a short notice. Along with the merger with Bytom S.A., the Company took over multi-product agreements regarding current financing by banks: ING Bank Śląski S.A. (the amount of the Agreement is PLN 40 million) and BGŻ BNP Paribas S.A. (for the amount of PLN 9 million and a factoring agreement in the amount of EUR 3 million). These agreements contain covenants, which Bytom was required to meet, and at the time of the merger, VRG S.A. is responsible for these. In case of a deterioration of economic situation, weakening of the demand for the Company's products, meeting of these covenants may be at risk, which results in the risk of termination of contracts by the financing banks.
Risk of losing financial liquidity	The Group has loan liabilities. As a result, collaterals covering a significant part of the assets were established. The servicing of the above liabilities is carried out primarily using current cash flows from operations. In the extreme case of a rapid, simultaneous drop in demand and increase in costs (especially in a situation of steep zloty depreciation), the Company may experience difficulties in maintaining liquidity.
Risk of collateral and loss of collateral assets	In relation with bank loan and other agreements concluded with many entities, the Company has established numerous collaterals on its entire assets - on real estate and movables, inventory and trademarks. The sum of collaterals exceeds the carrying amount of the Company's assets. There is a risk of failure to meet deadlines or other contractual terms. Delays in the realisation of the above-mentioned obligations may result in immediate termination of all or part of the financing and resultant taking over the assets of the Company by creditor in order to satisfy the subject of the collateral. Loss of significant assets may lead to substantial difficulties in running the business of the Company or even completely block the possibility of conducting business, achieving revenues and profits.
Risk of transactions with related parties	The Company concludes and will conclude transactions with related parties, especially with the production company, the company responsible for the women apparel segment and a company responsible for the jewellery segment. Transactions with related parties may be subject to examination by tax authorities to determine whether they were concluded on an arm's length basis and whether the entity correctly determined tax liabilities. In the opinion of the Management Board of the Company, transactions with related parties are concluded and will be conducted on market terms. There is a risk that the tax authorities will question the marketability of the terms of selected transactions with a related parties, which could result in the necessity to pay additional tax with interest for overdue payments.

Risk related to the shareholder structure	The Company is characterised by a fragmented shareholding structure, where the largest shareholder does not exceed 20% of votes at the General Shareholder Meeting, and five significant shareholders hold a total of 53.50% of votes at the General Shareholder Meeting. Most of these shareholders have owned shares of the Parent Company for several years, they participate in shaping the Company's activities through representatives in the Supervisory Board. However, one cannot rule out the risk that one or more of major shareholders will reduce their shareholding or will cease investing in the Company's shares. It cannot be excluded that decisions regarding the strategy and operational activities relevant to the Company will be delayed or even blocked. It cannot be ruled out that despite the current cooperation, the interests of significant shareholders will be divergent / contradictory. The factors listed above may have a material adverse effect on the Company's development prospects, results and financial position.
Risks related to transfer of an organized jewellery business unit of the Company (W.KRUK Unit) in the form of an in-kind contribution to W.KRUK S.A. subsidiary based in Cracow	Since August 1, 2014, in the organizational structure of the Company, a business unit of W.KRUK was separated. This is a part of the Company's operations related to jewellery industry conducted under the W.KRUK brand, which constitutes an organizationally and financially separate unit of tangible and intangible assets in the Company, including commitments intended to perform specific economic tasks in the jewellery segment of the Company ("W.KRUK Unit"). On March 31, 2015, the W.KRUK Unit was sold as an organized business unit of the Company in the form of an organizationally separated set of tangible and intangible assets, by contributing the organized business unit of the Company in-kind to the Subsidiary. The Company acted on the basis of an interpretation received from the Tax Office, however, it cannot be ruled out that the transaction may involve risk of different interpretations of its effects by tax administration in the light of the applicable PCC, CIT and VAT regulations, which may mean additional financial consequences for the Company.
Risk related to guarantees granted to subsidiaries	In relation with the separation of the organized business unit in the form of jewellery assets and transferring them to the subsidiary W.KRUK SA, the Company carried out a simultaneous financial restructuring. As part of this process, W.KRUK S.A. obtained new financing from PKO BP Bank and the Company guarantied for the debts of the subsidiary. In the second quarter of 2015, the subsidiary DCG S.A. received refinancing from the PKO BP Bank, and during the third quarter of 2016, the subsidiary VG Property Sp. z o.o. obtained an investment loan from PKO BP Bank. The above liabilities of subsidiaries of DCG S.A. and VG Property Sp. z o.o. have been guaranteed by the Company. In the event of a sharp deterioration of economic situation and cessation of debt servicing by W.KRUK S.A. or DCG S.A. and VG Property Sp. z o.o. on the basis of the guarantee granted, the Company may be obliged to settle outstanding liabilities of subsidiaries which could result in loss of financial liquidity of the Company.
The risk related to disruptions in the functioning of information systems	The Company uses a number of IT systems, software and programs to provide the appropriate level of communication within the organizational structures of the companies comprising the Group, registering and processing information on economic events in all areas of its operations. The risk of IT disruptions cannot be ruled out in the following areas: (i) Infrastructure (e.g. failures of servers, workstations, network devices, lack of connection to external networks), (ii) software (e.g. malfunction, unauthorized removal, impact of computer viruses), (iii) data resources (loss or destruction of data, unauthorized access to data, unauthorized reproduction of data, unauthorized modification of data, possibility of a targeted cyberattack). As part of the procedures and IT tools used, the Company strives to minimize the possibility of occurrence of the above-described events, but it is not possible to completely exclude the probability of their occurrence, and consequently their negative impact on security and credibility of information and database resources and on security and continuity of service provision.

Risk related to the EU GDPR Directive	Since May 25, 2018, the Regulation of the European Parliament and the EU Council 2016/67 of April 27, 2016 on the protection of individuals with regard to the processing of personal data and on free movement of such data and the repeal of Directive 95/46/WE became applicable in the Polish legal order (GDPR), which applies to all entities processing personal data in their business activities. The GDPR introduces a number of changes and extends the responsibilities of administrators and data processors. An important issue is the determination of the maximum level of penalties for infringements of the provisions of the GDPR Directive. The maximum levels were set at EUR 20,000,000 or 4% of the total annual turnover of the enterprise from the pre-infringement financial year. In connection with the above, the Company carried out works aimed at: ▪ adapting its activities to the requirements of GDPR, which include: organizing training for employees, whose activities the provisions of the GDP will affect, primarily employees of the marketing, sales and HR departments, loyalty programs service department, ▪ development of a new Information Security Policy; ▪ developing a new Instruction for managing information systems used for data processing; ▪ preparing and implementing changes in solutions of organizational and technical nature; ▪ development of threats and risk analysis in the processing of personal data. However, the risk of occurrence of incidents related to breaching of GDPR provisions may not be completely excluded, which could cause additional negative financial consequences for the Company.
Risks related to co-operation 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: a) introduction of a procedure for regular audits of logistics structures and systems made available for the needs of VRG S.A. by th external operator; b) improvement of the admission and release plan from the external operator's warehouse and precise pre-selection of the necessary storage space; c) 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; d) introduction of planning the number of e-commerce orders on a monthly basis - based on analytical data from on-line stores; e) negotiations on increasing the available storage space at an external operator, regarding guaranteeing the possibility of implementing daily minimum goods releases for traditional stores and daily minimum deliveries to customers of on-line stores. However, it is not possible to completely exclude the risk of incidents related to disruption of the aforementioned logistics processes, which could cause the Company additional negative consequences related to fall in sales as a result of late replenishment of a network of traditional stores or loss of some on-line store customers as a result of delays in paid deliveries. One cannot completely rule out the negative effects of deterioration of the image of the Company's brands as a result of the appearance on the Internet and social media of critical comments from customers of on-line stores who do not receive the purchased goods within the required period.
Risk related to the quality of customer	The characteristics of the market in which the Company operates require appropriate level of services quality and customer care in the branded stores of Vistula, Bytom, Wólczanka and W.KRUK. The company implements a training system for employees, develops customer service standards and a system of control of introduced standards. There is a risk that if the customer service system is not implemented

service in individual stores	correctly, the level of services provided in individual stores may be equally good. This may translate into a loss of clients' trust in the brands owned by the Company and deterioration of the Company's image, and it may consequently result in a decrease in the results achieved in individual stores and by the Company in general.
Risk related to merger of the Company with Bytom S.A.	The Company's Management Board sees a number of synergies related to the merger with Bytom S.A. Thanks to a leap in the scale of operations of the Capital Group, its negotiating position with suppliers of both fabrics and accessories will increase, whereas unification of purchasing policy will enable reduction of delivery costs, and coordination and consolidation of purchases. The Capital Group will also be a significant tenant of retail space and a significant advertiser. It will be possible to reduce the network operational management costs and logistics costs resulting from identical locations in shopping malls of individual brand stores. Also, the combination of departments serving both companies and not directly linked to revenues (e.g. accounting, IT) and more effective human resources management should enable the lowering of costs. However, there is a risk that the expectations of the Company's Management Board as to synergies achieved as a result of the merger will not be met in full or be lower than assumed. Additionally, it cannot be excluded that there will be a cannibalization of brands or the resignation of some customers from the offer of the Capital Group. In connection with the principle of general succession resulting from art. 494 of the Code of Commercial Companies, as at the date of the merger, the Company has assumed all the rights and obligations of Bytom S.A. Therefore, there is a risk of transferring responsibility to the Company for liabilities of Bytom S.A.

12. Other information relevant to assessment of VRG Capital Group standing

During the three months ended 31 March 2019, there were no other circumstances that could significantly affect the deterioration of the staff, property, financial and financial results of the Capital Group, or that could jeopardize its ability to meet its obligations.

13. Significant events of 1Q19:

01.2019

Notification regarding a significant block of shares.

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

03.2019

Notification regarding a significant block of shares.

In Current Report No. 7/2019, the Company announced that on March 21, 2019, it received from Nationale-Nederlanden Powszechne Towrzystwo Emerytalne S.A. with its registered office in Warsaw, a notification prepared pursuant to art. 69 par. 2 point la of the Act of July 29, 2005 on public offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies (Official Journal of Laws from 2009, No. 185, item 1,439, as amended) containing information that as a result of purchasing the Company's shares in a transaction on the Warsaw Stock Exchange, settled on March 15, 2019, Nationale-Nederlanden Open Penison Fund (hereinafter: OFE) increased the Company's shareholding by at least 2% of votes at the General Shareholder Meeting of the Company. Simultaneously, based on art. 87 par. 1 point 5 of the above-mentioned Act Nationale-Nederlanden Powszechne Towrzystwo Emerytalne S.A. informed the Company that as a result of the same transaction, the Powszechne Towarzystwo Emerytalne managed by Nationale-Nederlanden S.A. funds: Nationale-Nederlanden Open Pension Fund and Nationale-Nederlanden Voluntary Pension Fund (hereinafter: "DFE") increased the total holding of the Company's shares by at least 2% of votes at the General Shareholder Meeting of the Company.

Before the settlement of the transaction (14/03/2019) OFE held 27,803,380 shares, which constituted 11.859% of the share capital, gave 27,808,380 votes at the General Shareholder Meeting of the Company, which constituted 11.859% in the total number of votes at the General Shareholder Meeting of the Company.

Before settlement of the transaction (14/03/2019) OFE and DFE jointly held 28,172,380 shares, which accounted for 12.016% of the share capital, gave 28,172,380 votes at the General Shareholder Meeting of the Company, which accounted for 12.016% of the total number of votes at the General Shareholder Meeting of the Company.

After the settlement of the transaction (15/03/2019), OFE held 28,408,380 shares, representing 12.1167% of the share capital, giving 28,408,380 votes at the General Shareholder Meeting of the Company, which represented 12.117% of the total number of votes at the General Shareholder Meeting of the Company.

After the settlement of the transaction (15/03/2019) OFE and DFE jointly held 28,777,380 shares, which represented 12.274% of the share capital, gave 28,773,770 votes at the General Shareholding Meeting of the Company, which represented 12.274% of the total number of votes at the General Shareholder Meeting of the Company.

Signing and publishing the merger plan as part of preparing the VRG SA connection process. and BTM 2 Sp. z o.o.

In the current report No. 8/2019, the Company announced that on March 27, 2019, the merger plan of VRG S.A. was agreed and signed (hereinafter also: the "Acquiring Company") and its subsidiary, i.e. BTM 2 Sp. z o.o. (hereinafter also "Acquired Company"). BTM 2 Sp. z o.o. has previously been part of the VRG S.A. capital group as a result of the merger of BYTOM S.A. with the Company.
The merger will be effected on the basis of art. 492 § 1 point 1) of the Code of Commercial Companies by transferring all assets of the Acquired Company to the Acquirer. As a result of the merger, the Acquired Company will be terminated and the Company, as the Acquiring Company, will enter into the entire rights and obligations of the Acquired Company as at the merger date.

Due to the fact that the Company as the Acquiring Company is the sole shareholder of the Acquired Company and holds 100% of shares in the share capital of the Acquiree, the merger will take place in a simplified manner and in accordance with:
a) art. 515 § 1 of the Code of Commercial Companies, the merger will be carried out without increasing the share capital of the Company as the acquiring company and without taking up any shares in the share capital of the Acquiring Company by the partners of the Acquired Company;

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

Due to lack of share capital increase of the Company and the fact that the merger does not create new circumstances requiring disclosure in the Company's Articles of Association and no other changes to Article of Association are proposed, it is not envisaged to alter the Articles of Association in connection with the merger.

The merger of the companies will depend on the adoption by the General Shareholder Meeting of the Company as the Acquiring Company and the General Shareholder Meeting of the Acquired Company of the resolutions containing the consent to the merger, including the Merger Plan.

The first notification of shareholders about the intention to merge VRG S.A. with a subsidiary company BTM 2 Sp. z o.o. in accordance with art. 504 § 1 of the Code of Commercial Companies took place on April 2, 2019 (about which the Company informed in the current report No. 11/2019). The second notification of shareholders about the intention to merge VRG S.A. with a subsidiary company BTM 2 Sp. z o.o. in accordance with art. 504 § 1 of the Code of Commercial Companies took place on April 16, 2019 (current report No. 15/2019).

14. Significant events after the balance sheet date:

04.2019

Notification regarding a significant block of shares.

In the current report No. 19/2019, the Company informed that on April 24, 2019, it received from Forum TFI S.A. with its registered office in Cracow ("Fund"), acting in the name of funds managed by the Fund, i.e. Forum X Closed-end Investment Fund (hereinafter: "Fund 1") and Forum XXIII Closed-end Investment Fund (hereinafter: "Fund 2"), notification prepared on the basis of art. 69 par. 1 point 2) in conjunction with from art. 87 par. 1 point 2) lit. a) Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies (Official Journal of Laws of 2019, item 623, as amended). According to the content of the above Notifications as a result of the purchase of the Company's shares by Fund 2 (hereinafter: "Event") the total shares of funds managed by the Fund in the total number of votes in the Company exceeded the threshold of 5% of the total number of votes at the General Shareholder Meeting of the Company, including respectively:
- the share of Fund 1 has not changed and remained at 3.59% of the total number of votes at the General Meeting
- Fund 2's share increased from 0.43% to 3.05% of the total number of votes at the General Meeting.

The change in the number of votes resulted from the purchase of the total amount of 6,143,040 shares of the Company by the Fund 2 in two block transactions, OTC deals on the regulated market of the Warsaw Stock Exchange in Warsaw carried out on 17/04/2019, which were settled on 18/04/2019.

Prior to the change, the funds managed by the Fund had:
1) Fund 1 held 8,429,760 Company shares constituting 3.59% of the Company's share capital and entitling to 8,429,760 votes at the General Shareholder Meeting, representing 3.59% of the total number of votes in the Company,
2) Fund 2 held 1,008,000 shares of the Company constituting 0.43% of the share capital of the Company and entitling to 1,008,000 votes at the General Shareholder Meeting of the Company, constituting 0.43% of the total number of votes in the Company,
that is, a total 9,437,760 Company shares representing a total of 4.025% of the Company's share capital and entitling to 9,437,760 votes at the General Shareholder Meeting of the Company, representing 4.025% of the total number of votes in the Company.
After the event described above, the funds managed by the Fund had:
1) Fund 1 held 8,429,760 Company shares constituting 3.59% of the Company's share capital and entitling to 8,429,760 votes at the General Shareholder Meeting of the Company, representing 3.59% of the total number of votes in the Company,
2) Fund 2 held 7.151.040 shares of the Company constituting 3.05% of the share capital of the Company and entitling to 7.151.040 votes at the General Shareholder Meeting of the Company, constituting 3.05% of the total number of votes in the Company,
that is, a total of 15,580,800 shares in the Company, constituting in total 6.645% of the share capital of the Company and entitling to 15,580,800 votes at the General Shareholder Meeting of the Company, constituting 6.645% of the total number of votes in the Company.
According to the information possessed by the Fund, Fund 1 and Fund 2 or none of the other funds managed by the Company, has subsidiaries holding shares in the Company.


575
stores
all over
Poland

MANAGEMENT COMMENTARY TO FINANCIAL INFORMATION

PRESENTED IN INTERIM CONDENSED CONSOLIDATED FINANCIAL STATMENTS FOR 1Q19

1. 1Q19 financial results

Consolidated financial results of VRG Capital Group for the first quarter of 2019 include the results of the parent company VRG S.A. and the results of subsidiaries, including, among others W.KRUK S.A. and DCG S.A.

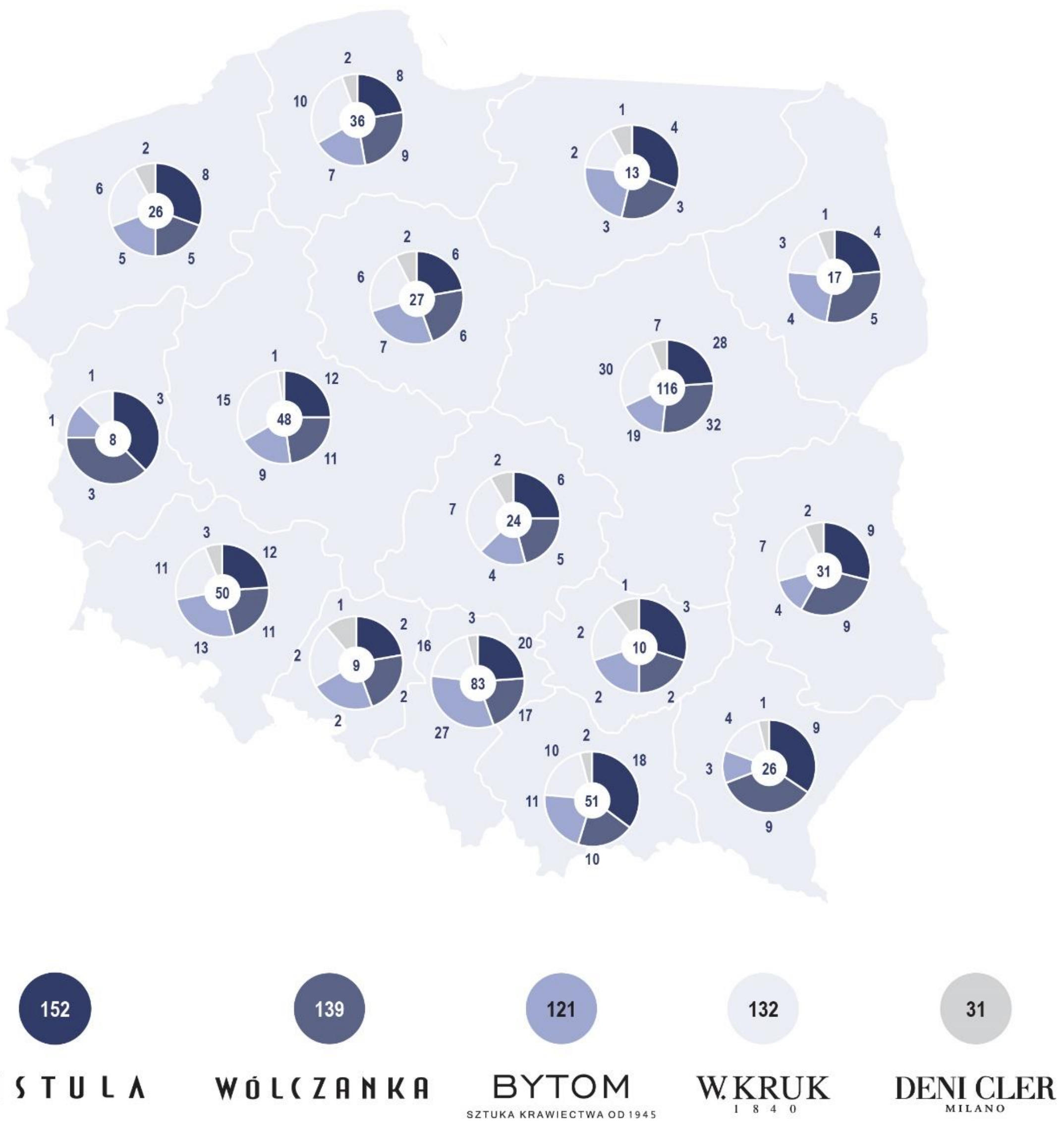
At the end of 1Q19, as compared to the corresponding period in 2018, the group's retail floorspace increased to 52.4 ths m2 or 56% YoY. Floorspace of the apparel segment increased by 71% (without the Bytom brand + 7%), while in the jewellery segment floorspace increased by some 14%.

Retail floorspace (end of period):

	ths m2	
	31.03.2019	31.03.2018
Apparel segment	42.4	24.8
Jewellery segment	10.0	8.8
Total floorspace	**52.4**	**33.6**

The majority of Capital Group revenues comes from a network of retail stores of individual brands belonging to the Capital Group. At the end of 1Q19, the Capital Group retail network encompasses 575 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 1Q19 by individual brands.



Selected financial data of VRG Group

Financial data	PLN ths			
	1Q19	IFRS16 impact	1Q19 excl. IFRS16	1Q18
Revenues	214,425		214,425	160 558
EBITDA	24,786	-20,383	4,403	6,086
EBIT	-1,241	- 171	-1,070	1,931
Net profit	**-2,408**	**-1,203**	**- 1,205**	**111**

Revenues

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

In 1Q19, revenues of the Capital Group amounted to PLN 214.4 million and were PLN 53.9 million (33.5%) higher than revenues in the same period of the previous year. The Group recorded higher revenues in both core business segments.

APPAREL SEGMENT

Apparel segment	PLN ths			
	1Q19	IFRS16 impact	1Q19 excl. IFRS16	1Q18
Revenues	141,579		141,579	98,684
Cost of sales	74,098		74,098	52,496
Gross profit on sales	67,481		67,481	46,188
Other operating income	177		177	184
Gain on sale of non-financial non-current assets	24		24	9
Selling costs	59,343	121	59,222	37,205
Administrative expenses	13,296	- 17	13,313	9,825
Other operating costs	201		201	581
Loss on sale of non-financial non-current assets	-	-	-	-
Profit (loss) from operations	- 5,158	- 104	- 5,054	- 1,230
Financial income / costs	- 1,302	- 660	- 642	- 718
Pre-tax profit (loss)	- 6,460	- 764	- 5,696	- 1,948
Income tax	- 2,122		- 2,122	- 232
Net profit (loss) for the period	**-4,338**	**-764**	**-3,574**	**-1,716**

Increase in retail sales

Revenues from the apparel segment sales amounted to PLN 141.6 million in 1Q19 and were PLN 42.9 million (i.e. 43.5%) higher than revenues in 1Q18.

Apparel segment	PLN m	
	1Q19	1Q18
Revenues	**141.6**	**98.7**
Retail sales	132.2	91.0
Processing	5.2	5.5
B2B	4.2	2.2

In 1Q19, the Group recorded the following results in the following retail channels:

VISTULA increase by PLN 1.9m (+ 3%)	WÓLCZANKA stable revenues	BYTOM consolidation of 1Q19 results (PLN 38.8m)	DENI CLER MILANO increase by PLN 0.4m (+4%)

Wzrost sprzedaży detalicznej związany jest z rozwojem sieci sprzedaży oraz dynamicznym wzrostem sprzedaży internetowej.

Increase in retail sales is related to floorspace development as well as high on-line sales.

Gross profit on sales

Gross profit on sales in 1Q19 reached PLN 67.5m and was 46.1% YoY higher than in comparable period. Gross profit on sales margin was up 0.9 p.p. compared to 1Q18 and reached 47.7%.

VISTULA gross profit margin up 0.4 p.p.	WÓLCZANKA gross profit margin up 0.9 p.p. due to higher in-take margin	BYTOM gross profit margin at 49.1%	DENI CLER MILANO gross profit margin up 1.0 p.p. due to higher in-take margin

Selling costs

Selling costs amounted to PLN 59.3 million in 1Q19 and were PLN 22.1 million higher (up 60%) than costs in the comparable period. Consolidation of Bytom's results in 1Q19 had a sizeable impact (in 1Q18 Bytom was not consolidated).

The share of selling costs in revenues in 1Q19 was 41.9% compared to 37.7% in 1Q18. Growth in selling costs as percentage of revenues is related to growing HR costs (store employees) and higher distribution and logistics costs of e-commerce operations (+50% YoY growth in e-commerce revenues in the apparel segment).

Administrative expenses

General administrative expenses amounted to PLN 13.3 million in 1Q19 versus PLN 9.8 million in 1Q18 (the result of Bytom consolidation). At the same time, the share of general administrative expenses in revenues fell to 9.4% compared to 10.0% in 1Q18.

Operating result in the apparel segment

In 1Q19, the apparel segment recorded an operating loss of PLN 5.2 million, which means that the result of this segment was lower by PLN 3.9 million than the operating result in 1Q18. Fall in sales/ m2 (8 trading days fewer YoY) with stable selling costs/ m2 resulted in lower profitability of own network.

Financial income and costs

In 1Q19, the net financial result in the apparel segment amounted to PLN -1.3 million in comparison to PLN -0.7 million in 1Q18. Introduction of IFRS16 in 1Q19 had an unfavourable impact on the net financial line as interest expense grew by PLN 0.7 million.

Net profit in the apparel segment

In the apparel segment, VRG Group achieved a net loss of PLN 4.3 million in 1Q19 compared to PLN 1.7 million loss in 1Q18. Lower net result is a consequence of fall in sales/ m2 in the apparel segment (8 trading days fewer YoY) and introduction of IFRS16, which negatively affected the bottom-line by PLN 0.8 million.

JEWELLERY SEGMENT

Jewellery segment	PLN ths			
	1Q19	IFRS16 impact	1Q19 excl. IFRS16	1Q18
Revenues	**72,846**		**72,846**	**61,874**
Cost of sales	35,309		35,309	30,259
Gross profit on sales	37,537		37,537	31,615
Other operating income	111		111	351
Gain on sale of non-financial non-current assets	-		-	-
Selling costs	26,585	64	26,521	22,406
Administrative expenses	6,929	4	6,925	6,016
Other operating costs	217		217	383
Loss on sale of non-financial non-current assets	-		-	-
Profit (loss) from operations	3,917	- 68	3,985	3,161
Financial income / costs	-1,426	-371	-1,055	-795
Pre-tax profit (loss)	2,491	-439	2,930	2,366
Income tax	561		561	539
Net profit (loss) for the period	**1,930**	**-439**	**2,369**	**1,827**

Revenues

Revenues of the jewellery segment in VRG Capital Group amounted to PLN 72.8 million in 1Q19 and were higher than the segment's results in 1Q18 by PLN 11.0 million (18%).
The increase in sales of the jewellery segment was achieved due to higher floorspace and improvements in store inventory management, which favourably affected sales/ m2.

Gross profit on sales

Gross profit from the sales of the jewellery segment amounted to PLN 37.5 million in 1Q19 and was 19% higher than the one generated in the corresponding period of the previous year. Gross profit margin grew by 0.4 p.p. and reached 51.5% in 1Q19 versus 51.1% in 1Q18. Growth in gross profit margin results from lower shares of B2B revenues (at 0.8% of sales).

Selling costs

Selling costs in the jewellery segment increased from 36.2% of revenues in 1Q18 to 36.5% in 1Q19. Marketing outlays were higher by PLN 0.3 million (+27%) compared to 1Q18.

Administrative expenses

In 1Q19 general administrative expenses were higher by PLN 0.9 million (+15%) compared to 1Q18. The share of general administrative expenses in jewellery segment revenues amounted to 9.5% and was lower by 0.2 p.p. compared to 1Q18.

Operating profit in the jewellery segment

VRG Group within the jewellery segment achieved an increase in operating profit to PLN 3.9 million (+ 24%) in 1Q19. The increase in the operating result was a consequence of higher gross profit on sales (gross profit margin up 0.4 p.p.) and cost growth lower than this of gross profit on sales (consequence of positive impact of the operating leverage).

Financial income and costs

The net financial activity in the jewellery segment amounted to PLN -1.4 million in 1Q19. Introduction of IFRS16 unfavourably affected the line in 1Q19, as it increased interest expense by PLN 0.4 million.

Net profit in the jewellery segment

The net profit of the jewellery segment amounted to PLN 1.9 million in 1Q19 compared to PLN 1.8 million in 1Q18. Introduction of IFRS16 unfavourably affected the bottom-line in 2019 by PLN 0.4 million.

Structure and characteristics of statement of financial position

CONSOLIDATED BALANCE SHEET	31.03.2019		31.03.2018	
	value (PLN ths)	share (%)	value (PLN ths)	share (%)
Non-current assets, including:	**881,069**	**61.8%**	**424,065**	**54.8%**
Intangible assets	507,084	35.6%	358,670	46.3%
Fixed assets	79,003	5.5%	58,087	7.5%
Right of use assets IFRS16	284,921	20.0%	0	0.0%
Current assets, including:	**544,879**	**38.2%**	**350,475**	**45.2%**
Inventory	488,904	34.3%	315,340	40.7%
Receivables	32,159	2.3%	24,183	3.1%
Cash	20,555	1.4%	8,647	1,1%
Total assets	**1,425,948**		**774,540**	
Equity attributable to dominating entity, including:	802,902	56.3%	542,662	70.0%
Share capital	49,122	3.4%	38,070	4.9%
Net profit (loss) for the current period	-2,408	-0.2%	111	0%
Long-term liabilities and provisions	**283,408**	**19.9%**	**84,849**	**11.0%**
Long-term loans and borrowings	70,523	4.9%	81,975	10.6%
Financial leases	210,533	14.8%	1,652	0.2%
'- including IFRS16	*207,289*	*14.5%*	*0*	*0.0%*
Short-term liabilities and provisions, including:	**339,638**	**23.8%**	**231,878**	**29.9%**
Trade liabilities	159,239	11.2%	85,599	11.1%
Short-term loans and borrowings	91,708	6.4%	52,836	6.8%
Financial leases	80,275	5.6%	548	0.1%
'- including IFRS16	*78,835*	*5.5%*	*0*	*0.0%*
Total equity and liabilities	**1,425,948**		**774,540**	

Assets

In 1Q19, the assets of VRG S.A. Group almost doubled compared to 1Q18. That was the result of two factors: merger with Bytom S.A. in 4Q18 (there was not Bytom as at March 31, 2018) and recognition of right-of-use assets according to IFRS16, applied by the Group from January 1, 2019.

Increase in intangibles by PLN 148.4 million

A significant increase in intangible assets in 1Q19 as compared to March 31, 2018 resulted mainly from recognition of goodwill as a result of the acquisition of Bytom S.A.

Increase in fixed assets by PLN 20.9 million

Change in fixed assets was primarily the effect of acquisition of fixed assets owned by Bytom S.A. (net value of acquired fixed assets as at March 31, 2019 was approx. PLN 14.5 million). Other changes are the effect of completed investments (new store openings) in the reporting period.

Right of use assets IFRS16

The Group has decided to implement IFRS 16 from January 1, 2019. Application of this standard has a significant impact on the Group's financial statements, as the Group is a party to lease agreements for premises in which it conducts retail operations and leases offices. These contracts have so far been classified in accordance with IAS 17 as operating leases, therefore, expenses were treated as operating costs during the period of the lease in amounts resulting from invoices. In accordance with IFRS 16 Leases, the Group recognizes an asset component of the right to use with an appropriate leasing liability determined in the amount of discounted future payments during the lease term. From January 1, 2019, assets under the right of use are amortised on a straight-line basis, while liabilities under lease agreements are settled using the effective interest rate. The value of the right of use as at March 31, 2019 is PLN 284.9 million, which significantly increases the Group's balance sheet total.

Inventory

The value of inventories as at March 31, 2019 amounted to PLN 488.9 million, which means an increase compared to March 31, 2018 by 55%. In the apparel segment, the inventories increased by + 76% YoY (effect of Bytom inventories, some 17% YoY without Bytom), while in the jewellery segment by + 34%. The nominal increase in inventories results, apart from the effect of merger with Bytom, from floorspace development, stocking the new spring-summer collection and preparation in the jewellery segment for a strong second quarter sales.

The Group's inventories in terms of m2 amounted to PLN 9,327, which is a similar level as at March 31, 2018, as presented in the table below:

INVENTORY / m2	1Q19	1Q18	YoY
VRG	9,327	9,387	-1%
Apparel segment	6,592	6,405	3%
Jewellery segment	20,939	17,831	17%

Receivables

Increase in receivables relates to prepayments for goods in connection with increase in purchases on Asian markets and higher trade receivables due to merger with Bytom, and consequently a part of its wholesale operations (the largest part of wholesale business to individual customers is realised in the first and third quarter, before the start of a given sales season).

Equity and liabilities

Equity

Changes in equity by PLN 260.2 million mainly resulted from issuance of shares due to merger with Bytom S.A. worth PLN 206.4 million (of which PLN 11.1m increased share capital, PLN 195.3 million the capital reserves) and increased retained earnings by PLN 53.6 million generated in 2018.

Long-term and short-term indebtedness

Indebtedness under long-term loans as at March 31, 2019 amounted to PLN 70.5 million compared to PLN 82 million, which means a PLN 11.5 million decrease compared to the end of March 2018. The amount of the leases increased due to the takeover of liabilities the Bytom S.A. in the amount of PLN 2.4 million and recognition of liabilities due to the valuation of lease agreements in accordance with IFRS16. Total liabilities in this respect amount to PLN 286.1 million, of which PLN 207.3 million is a long-term part, and 78, PLN 8 million short-term part.

In case of short-term debt, increase is due to:

- lease obligations under the right of use described above (PLN 78.8 million),

- increase in overdraft facilities by PLN 43.2 million due to their higher use due to significant payments for goods for the new collection and the takeover of Bytom's debt;

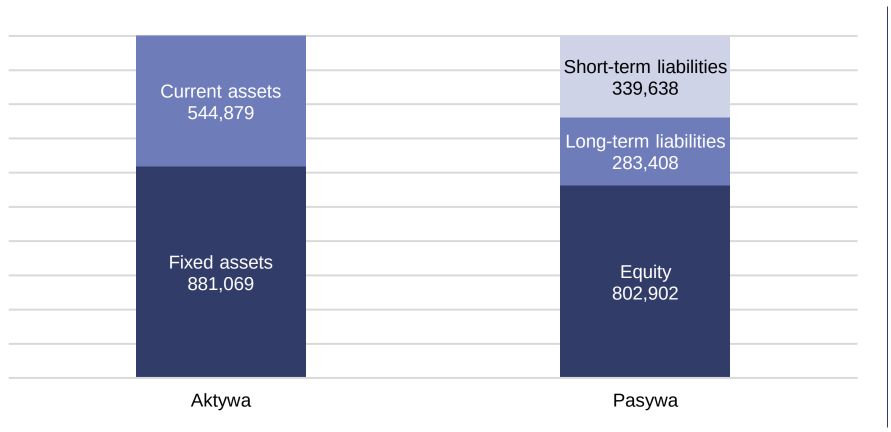
- factoring liabilities in the amount of PLN 16.6 million, which were not present as at the end of March 2018, because this product was previously used only by the acquired company Bytom.

The table below presents development of financial liabilities as at 31 March 2019, 31 March 2018 and net debt. In addition, data on net debt was also presented without the impact of IFRS16, which significantly affects the scale of indebtedness.

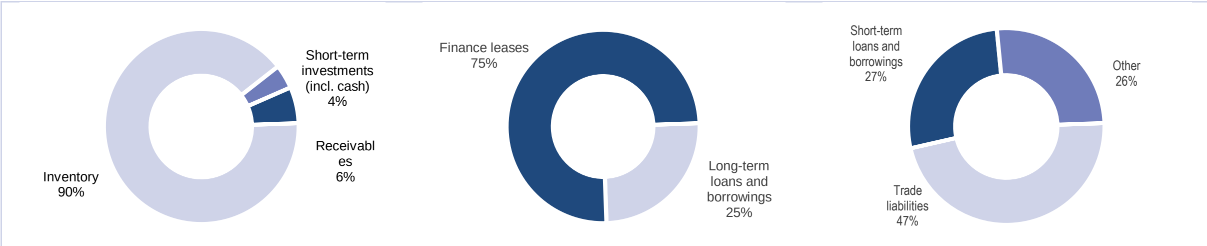
Net debt	31.03.2019	31.03.2019 (excl. IFRS16)	31.03.2018
Long-term debt	281,056	73,767	83,627
Long-term loans and borrowings	70,523	70,523	81,975
Finance lease liabilities	210,533	3,244	1,652
- including IFRS16	*207,289*	*0*	*0*
Short-term debt	188,618	109,783	53,384
Loans and borrowings	80,454	80,454	41,800
Short-term part of long-term loans	11,254	11,254	11,036
Reverse factoring	16,635	16,635	0
Finance lease liabilities	80,275	1,440	548
- including IFRS16	*78,835*	*0*	*0*
Cash	-20,555	-20,555	-8,647
Net debt	**449,119**	**162,995**	**128,364**

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

Statement of financial position analysis as of the end of 1Q19



Current assets | Long-term liabilities | Short-term liabilities



2. Planned development activities

As relates to information presented in 2018 annual report of the Capital Group, we maintain all key development targets for the current year, i.e. continuation of double-digit growth of the Group's revenues, increase of the gross margin by 1 p.p. YoY thanks to first revenue/margin synergies and achievement of bottom-line dynamics exceeding top-line growth.

The Group intends to achieve the above objectives through the following activities:

- increasing floorspace in the apparel and jewellery segment, due to further expansion of the traditional stores network of all Group brands to 55.7 ths m2 (607 stores). That would increase the Group's floorspace by some 8%. Floorspace development planned for 2019, assumes an increase in sales network of W.KRUK by some 1.4 ths m2, and the apparel segment floorspace by 2.7 ths m2. The total 2019 capex for floorspace expansion, including upgrades of the most important stores, further improvements in IT systems, on-line sales and other investments will amount to some PLN 25 million;

- dynamic development of on-line sales in the apparel and jewellery segment, as a beneficiary of the observed trend of a gradual shift in demand for clothing to the Internet channel. We assume that the investments made and planned will ensure dynamic development of this distribution channel and will allow on-line sales to reach 14% of Group's revenues by the end of 2019;

- improvement of sales/ m2 efficiency through development and improvement of the product offering taking into account the expectations and needs of clients of our brands and focusing activities within the communication strategy of all Group’s brands on PR, press and on-line advertising, social media channels.

The current advertising activities of VRG Group are focused on the promotion of the Spring / Summer 2019 collections of all Group’s brands. The new collection of Vistula brand combines attractive patterns, a wide range of colours and modern, fashionable cuts suited to the needs of modern men. In SS2019 the brand will also present a capsule collection with streetwear PROSTO brand and broaden the number of its Vistula with Passion ambassadors. The offer will include a wide range of formal and casual outfits. For special events, the timeless suits will remain indispensable. Special attention is attracted by the offering of shirts inspired by pop-art. The Wólczanka brand in the men's collection in a large part offers classic models of shirts in shades of white, blue and navy blue, animated with microstructures, delicate stripes and a more pronounced strips and checked fabrics. The men's collection also contains shirts with a more nonchalant and even extravagant character. In the women's collection, Wólczanka focuses on motives taken from nature. Beside flowers, shirts will also contain leaves and other colourful plants. The faces of the latest collection of Bytom are Tomek Lipiński and Dawid Ogrodnik, promoting the brand as well as culture and art. The new collection is kept in a vintage style and is a combination of stylistics of the 80's and stage extravaganza of jazz musicians.

The Deni Cler brand in its collection continues the departure from the formal style in favour of everyday elegance. The current marketing communication of the W.KRUK brand promotes the unveiling of a collection designed with Ewa Chodakowska. This collection is a modern design gold and silver and brass jewellery, combined with the motive of volcanic berry OHELO, which was the inspiration for the creation and the name of the collection.

After completing the merger with Bytom, the priority of the Management Board is to achieve synergies, both revenue and cost. Revenue synergies should be visible by improving the gross margin as a result of combined purchasing policy mainly on foreign markets. The Management Board estimates that improvement of gross margin of the Vistula, Wólczanka and Bytom brands should translate into PLN 8-10 million of margin synergy per year. Cost synergies should be achieved in the areas of selling and general administrative expenses and should amount to some PLN 2 million annually, supporting the Group in achieving the planned cost discipline. The Management Board expects that all synergies will be realized in 2020, but the first effects should be visible already in 2019.

At the same time, the Management Board will continue its activities related to the strategic goal of building a House of Brands through acquisition and consolidation activities on the Polish market and foreign markets in close proximity. The first practical example of such activities is the subsidiary W.KRUK S.A. which signed a letter of intent to purchase a company from the jewellery sector operating in the Czech Republic. The project is at the due diligence stage and its completion should take place in 2019.

3. Financial forecasts

VRG S.A. has not made public any financial forecasts for 2019.

4. Statement of the Management Board

The Management Board declares that, to the best of its knowledge, the financial statements and comparative 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 and standing of the issuer and its financial result and that the financial statements contain a true picture of development and issuer's situation and achievements, including a description of basic risks and threats.

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

Cracow, May 20, 2019

52.4 ths m2
of group’s
floorspace

CONDENSED INTERIM SEPARATE

FINANCIAL STATEMENTS

FOR 3 MONTHS ENDED MARCH 31, 2019

SELECTED FINANCIAL DATA TO CONDENSED INTERIM SEPARATE FINANCIAL STATEMENTS

	PLN ths		EUR ths	
	1Q19 January 1, 2019 to March 31, 2019	1Q18 January 1, 2018 to March 31, 2018	1Q19 January 1, 2019 to March 31, 2019	1Q18 January 1, 2018 to March 31, 2018
Revenues	129,629	85,168	30,161	20,383
Profit (loss) from operations	- 5,124	- 985	- 1,192	- 236
Pre-tax profit (loss)	- 6,554	- 1,566	- 1,525	- 375
Net profit (loss)	- 4,480	- 1,369	- 1,042	- 328
Net cash flows from operating activities	- 33,620	- 13,292	- 7,823	- 3,181
Net cash flows from investing activities	- 2,477	- 1,373	- 576	- 329
Net cash flows from financing activities	24,053	9,381	5,597	2,245
Total net cash flows	- 12,044	-5,284	- 2,802	- 1,265
	31.03.2019	**31.12.2018**	**31.03.2019**	**31.12.2018**
Total assets	1,111,259	931,516	258,354	216,632
Liabilities and provisions	401,379	217,302	93,316	50,535
Long-term liabilities	209,490	92,921	48,704	21,610
Short-term liabilities	184,015	114,326	42,781	26,587
Total equity	709,880	714,214	165,038	166,096
Share capital	49,122	49,122	11,420	11,424
Shares outstanding	234,445,840	234,445,840	234,445,840	234,445,840
Diluted number of shares	241,505,840	241,505,840	241,505,840	241,505,840
Earnings (loss) per ordinary share (in PLN/EUR)	- 0.02	0.12	0.00	0.03
Diluted earnings (loss) per share (in PLN/EUR)	- 0.02	0.12	0.00	0.03
Book value per share (in PLN/EUR)	3.03	3.05	0.70	0.71
Diluted book value per share (in PLN/EUR)	2.94	2.96	0.68	0.69
Declared or paid dividend per share (in PLN/EUR)	-			

CONDENSED INTERIM SEPARATE

STATEMENT OF FINANCIAL POSITION

AS OF MARCH 31, 2019

	PLN ths				
	1Q19 March 31, 2019	January 1, 2019 after restatement	2018 December 31, 2018	1Q18 March 31, 2018	2017 December 31, 2017
Non-current assets	**806,428**	**814,876**	**639,122**	**410,713**	**411,902**
Goodwill	142,140	142,140	142,140	60,697	60,697
Other intangibles	98,209	98,567	98,567	34,819	34,903
Fixed assets	37,386	38,039	38,039	20,417	21,620
Investment property	7,001	7,170	7,170	7,338	7,381
Assets held for sale	-	-	-	-	-
Right of use assets	166,517	175,754	-	-	-
Long-term receivables	224	272	272	172	174
Long-term loans granted	20	20	20	32	35
Shares and stakes	349,222	349,222	349,222	283,653	283,633
Other long-term investments	4	4	4	4	4
Deferred tax assets	5,705	3,688	3,688	3,581	3,455
Other non-current assets	-	-	-	-	-
Current assets	**304,831**	**292,394**	**292,394**	**164,800**	**168,748**
Inventory	260,530	247,112	247,112	137,112	140,357
Trade and other receivables	30,422	20,200	20,200	21,020	16,852
of which corporate income tax assets	*126*	-	-	*1,211*	*194*
Short-term loans granted	-	-	-	-	-
Short-term part of long-term loans	15	15	15	15	15
Cash and equivalents	12,395	24,439	24,439	5,207	10,491
Other short-term assets	209	8	8	-	-
Other current assets	1,260	620	620	1,446	1,033
Total assets	**1,111,259**	**1,107,270**	**931,516**	**575,513**	**580,650**
Equity	**709,880**	**714,214**	**714,214**	**483,585**	**484,894**
Share capital	49,122	49,122	49,122	38,070	38,070
Capital reserves	625,374	625,374	625,374	413,306	413,306
Other reserves	17,172	17,026	17,026	16,847	16,787
Retained earnings	22,692	-	-	16,731	-

	PLN ths				
	1Q19 March 31, 2019	January 1, 2019 after restatement	2018 December 31, 2018	1Q18 March 31, 2018	2017 December 31, 2017
Net profit (loss) for the current period	- 4,480	22,692	22,692	- 1,369	16,731
Total equity	**709,880**	**714,214**	**714,214**	**483,585**	**484,894**
Long-term liabilities	**209,490**	**219,336**	**92,921**	**32,006**	**32,074**
Liabilities due to purchase of fixed assets	-	-	-	-	-
Lease liabilities	182,046	191,891	65,476	625	693
Incl. IFRS16	*116,993*	*126,415*			
Loans and borrowings	27,444	27,445	27,445	31,381	31,381
Deferred tax liabilities	1,140	1,197	1,197	424	495
Long-term provisions	483	483	483	279	279
Total long-term liabilities and provisions	**211,113**	**221,016**	**94,601**	**32,709**	**32,848**
Short-term liabilities	**184,015**	**163,665**	**114,326**	**54,515**	**58,738**
Lease liabilities	52,149	51,320	1,981	298	306
Incl. IFRS16	*50,249*	*49,339*	-	-	-
Trade and other liabilities	89,762	107,896	107,896	37,593	51,574
of which corporate income tax liabilities	-	*967*	*967*	-	-
Loans and borrowings	38,166	511	511	12,693	1,676
Short-term part of long-term loans and bor-rowings	3,938	3,938	3,938	3,931	5,182
Short-term provisions	6,251	8,375	8,375	4,704	4,170
Total short-term liabilities and provisions	**190,266**	**172,040**	**122,701**	**59,219**	**62,908**
Total liabilities and provisions	**401,379**	**393,056**	**217,302**	**91,928**	**95,756**
Total equity and liabilities	**1,111,259**	**1,107,270**	**931,516**	**575,513**	**580,650**
Book value of equity	709,880	714,214	714,214	483,585	484,894
Shares outstanding	234,445,840	234,445,840	234,445,840	179,194,964	179,194,964
Book value per share	3.03	3.05	3.05	2.7	2.71
Diluted number of shares	241,505,840	241,505,840	241,505,840	181,194,964	181,194,964
Diluted book value per share	2.94	2.96	2.96	2.67	2.68

CONDENSED INTERIM SEPARATE OFF-BALANCE SHEET ITEMS AS OF MARCH 31, 2019

	PLN ths	
	1Q19 March 31, 2019	1Q18 March 31, 2018
bank guarantees issued for store rental expenses	26,083	13,976
open letters of credit	23,066	10,917
bills of exchange securing lease liabilities		
Total off-balance sheet items	**43,510**	**24,893**

CONDENSED INTERIM SEPARATE

STATEMENT OF COMPREHENSIVE INCOME

FOR 3 MONTHS ENDED 31 MARCH, 2019

INTERIM CONDENSED SEPARATE PROFIT OR LOSS STATEMENT

	PLN ths	
	1Q19 January 1, 2019 to March 31, 2019	1Q18 January 1, 2018 to March 31, 2018
Revenues	**129,629**	**85,168**
Cost of sales	67,171	44,025
Gross profit on sales	62,458	41,143
Other operating income	159	135
Gain on sale of non-financial non-current assets	54	9
Selling costs	54,521	32,500
Administrative expenses	13,112	9,275
Other operating costs	162	497
Loss on sale of non-financial non-current assets	-	-
Profit (loss) from operations	-5,124	- 985
Financial income	272	29
Financial costs	1,702	610
Pre-tax profit (loss)	- 6,554	- 1,566
Income tax	- 2,074	- 197
Net profit (loss) for the period from continuing operations	**- 4,480**	**- 1,396**
Net profit (loss) from discontinued operations		
Net profit (loss) for the period	**- 4,480**	**- 1,396**
Weighted average number of ordinary shares	234,445,840	179,194,964
Diluted weighted average number of ordinary shares	241,505,840	181,194,964
- basic	- 0.02	- 0.01
- diluted	- 0.02	- 0.01

CONDENSED INTERIM SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	PLN ths	
	1Q19 January 1, 2019 to March 31, 2019	1Q18 January 1, 2018 to March 31, 2018
Net profit for the period	**- 4,480**	**- 1,396**
Other comprehensive income, including:	-	-
Revaluation of financial assets available for sale	-	-
Income tax related to other comprehensive income	-	-
Total comprehensive income	**- 4,480**	**- 1,396**

CONDENSED INTERIM SEPARATE

STATEMENT OF CHANGES IN EQUITY

FOR 3 MONTHS ENDED MARCH 31, 2019

	PLN ths				
	Share capital	Capital reserves	Other reserves	Retained earnings	Total equity
1Q18 period from January 1, 2018 to March 31, 2018					
As at 01.01.2018	38,070	413,306	16,787	16,731	484,894
Distribution of net profit	-	-	-		-
Net profit (loss) for the period	-	-	-	- 1,369	- 1,369
Stock-option program valuation	-	-	60	-	60
Share issuance			-	-	
Balance as at 31.03.2018	**38,070**	**413,306**	**16,847**	**15,362**	**483,585**
2018 period from January 1, 2018 to December 31, 2018					
As at 01.01.2018	**38,070**	**413,306**	**16,787**	**16,731**	**484,894**
Distribution of net profit		16,731		- 16,731	
Net profit (loss) for the period				22,692	22,692
Stock-option program valuation			239		239
Share issuance	11,052	195,337			206,389
Balance as at 31.12.2018	**49,122**	**625,374**	**17,026**	**22,692**	**714,214**
1Q19 period from January 1, 2019 to March 31, 2019					
As at 01.01.2019	**49,122**	**625,374**	**17,026**	**22,692**	**714,214**
Distribution of net profit					-
Net profit (loss) for the period				- 4,480	- 4,480
Stock-option program valuation			146		146
Share issuance					
Balance as at 31.03.2019	**49,122**	**625,374**	**17,172**	**18,212**	**709,880**

CONDENSED INTERIM SEPARATE

STATMENT OF CASH FLOWS

FOR 3 MONTHS ENDED MARCH 31, 2019

	PLN ths	
	1Q19 January 1, 2019 to March 31, 2019	1Q18 January 1, 2018 to March 31, 2018
Pre-tax profit (loss)	-6,554	- 1,566
Share in equity consolidated entities	-	-
Amortization and depreciation	16,301	1,981
Profit (loss) on investing activities	54	- 9
Income tax paid	- 841	- 1,017
Interest costs	943	301
Change in provisions	-2,124	- 35
Change in inventories	- 13,418	3,245
Change in receivables	- 10,679	- 3,146
Change in short-term liabilities, excluding bank loans and borrowings	-17,430	- 13,086
Other adjustments	128	40
Net cash flows from operating activities	**- 33,620**	**- 13,292**
Interest received	1	-
Dividends from subsidiaries	-	-
Inflows from sale of intangibles	-	-
Inflows from sale of fixed assets	602	9
Disposal from investment property	-	-
Repayment of loans granted	-	3
Purchase of intangible assets	- 23	-
Purchase of fixed assets	- 3,057	- 1,385
Purchase of investment property	-	-
Interest received	-	-
Net cash flows from investing activities	**- 2,477**	**- 1,373**
Proceeds from issuance of shares and other capital instruments and additional payments to capital	-	-
Inflows from loans and borrowings	37,652	11,016
Issuance of debt securities and securities convertible into shares	-	-
Dividends and other distributions to owners	-	-
Other financing inflows – repayment of loan granted	-	-
Repayment of bank loans and borrowings	-	- 1,250
Redemption of debt securities	-	-
Finance lease payments	- 12,655	- 84
Interest paid	- 944	- 301
Other financial expenses	-	-
Net cash flows from financing activity	**24,053**	**9,381**
Change in cash and cash equivalents in the balance sheet	**-12,044**	**- 5,284**
Opening balance of cash	**24,439**	**10,491**
Change in cash due to foreign currency translation	-	-
Closing balance of cash	**12,395**	**5,207**

The value shown under "Other adjustments" consists of:

	PLN ths	
capital reserves increase – valuation of stock options	146	60
interest received		
fixed assets - impairment - liquidation	-18	
balance sheet valuation of W.KRUK S.A. subsidiary		- 20
Total	**128**	**40**

INFORMATION AND EXPLANATIONS

TO CONDENSED INTERIM SEPARATE FINANCIAL STATEMENTS FOR 1Q19

Accounting principles relevant to the preparation of this interim condensed separate financial statement have been included in the information and explanations to the condensed interim consolidated financial statements.

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

Cracow, May 20, 2019

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