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VRG
VISTULA RETAIL GROUP

CONDENSED INTERIM

FINANCIAL REPORT

of VRG S.A. Capital Group for 1Q20
prepared in accordance with IFRS
approved by the European Union

Cracow, May 19, 2020

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PLN 197.5m of revenues, - 8% YoY

CONDENSED INTERIM CONSOLIDATED

FINANCIAL STATEMENTS

FOR 3 MONTHS ENDING MARCH 31, 2020

SELECTED FINANCIAL DATA TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATMENTS

	PLN ths		EUR ths	
	1Q20 January 1, 2020 to March 31, 2020	1Q19 January 1, 2019 to March 31, 2019	1Q20 January 1, 2020 to March 31, 2020	1Q19 January 1, 2019 to March 31, 2019
Revenues	197,469	214,425	44,917	49,891
Profit (loss) from operations	- 11,914	- 1,241	- 2,710	- 289
Pre-tax profit (loss)	- 35,097	- 3,969	- 7,983	- 923
Net profit (loss)	- 31,955	- 2,408	- 7,269	- 560
Net cash flows from operating activities	- 27,836	- 50,866	- 6,332	- 11,835
Net cash flows from investing activities	- 3,629	- 6,239	- 825	- 1,452
Net cash flows from financing activities	13,456	44,137	3,061	10,270
Total net cash flows	- 18,009	- 12,968	- 4,096	- 3,017
	31.03.2020	**31.12.2019**	**31.03.2020**	**31.12.2019**
Total assets	1,434,309	1,431,314	315,073	336,108
Liabilities and provisions	602,978	568,028	132,456	133,387
Long-term liabilities	250,530	242,234	55,034	56,882
Short-term liabilities	341,646	313,578	75,049	73,636
Total equity	831,331	863,286	182,618	202,721
Share capital	49,122	49,122	10,791	11,535
Shares outstanding	234,455,840	234,455,840	234,455,840	234,455,840
Diluted number of shares	241,505,840	241,505,840	241,505,840	241,505,840
Earnings (loss) per ordinary share (in PLN/EUR)	- 0.14	- 0.01	- 0.03	0.00
Diluted earnings (loss) per share (in PLN/EUR)	- 0.13	- 0.01	- 0.03	0.00
Book value per share (in PLN/EUR)	3.55	3.68	0.78	0.86
Diluted book value per share (in PLN/EUR)	3.44	3.57	0.76	0.84
Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

CONDENSED INTERIM CONSOLIDATED

STATEMENT OF FINANCIAL POSITION

AS OF MARCH 31, 2020

	PLN ths			
	1Q20 March 31, 2020	4Q19 December 31, 2019	1Q19 March 31, 2019	4Q18 December 31, 2018
Non-current assets	**848,483**	**847,036**	**879,810**	**591,924**
Goodwill	302,748	302,748	324,033	324,033
Other intangible assets	196,817	196,956	183,051	183,220
Fixed assets	71,815	71,623	79,003	78,046
Investment property	874	874	874	874
Assets held for sale	-	-	-	-
Right of use assets	264,571	266,405	284,921	-
Long-term receivables	677	664	570	586
Shares and stakes	27	27	27	27
Other long-term investments	4	4	4	4
Deferred tax assets	10,918	7,707	7,271	5,109
Other non-current assets	32	28	56	30
Current assets	**585,826**	**584,278**	**544,879**	**520,102**
Inventory	547,054	535,539	488,904	460,781
Trade and other receivables	26,758	19,986	32,159	23,907
of which corporate income tax receivables	-	-	*163*	-
Short-term loans	-	-	-	-
Cash and cash equivalents	7,271	25,280	20,555	33,523
Other short-term assets	692	-	208	8
Other current assets	4,051	3,473	3,053	1,883
Aktywa razem	**1,434,309**	**1,431,314**	**1,424,689**	**1,112,031**
Dominating entity's equity	**831,331**	**863,286**	**802,902**	**805,097**
Share capital	49,122	49,122	49,122	49,122
Other reserves	14,333	14,333	14,181	13,968
Retained earnings	799,831	735,838	742,007	688,435
Net profit (loss) for the current period	- 31,955	63,993	- 2,408	53,572
Non-controlling interest	-	-	-	-
Total equity	**831,331**	**863,286**	**802,902**	**805,097**
Long-term liabilities	**250,530**	**242,234**	**281,242**	**74,561**

	PLN ths			
	1Q20 March 31, 2020	4Q19 December 31, 2019	1Q19 March 31, 2019	4Q18 December 31, 2018
Liabilities due to purchase of fixed assets	334	271	186	176
Lease liabilities	194,451	186,112	210,533	3,627
Including IFRS16	*192,314*	*183,915*	*207,289*	-
Loans and borrowings	55,745	55,851	70,523	70,758
Deferred tax liabilities	-	-	-	-
Long-term provisions	1,122	1,122	907	907
Total long-term liabilities and provisions	**251,652**	**243,356**	**282,149**	**75,468**
Short-term liabilities	**341,646**	**313,578**	**331,222**	**220,440**
Lease liabilities	93,992	86,308	80,275	1,739
Including IFRS16	*92,142*	*84,424*	*78,835*	-
Trade and other liabilities	173,304	191,702	159,239	192,820
of which corporate income tax liabilities	*4,338*	*9,150*	-	*4,897*
Loans and borrowings	60,313	21,340	80,454	14,627
Short-term part of long-term loans and borrowings	14,037	14,228	11,254	11,254
Short-term provisions	9,680	11,094	8,416	11,026
Total short-term liabilities and provisions	**351,326**	**324,672**	**339,638**	**231,466**
Total liabilities and provisions	**602,978**	**568,028**	**621,787**	**306,934**
Total equity and liabilities	**1,434,309**	**1,431,314**	**1 424 689**	**1 112 031**
Book value of equity	831,331	863,286	802,902	805,097
Shares outstanding	234,455,840	234,455,840	234,455,840	234,455,840
Book value per share	3.55	3.68	3.42	3.43
Diluted number of shares	241,505,840	241,505,840	241,505,840	241,505,840
Diluted book value per share	3.44	3.57	3.32	3.33

CONDENSED INTERIM CONSOLIDATED OFF-BALANCE SHEET ITEMS AS OF MARCH 31, 2020

	PLN ths			
	1Q20 March 31, 2020	4Q19 December 31, 2019	1Q19 March 31, 2019	4Q18 December 31, 2018
bank guarantees issued for store rental expenses	48,029	44,668	44,821	37,462
open letters of credit	24,470	42,226	23,683	36,819
bills of exchange securing lease liabilities	855	650	598	634
Total off-balance sheet items	**73,354**	**87,544**	**69,102**	**74,915**

CONDENSED INTERIM CONSOLIDATED

STATEMENT OF PROFIT OR LOSS

FOR 3 MONTHS ENDING MARCH 31, 2020

	PLN ths	
	1Q20 January 1, 2020 to March 31, 2020	1Q19 January 1, 2019 to March 31, 2019
Revenues	**197,469**	**214,425**
Cost of sales	103,505	109,407
Gross profit on sales	93,964	105,018
Other operating income	577	288
Gain from sale of non-financial non-current assets	-	24
Selling costs	83,578	85,928
Administrative expenses	21,971	20,225
Other operating costs	875	418
Loss from sale of non-financial non-current assets	31	-
Profit (loss) from operations	- 11,914	- 1,241
Financial income	857	273
incl.: financial income due to IFRS16	-	-
Gain from sale of subsidiaries	-	-
Financial costs	24,040	3,001
incl.: financial costs due to IFRS16	*18,214*	*1,031*
Loss from sale of subsidiaries	-	-
Pre-tax profit (loss)	- 35,097	- 3,969
Income tax	- 3,142	- 1,561
Net profit (loss) for the period	**- 31,955**	**- 2,408**
Attributed to dominating entity	- 31,955	-2,408
Attributed to non-controlling interest	-	-
Weighted average number of ordinary shares	234,455,840	234,455,840
Diluted weighted average number of ordinary shares	241,505,840	241,505,840
- basic	- 0.14	- 0.01
- diluted	- 0.13	- 0.01

CONDENSED INTERIM CONSOLIDATED

STATEMENT OF COMPREHENSIVE INCOME

FOR 3 MONTHS ENDING MARCH 31, 2020

	PLN ths	
	1Q20 January 1, 2020 to March 31, 2020	1Q19 January 1, 2019 to March 31, 2019
Net profit for the period	**- 31,955**	**- 2,408**
Other comprehensive income, including:	-	-
Revaluation of financial assets available for sale	-	-
Income tax related to other comprehensive income	-	-
Total comprehensive income	**- 31,955**	**- 2,408**

CONDENSED INTERIM CONSOLIDATED

STATEMENT OF CHANGES IN EQUITY

FOR 3 MONTHS ENDING MARCH 31, 2020

	PLN ths.					
	Share capital	Capital reserves	Retained earnings	Dominating entity's equity	NCI	Total equity
1Q19 period between January 1, 2019 and 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**
2019 period from January 1, 2019 to December 31, 2019						
Balance at 01.01.2019	**49,122**	**13,968**	**742,007**	**805,097**	**-**	**805,097**
Merger between VRG S.A. and BTM 2 Sp. z o.o.	-	-	- 6,169	- 6,169	-	- 6,169
Net profit distribution	-	-	-	-	-	-
Net profit (loss) for the period	-	-	63,993	63,993	-	63,993
Stock option programme valuation	-	365	-	365	-	365
Share issuance	-	-	-	-	-	-
Balance at 31.12.2019	**49,122**	**14,333**	**799,831**	**863,286**	**-**	**863,286**
1Q20 period between January 1, 2020 and March 31, 2020						
Balance at 01.01.2020	**49,122**	**14,333**	**799,831**	**863,286**	**-**	**863,286**
Consolidation adjustment	-	-	-	-	-	-
Net profit distribution	-	-	-	-	-	-
Net profit (loss) for the period	-	-	- 31,955	- 31,955	-	- 31,955
Stock option programme valuation	-	-	-	-	-	-
Share issuance	-	-	-	-	-	-
Balance at 31.03.2020	**49,122**	**14,333**	**767,876**	**831,331**	**-**	**831,331**

CONDENSED INTERIM CONSOLIDATED

STATEMENT OF CASH FLOWS

FOR 3 MONTHS ENDING MARCH 31, 2020

	PLN ths	
	1Q20 January 1, 2020 to March 31, 2020	1Q19 January 1, 2019 to March 31, 2019
Pre-tax profit (loss)	- 35,097	- 3,969
Amortization and depreciation	29,313	26,027
Profit (loss) on investing activities	40	84
Income tax paid	- 4,853	- 5,513
Interest costs	1,841	1,911
Change in provisions	- 1,414	- 2,610
Change in inventories	- 11,514	- 28,123
Change in receivables	- 6,785	- 8,740
Change in short-term liabilities, excluding bank loans and borrowings	1,071	- 30,245
Other adjustments	- 438	312
Net cash flows from operating activities	**- 27,836**	**- 50,866**
Interest received	19	1
Dividends from subsidiaries	-	-
Inflows from sale of intangibles	-	-
Inflows from sale of fixed assets	407	736
Disposal from investment property	-	-
Repayment of loans granted	-	-
Purchase of intangible assets	- 85	- 29
Purchase of fixed assets	- 3,970	- 6,947
Purchase of investment property	-	-
Net cash flows from investing activities	**- 3,629**	**- 6,239**
Proceeds from issuance of shares and other capital instruments and additional payments to capital	-	-
Inflows from loans and borrowings	43,618	65,827
Other financial inflows	-	-
Dividends and other distributions to owners	-	-
Repayment of bank loans and borrowings	- 4,942	- 235
Redemption of debt securities	-	-
Finance lease payments	- 459	- 479
Interest paid	- 906	- 991

	PLN ths	
	1Q20 January 1, 2020 to March 31, 2020	1Q19 January 1, 2019 to March 31, 2019
Interest IFRS 16	- 935	- 921
Leases IFRS 16	- 22,920	- 19,064
Other financial expenses	-	-
Net cash flows from financing activities	**13,456**	**44,137**
Change in cash and cash equivalents in the balance sheet	**- 18,009**	**- 12,968**
Opening balance of cash	**25,280**	**33,523**
Change in cash due to foreign currency translation	-	-
Closing balance of cash	**7,271**	**20,555**

The value shown under "Other adjustments" consists of:

	PLN ths	
capital reserves increase – valuation of stock options	-	213
fixed assets - impairment - liquidation	- 419	99
interest received	- 19	-
Total	**- 438**	**312**


Traditional stores in shopping malls closed between 14.03-31.03

INFORMATION AND EXPLANATIONS

TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR 1Q20

1. General information

1.1. Name, registered office, business activity

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

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

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

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

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

The Company's key corporate milestones

1948	**Ordinance of the Minister of Industry and Trade on creation of a state-owned enterprise under the name "Krakowskie Zakłady Przemysłu Odzieżowego" (Cracow Clothing Production Facility)**
1991	**Transformation into a sole-shareholder company of the State Treasury under the business name: Zakłady Przemysłu Odzieżowego "Vistula" Spółka Akcyjna**
1993	**The Issuer's debut on the Warsaw Stock Exchange S.A.**
2001	**Registration of a new company name: Vistula Spółka Akcyjna**
2005	**The beginning of the process of intensive expansion of the store network and renewal of the positive image of the Vistula brand**
2006	**Merger with Wólczanka S.A. (change of the company name to Vistula & Wólczanka S.A.)**
2008	**Taking over control and merger with W.KRUK S.A in Poznań (change of the company name to Vistula Group S.A.)**
2015	**Transfer of jewellery business conducted under the W.KRUK brand to W.KRUK S.A. subsidiary**
2018	**Merger with Bytom S.A. (change of the company name to VRG S.A.)**
2019	**Merger with BTM 2 Sp. z o.o. subsidiary**

The lifespan of the Issuer is indefinite.

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

As at the end of 1Q20 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 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 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 1Q20 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.

<u>Changes in Capital Group structure in 1Q20.</u>

Between January 1, 2020 and March 31, 2020 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, 2020 the composition of the Management Board of VRG S.A. was as the following:

Manage-ment 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 March 31, 2020 to the date of approval of these financial statements, the composition of the Management Board has not changed.

On December 30, 2019, Mr. Mateusz Żmijewski, the Vice-President of the Management Board, resigned from his function in the Company's Management Board with effect from March 31, 2020. On March 30, 2020, Mr. Mateusz Żmijewski submitted a statement of withdrawal of resignation. The Supervisory Board of the Company in a resolution of 30 March 2020 agreed to withdraw the resignation of Mr. Mateusz Żmijewski and continue to act as the Vice President of the Company's Management Board until the end of the current term of the Company's Management Board.

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

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

In the period from January 1, 2020 to March 31, 2020, the following changes took place in the composition of the Supervisory Board:

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

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

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

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

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

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

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

In the period from the balance sheet date, i.e. March 31, 2020 to the date of signing this report, the above composition of the Parent Company's Supervisory Board did not change.

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 19, 2020.

1.5. Going concern

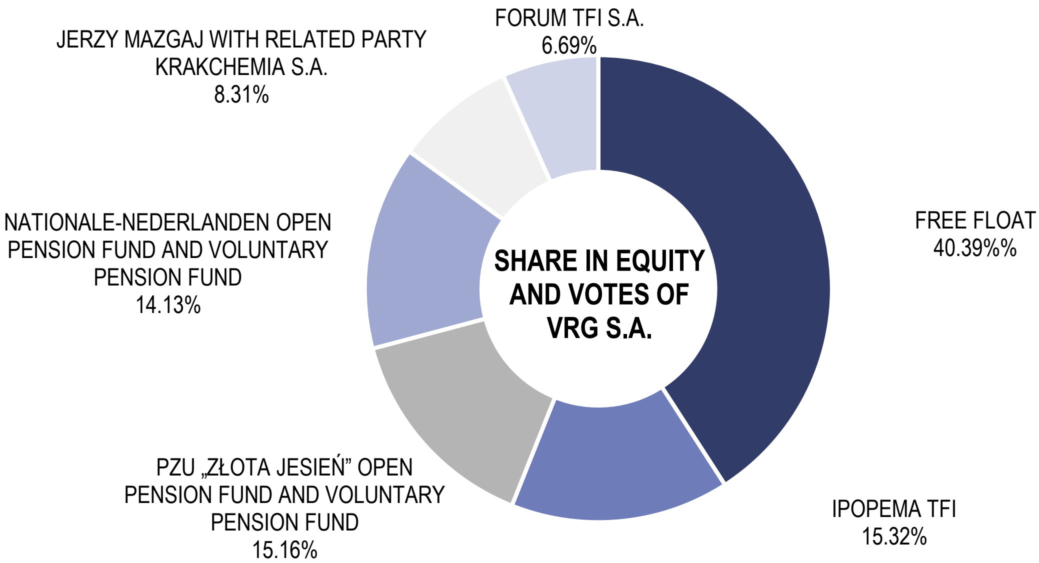
Consolidated financial statements of the VRG S.A. Capital Group (hereinafter also referred to as the "Capital Group" or "VRG Group"), have been prepared assuming a going concern of companies forming the Capital Group in an unchanged form and scope for at least 12 months from the date of the financial statements, i.e. March 31, 2020. 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 for 1Q20 and indication of changes in the ownership structure of significant stakes in VRG S.A. in the period from submitting the annual report for 2019 and the consolidated annual report for 2019 (March 31, 2020).

1) **Ownership structure of the share capital, in accordance with the information possessed by the Company as at the date of signing (May 19, 2020) of the consolidated quarterly report for 1Q20**

As at the date of signing of the consolidated quarterly report for the first quarter of 2020 (May 19, 2020), 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	IPOPEMA TFI[1]	35,918,372	15.32	35,918,372	15.32
2	PZU „Złota Jesień" Open Pension Fund and Voluntary Pension Fund[2]	35,540,000	15.16	35,540,000	15.16
3	Nationale-Nederlanden Open Pension Fund and Voluntary Pension Fund[3]	33,119,487	14.13	33,119,487	14.13
4	Jerzy Mazgaj with related party Krakchemia S.A. [4]	19,477,333	8.31	19,477,333	8.31
5	Forum TFI S.A.[5]	15,680,800	6.69	15,680,800	6.69

[1]information on the number of shares provided in accordance with the notification received by the Company pursuant to art. 69 clause 1 point 2 and art. 87 paragraph 1 item 2 of the Act of 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. According to the information held by the Company, Ipopema 21 FIZ Closed-end Fund, managed by IPOPEMA TFI S.A., holds 14,819,183 shares of the Company, which constitutes 6.32% of the share capital of the Company and gives 14,819,183 votes, constituting 6.32% of the total number votes at the Company's General Shareholder Meeting.

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

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

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

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

2) To the best of the Company's knowledge, from the date of submitting the previous financial report, i.e. the annual report for 2019 and the consolidated annual report for 2019, on March 31, 2020, there were no changes in the ownership structure of significant blocks of the Company's shares.

3) Changes in the ownership of VRG S.A. shares and rights to them by managers and supervisors

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

Company's Management Board	Number of shares held on the day of signing quarterly report for 1Q20	Number of shares held on the day of publication of annual separate and consolidated report for 2019
Grzegorz Pilch – President of the Management Board	604,504	604,504
Michał Wójcik – Vice-President of the Management Board	1,200,000	1,200,000
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 ownership by the managing persons 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 incentive program in 2018 pursuant to Resolution No. 17/06/2018 of the Annual General Shareholder Meeting of Vistula Group S.A. of 27.06.2018 on the adoption of the assumptions of the incentive program for members of the Company's Management Board, key managers or other persons of significant significance to the Company (and companies from its capital group), issuance of subscription warrants excluding pre-emptive rights, conditional increase share capital by way of issuing new shares, excluding pre-emptive rights, amending the Company's Articles of Association, authorizing the Company's management board to conclude a contract for registration of new issue shares at the National Depository for Securities (KDPW) and authorizing the Company's management board to take all appropriate actions to admit newly issued shares to trading on a regulated market ("Resolution").

Management Board	Number of F-series subscription warrants held at the day of signing of 1Q20 report	Number of F-series subscription warrants held on the day of publication of annual separate and consolidated report for 2019
Grzegorz Pilch – President of the Management Board	296,199	296,199
Mateusz Żmijewski – Vice-President of the Management Board	168,577	168,577
Erwin Bakalarz – Management Board Member	20,982	20,982

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

Supervisory Board	Number of F-series subscription warrants held at the day of signing of 1Q20 report	Number of F-series subscription warrants held on the day of publication of annual separate and consolidated report for 2019
Jerzy Mazgaj – Chairman of the Supervisory Board	18,477,333	18,477,333

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 1Q20 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 1Q20 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, 2020 to March 31, 2020 and as of March 31, 2020. The fiscal year is the calendar year. Comparable financial data are presented for the period from January 1, 2019 to March 31, 2019 and in case of statement of financial position and statement of changes in equity also as of December 31, 2019.

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

The consolidated financial statements for 1Q20 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 2020, 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, 2020 to March 31, 2020, the Group did not change the adopted accounting principles and methods of preparing the financial statements. The accounting principles adopted by the Capital Group were applied in a continuous manner in relation to the period presented in the financial statements. Due to the fact that the Group in the financial statements for 2019 changed the presentation of assets and provisions for deferred income tax, in the report for the first quarter of 2020 it adjusts comparable data for the first quarter of 2019 and 2018. In accordance with the guidelines of the Interpretation of the International Financial Reporting Interpretation Committee 'IFRIC' number 13, the presentation in the statement of financial position was adjusted in the form of a decrease in the amount of the asset and the deferred tax liability. As a result of the above adjustment, assets and liabilities decreased as at March 31, 2019 by PLN 1,259 ths and as at December 31, 2018 by PLN 1,320 ths.

Standards and interpretations that have been published and approved by the EU and entered into force from or after January 1, 2020

- Amendments to IFRS 3 "Business Combinations" - the amendment clarifies the definition of a business and aims to 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).
- 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.
- Changes in the scope of references to IFRS Conceptual Framework - they will apply as of January 1, 2020. As at the date of creation of this report, these changes have not been approved by the European Union.
- Amendments to IFRS 9 and IAS 39 and IFRS 7 - reform of the IBOR reference rate, effective for annual periods beginning on or after January 1, 2020.

According to the Group's current estimates, the abovementioned standards, interpretations and changes to standards will not have a material impact on the financial statements during their first application.

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

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

- 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 Leases

This standard establishes principles for recognition, valuation, presentation and disclosures on leases. 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 Leases 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 leases and leases of low-value assets. As at the balance sheet date there were no significant low-value leases.

The impact of applying IFRS 16 on Profit or Loss Statement in the period between January 1, 2020 to March 31, 2020 is presented in the table below. It relates to rental agreements in respect of contracts for commercial premises and office space that were treated as operating leases in accordance with IAS 17:

Item	PLN ths		
	1Q20 excl. IFRS16	Impact of IFRS 16 (on rental agreements)	1Q20 as published
Gross profit on sales	93,964	0	93,964
Selling and general and administrative costs	105,779	- 230	105,549
Other operating income	547	30	577
Result on operations	- 12,174	260	- 11,914
Financial costs	5,826	18,214	24,040
Net profit (loss) for the period	**- 14,001**	**- 17,954**	**- 31,955**

1Q20 amortisation under IFRS16 amounted to PLN 23,314 ths.

The following is the impact of the application of IFRS 16 on March 31, 2020 and December 31, 2019, and March 31, 2019 and January 1, 2019 of individual items in the Group's financial statements in respect of contracts for commercial premises and office space, which until December 31, 2018 were treated as operating leases in accordance with IAS 17.

ASSETS	PLN ths			
	As at 31.03.2020	As at 31.12.2019	As at 31.03.2019	Balance of opening as at 01.01.2019
Right of use assets *	264,571	266,405	284,921	299,584
	264,571	**266,405**	**284,921**	**299,584**

EQUITY & LIABILITIES	PLN ths			
	As at 31.03.2019	As at 31.12.2019	As at 31.03.2019	Balance of opening as at 01.01.2019
Finance leases IFRS16	284,457	268,340	286,124	299,584
	284,457	**268,340**	**286,124**	**299,584**

** In this balance sheet item, the Group showed usufruct rights valued for the first time as at 01/01/2019, which includes commercial premises and office space. Until December 31, 2018, these assets were treated as operating leases in accordance with IAS 17.*

The following is the impact of applying IFRS 16 on the Group's cash flow statement in the reporting period 01.01.2019 to 31.12.2019.

Cash flow statement items	PLN ths		
	1Q20 from January 1, 2020 to March 31, 2020 excl. IFRS16	Impact of IFRS 16 (on rental agreements)	1Q20 from January 1, 2020 to March 31, 2020 as published
Net cash flows from operating activities	- 51,691	23,855	- 27,836
Net cash flows from financing activities	37,311	- 23,855	13,456

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 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.
Classification is made at the moment of initial recognition. 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

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 and recognized in the financial statements at an amount lower of their carrying amount or fair value less costs to sell.

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

3.5. Investment property

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

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

3.6. 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 stakes 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.


Our aim is to keep a safe in-debtedness level

3.14. Equity

Share capital	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 Shareholder 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

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

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

The rights to use are depreciated using the straight-line method from the date of commencement until the end of the period of use of the right to use or until the end of the lease, depending on which of these dates is earlier. The rights to use are tested for impairment in accordance with IAS 36, if there are any premises for impairment.

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

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

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

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

The revaluation of the liability is recognized as an adjustment to the asset due to usage rights.

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

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

3.18. Revenues

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

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

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

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

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

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

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

3.19. Costs

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

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

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

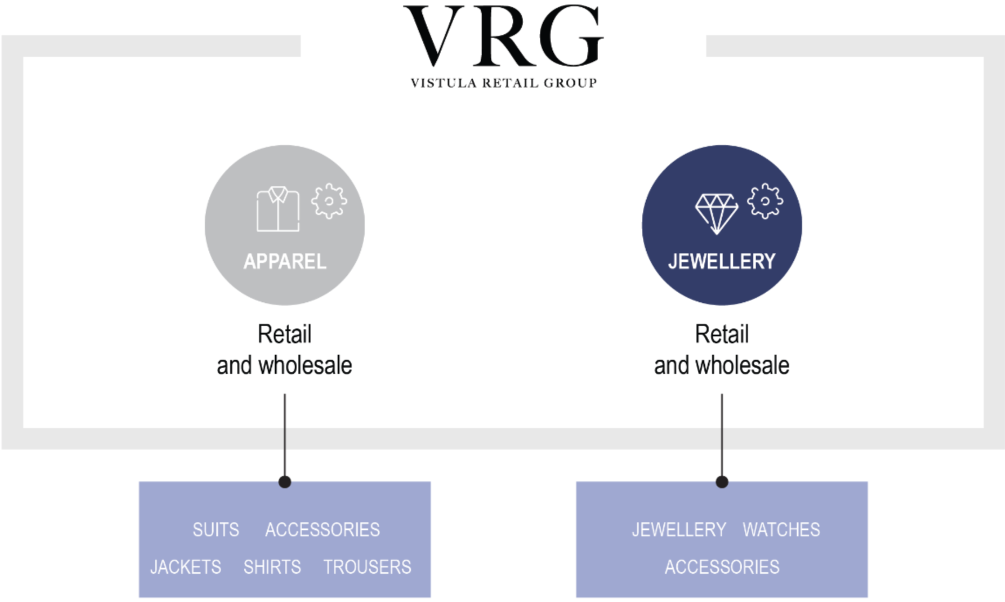
The cost of transactions settled in equity instruments is recognized along with the corresponding increase in the equity in the period to which the vesting conditions regarding the effectiveness of results refer, ending on the day when Management Board members and key managers acquire full entitlement 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

The VRG Group specializes in the design and retail sale of branded men's and women's clothing positioned in the medium and higher market segment as well as luxury jewellery and watches. Currently, it is building sales based on the brands Vistula, Lantier, Vistula Red, Vesari, Wólczanka, Lambert, Bytom, Intermoda, W.KRUK (via a subsidiary) and Deni Cler (via a subsidiary). Since the second quarter of 2015, the jewellery business as a result of the sale of an organized part of the enterprise associated with the W.KRUK brand has been carried out as the Issuer's subsidiary, i.e. W.KRUK S.A. based in Cracow. From November 30, 2018, the Group also includes 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.
	VISTULA 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.
		A brand introduced in 2009, which offers fashionable and smart casual products. The Vistula Red branded products are characterized by high quality and design consistent with global fashion trends. The brand is addressed at younger customers looking for bolder and more casual outfits.

Leading brands of the Bytom business line:

Bytom	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.

Leading brands of the Wólczanka business line:

Wólczanka	WÓLCZANKA	The brand exists since 1948. The offer of this brand is made of men's shirts, and from the Autumn-Winter 2014 season also women's formal and casual shirts. The complementary assortment of the Wólczanka brand are sweaters, polo shirts and, from Spring/Summer 2019, men's chinos.
	LAMBERT	Is an exclusive shirt brand. The brand's signature products include shirts made of the highest quality fabrics, whose design matches the latest fashion trends.

Other own brands in the apparel segment:

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

VRG S.A Group is systematically expanding the range of complementary articles in its stores, including, among others, the offer of smart casual products, exclusive leather goods and footwear. The offered accessories are currently one of the fastest growing categories of goods and are also characterized by a high margin.

Own brands in jewellery segment:

Jewellery segment	W.KRUK 1840	The scope of activity of VRG Group in the area of W.KRUK brand, currently managed by the subsidiary W.KRUK S.A. in Cracow, includes design, manufacturing and retail sales of branded luxury products such as jewellery, watches and accessories (gifts). W.KRUK has one of the highest brand recognition in comparison to other competitors operating on the jewellery market in Poland. Every year, under the brand name of W.KRUK, new original jewellery collections are introduced to the market. The main sales market for the W.KRUK brand remains Poland. W.KRUK's offer includes gold and platinum jewellery, in which the basic category of products is jewellery with diamonds and natural stones. The W.KRUK brand also sells jewellery made of silver and other metals. The assortment of this brand is additionally supplemented with gifts and accessories, e.g. cuff links, key rings, etc. In addition to classic jewellery, W.KRUK offers collections under the brand KRUK Fashion following the latest fashion trends. Introduction of the KRUK Fashion collection in 2001 was a breakthrough of many stereotypes prevailing on the Polish jewellery market. At least several times a year, unique brand collections, designed and manufactured by W.KRUK, are launched. The use of innovative solutions in the field of material selection and form distinguishes the brand on the Polish market. W.KRUK as the first chain of jewellery stores on the Polish market in 2019 introduced a new category of lab-grown diamonds under own trademark - New Diamond by W.KRUK. They have parameters identical to diamonds mined by traditional methods and are classified according to the same parameters, using the same expert assessment standards as mine diamonds. The collection decorated with New Diamond by W.KRUK includes rings under the name Perfect®, earrings and pendants with man-made diamonds in white and, for the first time on the Polish market, pink and blue.

	WATCHES	W.KRUK possesses in its offering luxury Swiss watches of brands like Rolex (the sole distributor of the brand in Poland), Cartier, Jaeger-LeCoultre, Hublot, Panerai, Chopard, Breitling, Girard-Perregaux, Omega, Tudor, Tag Heuer, Longines, Rado, Frédérique Constant, Tissot, Certina, Doxa, Gucci, Swatch and many others. Watches of renowned brands sold in W.KRUK stores occupy a strong position on the Polish market and the value of their sales is systematically increasing.

Manufacturing operations:

Own production activity in the apparel 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 29.03.2020 announced by the National Bank of Poland, which amounted to 4.5523 PLN/EUR. Selected items of the profit or loss statement were converted into EUR at the rate of 4.3963 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: 31.01.20 – 4,3010 PLN/EUR, 29.02.20 – 4,3355 PLN/EUR, 29.03.20 – 4,5523 PLN/EUR.

Comparable data for individual asset and liability items were converted into EURO at the average exchange rate announced by the National Bank of Poland, applicable on the last day of the reporting periods, i.e. as at 31.12.2019, which amounted to 4.2585 PLN / EURO and as at 31.03.2019, which amounted to 4.3013 PLN / EURO. Comparable data for individual items of the profit or loss account have been converted into EURO at the exchange rates being the arithmetic average of the average EURO exchange rates set by the National Bank of Poland on the last day of each completed month of the comparative period, i.e. from 01/01/2019 to 31/03/2019, which was 4.2978 PLN/ EURO.

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 for the amount of:	+ PLN 3,137 ths
b)	change in the provision for deferred income tax for the amount of:	- PLN74 ths
c)	change in the balance of write-offs losses on receivables in the amount of:	+ PLN 475 ths
d)	change in the balance of write-downs for impairment of inventories to net realizable value in the amount of:	PLN 0 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 1,414 ths

5. Issuance, redemption and repayment of debt and securities

In the first quarter of 2020, the parent company did not issue, redeem or repay any equity securities.

6. Paid and declared dividends

In 1Q20, 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 parties were concluded on terms corresponding to market conditions.

9. Guarantees and pledges granted

In the first quarter of 2020, the parent company did not grant any credit or loan or additional guarantees to subsidiaries in relation to those described in the consolidated and separate annual report for 2019.
As at 31/03/2020, the balance of sureties granted in previous periods by the parent company to subsidiaries W.KRUK S.A., DCG S.A. and VG Property Sp. z o.o. for the obligations of W.KRUK S.A., DCG S.A. and VG Property Sp. z o.o. towards Bank PKO BP S.A. the resulting loan agreements are:
a) Term loan agreement (Bank Loan B) up to the amount of PLN 71,400,000.00 concluded by the Company on March 9, 2015 with later as amended, transferred to W.KRUK S.A. after the takeover of an organized part of the Company's enterprise by W.KRUK S.A. as a result, there was a change in the borrower in the Loan Agreement, i.e. in place of the Company the full rights and obligations of the borrower were joined by W.KRUK S.A. therefore, the debt was taken over by W.KRUK S.A. After the borrower's rights and obligations have been transferred to W.KRUK S.A., the Group is responsible for repayment of Loan B due to the guarantee up to a maximum amount not exceeding PLN 107,100,000, with the possibility of its release after 3 years.
b) Multi-purpose credit limit agreement up to PLN 11,500,000.00 concluded by the subsidiary DCG S.A. on June 25, 2015 with amendments. One of the collateral for repayment of DCG S.A. liabilities towards the bank under this agreement is a surety by the Company up to a maximum amount not exceeding PLN 17,250,000, the surety is valid until December 31, 2021.
c) Investment loan agreement up to PLN 4,021,500.00 concluded by the subsidiary VG Property Sp. z o.o. on 30.06.2016 with amendments. One of the collateral for the repayment of liabilities of VG Property Sp. z o.o. towards the bank under this agreement is a surety by the Company up to a maximum amount not exceeding PLN 6,022,250, the surety is valid until the day of full repayment of the loan.

On April 21, 2020, the parent company granted an additional guarantee to its subsidiary DCG S.A. for the amount of 2,250,000.00 to the multi-purpose credit limit agreement of June 25, 2015, with subsequent as a result of an increase in the credit limit to PLN 13,000,000. The surety by the Company was granted up to a maximum amount not exceeding PLN 19,500,000.00, the surety is valid until July 16, 2023.

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 March 31, 2020, the balance in the nominal value amounts to US$ 2,058 thousand and after conversion at the transaction exchange rate of PLN 7,919 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 692 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.

External risk factors

Economic risk related to the macroeconomic situation

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

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

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

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

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

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

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

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

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

Risk associated with introduction of a trade ban on Sundays

In March 2018, regulations introducing a ban on Sunday trade came into force. The introduction of such a ban and its further extension may mean for the Group a significant decrease in revenues realized in stationary stores. Before the introduction of the trade ban on Sunday in 2017, Sunday was the fourth most important trading day of the week, and its percentage share in sales was 14% and ranged from 11-17% depending on the individual brands of the Group. Sales data after the gradual extension of the trade ban on Sunday in 2018-2019 indicate that consumer demand partly translates into Saturdays and Mondays and migrates to the Internet, however this effect is not neutral. There is a noticeable increase in sales in the e-commerce channel, as well as a decrease in profitability of traditional stores. The impact of this risk on the Group's financial results may increase in the face of the current regulations, which assume that in 2020 all Sundays, except for a few exceptions, will be non-commercial.

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

Risk related to increased competition

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

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

Foreign exchange risk and risk related to hedging policy

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

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

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

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

Interest rate risk

As at 31.03.2020, the Group held loan liabilities measured at amortized cost in the amount of PLN 130,095 ths. Therefore, the Group 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.

Actions: with relatively low debt, the Issuer now considers this risk as low. It constantly monitors the market situation, but currently does not take additional measures to hedge interest rate risk.

Risk related to effects related to the coronavirus epidemic

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

According to the current assessment, the Issuer anticipates that the effects associated with the coronavirus epidemic will have a significant negative impact on the Issuer's future financial results. In particular, the Issuer indicates that restrictions on the operation of shopping facilities introduced by the Minister of Health, with a sales area of over 2,000 m2, in which over 95% of Vistula, W.KRUK, Bytom, Wólczanka and Deni Cler stores have had a negative impact on the Group's financial result during the first quarter. In the Issuer's opinion, closing down of shopping malls related to the coronavirus epidemic will lower consolidated revenues in the first and second quarterly 2020. In addition, the Issuer expects that due to the worsening social sentiment related to the epidemic and the expected reduction in consumption also in the period after the opening of shopping centers, consumption demand will be lower year-on-year, which will translate into a decrease in the Issuer's revenues in subsequent periods.

The above assessment results from the Issuer's best knowledge as at the date of the report for the first quarter of 2020. The impact of coronovirus spread in epidemic conditions on financial results depends on a number of factors that are beyond the direct influence and control of the Issuer. However, any protracted restrictions on the operation of stores in shopping centers, including functioning under the sanitary regime, will undoubtedly translate into a decrease in revenues and deterioration of the financial position of the Group.

Actions: In this situation, the Group focuses its activities on intensifying sales in on-line stores of the abovementioned brands. The Group carries out activities to optimize the volume of orders for the second half of this year and to minimize the costs of its operations, in particular it has taken actions related to renegotiating rents for commercial space and reducing salary costs. In addition, talks are held with banks that finance the operations of the Company and its companies from the capital group.

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

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

Internal risk factors

Risk associated with adopting the wrong strategy

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

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

Risk of changing the tastes and behaviours of buyers

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

Over the recent years, as a result of development of new communication technologies, a change in the behaviour of the modern customer is noticeable, i.e. the use of the Internet and mobile devices in the process of purchasing clothes. Thanks to the use of Internet in the purchasing process, the consumer has access to a wide range of brands, often on a global scale. The consumer has the ability to quickly compare products offered in terms of quality and price. He/she pays attention to the delivery time as well as the manufacturing process and country of origin of the product. Knowledge about behaviour of today's consumers and the way of thinking about the purchase of clothing is an important factor affecting the success of apparel companies.

Actions: VRG S.A. Group is aware of the changes taking place and undertakes a number of activities aimed at meeting the requirements of today's customers of the clothing market. These activities include: developing an on-line sales channel, customizing the websites of on-line stores to the expectations of the customers, applying solutions dedicated to mobile devices, shortening the time of the delivery.

Risk related to lease agreements

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

Actions: constant monitoring of possessed and potential locations is carried out in order to achieve an optimal portfolio in line with the Group's expectations. At the same time, the Issuer undertook actions to renegotiate rents for currently rented commercial space, and as part of the implemented savings measures were taken to close unprofitable stores.

Risk related to inventory management

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

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

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

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

The Group purchases imported materials for production, especially high-quality fabrics and sewing accessories. The cost of the above materials is an important factor affecting the cost of manufacturing of individual products in the Group's offer. In addition, the Company purchases clothing accessories as well as jewellery and luxury watches. The Company, with regard to the required quality, actively seeks the optimal service providers and suppliers. There is a significant risk that with further increase in prices of raw materials or production costs of suppliers / service providers, with little room to alter prices, it will not be possible to maintain margins appropriate to a given type of assortment.

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

Risk of cost of external services

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

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

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

Risk of termination of bank loan agreement

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

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

In addition, the Company has a Multi-Product Agreement in PKO BP Bank for PLN 85 million and a Multi-Product Agreement with mBank for PLN 19 million and a factoring line (EUR 2.2 million and USD 0.3 million). Along with the merger with Bytom S.A., the Company took over Multi-product Agreements regarding current financing by ING Bank Śląski S.A. for the amount of PLN 40 million. These agreements contain covenants that the Company is required to implement. In the event of a downturn in the economy, weakening of the demand for the Company's products, covenants may be at risk of breach, which results in the risk of termination by the financing banks.

Actions: The Group minimizes the risk by timely fulfillment of its obligations to banks and monitoring compliance with covenants, at the same time in the current extraordinary situation related to the coronavirus epidemic and the objective, rapid deterioration of the Group's financial results, the Company has entered into negotiations with the main financing bank to adjust the level of covenants to the current situation of the Company and including this fact in the new short-term financing agreement, which is planned to be signed by July 5, 2020.

Risk of losing financial liquidity

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

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

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

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

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

Risk of collateral and loss of collateral assets

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

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

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

Risk of transactions with related parties

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

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

Risk related to the shareholder structure

The Company is characterised by a fragmented shareholding structure, where the largest shareholder does not exceed 20% of votes at the General Shareholder Meeting, and five significant shareholders hold a total of 59.61% of votes at the General Shareholder Meeting. Most of these shareholders have owned shares of the Parent Company for several years, they participate in shaping the Company's activities through representatives in the Supervisory Board.

However, one cannot rule out the risk that one or more of major shareholders will reduce their shareholding or will cease investing in the Company's shares. It cannot be excluded that decisions regarding the strategy and operational activities relevant to the Company will be delayed or even blocked. It cannot be ruled out that despite the current cooperation, the interests of significant shareholders will be divergent / contradictory. The factors listed above may have a material adverse effect on the Company's development prospects, results and financial position.

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

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

Risk related to guarantees granted to subsidiaries

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

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

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

The risk related to disruptions in the functioning of information systems

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

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

Risk related to the EU GDPR Directive

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

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

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

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

Risks related to cooperation with an external logistics operator

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

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

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

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

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

Risk related to the quality of customer service in individual stores

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

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

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

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

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

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

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

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

During the three months ended 31 March 2020, 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 1Q20:

24.01.2020

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

In Current Report No. 4/2020, the Company's Management Board, taking into account the fact that on January 24, 2020, it obtained a letter dated on January 24, 2020, together with attachments from Nationale-Nederlanden PTE S.A. acting on behalf of Nationale-Nederlanden Open Pension Fund with a request to convene the Extraordinary General Meeting of VRG S.A. with its registered office in Cracow as soon as possible - published an announcement on convening the Company's Extraordinary General Shareholder Meeting on February 20, 2020 at 12.00 at the Company's headquarters in Cracow at Pilotów 10 St., (31-462 Cracow) with the agenda including the point regarding changes in the Company's Supervisory Board and draft resolutions of the Extraordinary General Shareholder Meeting together with the justification provided by Nationale-Nederlanden PTE S.A. acting on behalf of Nationale-Nederlanden Open Pension Fund.

20.02.2020

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

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

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

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

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

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

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

16.03.2020

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

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

According to the knowledge available as at the date of publication of the report, the Issuer anticipates that the effects associated with the coronavirus epidemic will have a significant negative impact on the future financial results of the Issuer. In particular, the Issuer pointed out that restrictions on the operation of commercial facilities introduced by the Minister of Health in which Vistula, W.KRUK, Bytom, Wólczanka and Deni Cler stores pose a very high risk of adversely affecting the Company's financial result and of the Issuer's Capital Group during the first quarter and depending on the duration of restrictions related to the coronavirus epidemic, also for a further period. In the Issuer's opinion, closing down of shopping centers related to the coronavirus epidemic will reduce consolidated revenues of the first quarter of 2020, which should amount to about PLN 190 million, i.e. 11% less than in the previous year. In this situation, the Issuer's Capital Group focuses its activities on intensifying sales in online stores of the above-mentioned brands. Revenues from sales in the e-commerce channel in the first quarter of 2019 amounted to 15.5%, while the Issuer estimated in this report that in the period of the first quarter of 2020 they will amount to approximately 24% of total revenues from sales of the Issuer's Capital Group.

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

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

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

a) intensification of sales in on-line stores of the abovementioned brands. Revenues from sales in e-commerce in the first quarter of 2019 amounted to 15.5%, while the Issuer in the report No. 15/2020 estimated that in the period of the first quarter of 2020 they will amount to about 24% of total sales revenues of the Capital Group,

b) optimization of the volume of orders for the second half of this year and in terms of minimizing the costs of conducted operations,

c) interventions regarding payment of rents for shopping premises - renegotiation of rents for commercial space,

d) payments for goods according to modified purchase plans,

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

f) analysis of available limits of available funds,

g) strict cash management.

The above assessment of the Company results from the best knowledge of the Company as at the date of these financial statements. At present, it is not possible to accurately estimate the impact of the Company and Capital Group sales restriction due to the temporary closing down of traditional stores located in shopping malls in the long-term. The impact of coronavirus spread in epidemic conditions on the financial results of the Company and the Capital Group depends on a number of factors that are beyond the direct influence and control of the Company.
Assuming that the period of the epidemic will be longer or in a situation where negative effects will take place after the end of the epidemic, further solutions have been prepared to reduce the liquidity risk.
According to the Management Board, the current situation is sufficiently monitored and controlled. Considering the actions taken, the Company's Management Board is convinced of the positive results of the above-described actions.
The Management Board will regularly analyze the situation of the Company and its Capital Group in relation to the spread of corovirus and possible impact on current operating activities and the results of the Company and the Capital Group. New circumstances and events, which in the opinion of the Management Board of the Company will have a particularly significant impact on the generated financial results and the current operating situation of the Company and the Capital Group, will be publicly disclosed in current reports in the manner provided for by applicable regulations regarding the implementation of information obligations of public companies.
Additional explanatory information on the risks related to the effects of the coronavirus outbreak is provided in section 11 Significant risk factors.

25.03.2020

Notification regarding a significant block of shares

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

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

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

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

30.03.2020

Closing of planned acquisition projects on foreign markets

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

14. Significant events after the balance sheet date:

After the balance sheet date until the date of submitting the report on the WSE, there were no significant events about which the Parent Company would inform in current reports.

580 stores all over Poland

MANAGEMENT COMMENTARY TO FINANCIAL INFORMATION

PRESENTED IN INTERIM CONDENSED CONSOLIDATED FINANCIAL STATMENTS FOR 1Q20

1. 1Q20 financial results

Consolidated financial results of VRG Capital Group for the first quarter of 2020 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.

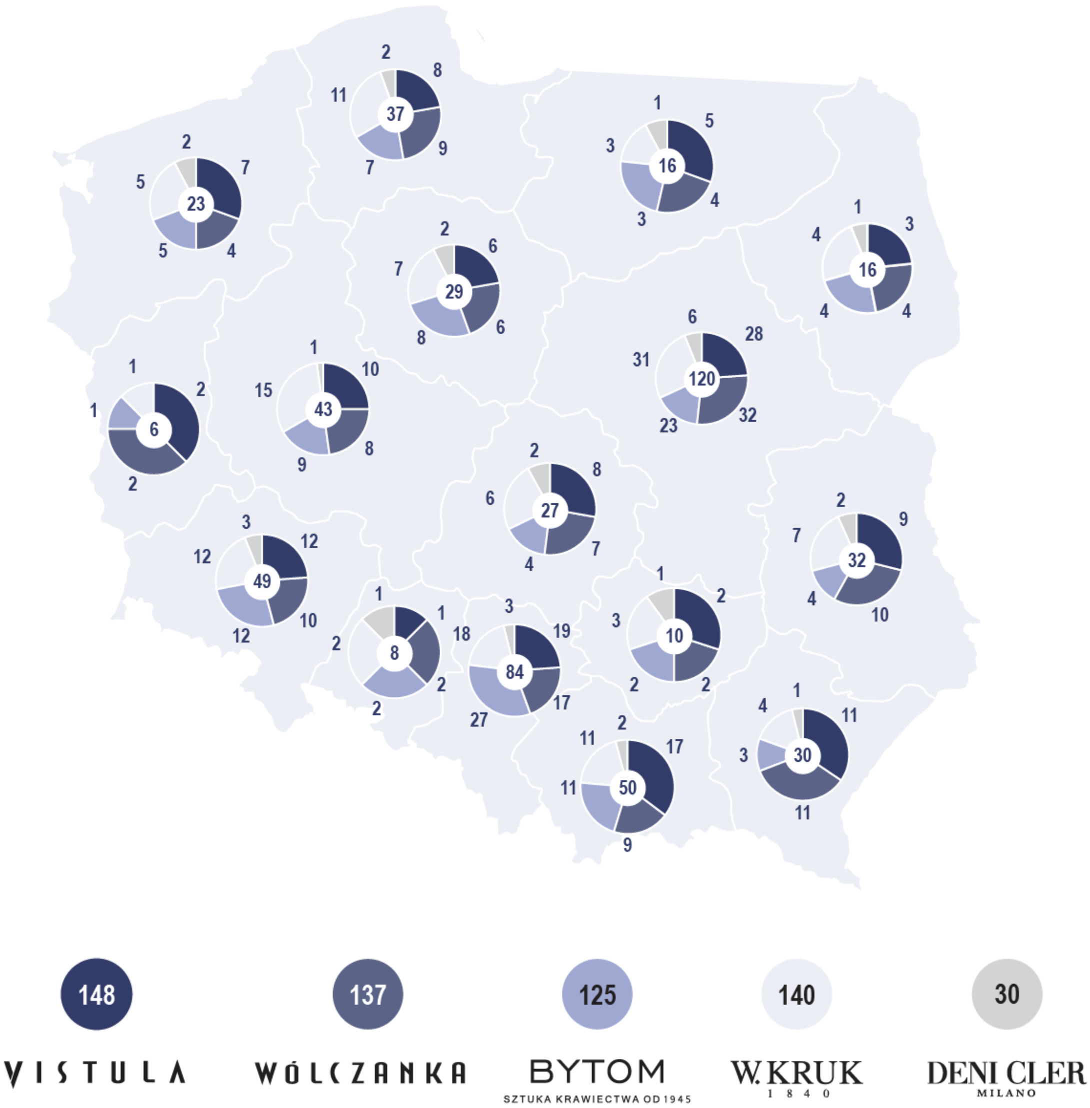
At the end of 1Q20, as compared to the corresponding period in 2019, the group's retail floorspace increased to 53.7 ths m2 i.e. 2% YoY. Floorspace of the apparel segment increased by 1%, while in the jewellery segment floorspace increased by some 7%.

Retail floorspace (end of period):

	ths m2	
	31.03.2020	31.03.2019
Apparel segment	43.0	42.4
Jewellery segment	10.7	10.0
Total floorspace	**53.7**	**52.4**

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 1Q20, the Capital Group retail network encompasses 580 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 1Q20 by individual brands.



Selected financial data of VRG Group

Financial data	PLN ths			
	1Q20	1Q19	1Q20 excl. IFRS16	1Q19 excl. IFRS16
Revenues	197,469	214,425	197,469	214,425
EBITDA	17,399	24,786	- 6,175	4,403
EBIT	- 11,914	- 1,241	- 12,174	- 1,070
Net profit	**- 31,955**	**- 2,408**	**- 14,001**	**- 1,205**

Revenues

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

The decisive impact on the financial results of the Group in the first quarter of 2020 was the issued on March 13, 2020 by the Minister of Health announcement of the state of epidemic threat in the Republic of Poland imposing restrictions on the operation of commercial facilities, with a sales area above 2,000 m2 . This regulation meant that since March 14, 2020, nearly 100% of the Group's stores did not operate. In connection with the introduced regulations, for the first quarter of 2020, the Group took into account the cost of rents for shopping centers, i.e. until March 13, 2020. Due to the provisions of the Act and the current situation and ongoing negotiations with landlords, the Management Board expects the final settlement of rent issues for the periods covered by the ban on running operations until the end of the third quarter of 2020.

In 1Q20, revenues of the Capital Group amounted to PLN 197.5 million and were PLN 17.0 million (8%) lower than revenues in the same period of the previous year. The Group recorded a 2% growth in the jewellery segment revenues while a 13% fall in apparel segment.

APPAREL SEGMENT

Apparel segment	PLN ths			
	1Q20	1Q19	1Q20 excl. IFRS16	1Q19 excl. IFRS16
Revenues	**123,296**	**141,579**	**123,296**	**141,579**
Cost of sales	66,484	74,098	66,484	74,098
Gross profit on sales	56,812	67,481	56,812	67,481
Other operating income	174	177	157	177
Gain on sale of non-financial non-current assets	-	24	-	24
Selling costs	55,075	59,343	55,276	59,222
Administrative expenses	13,889	13,296	13,903	13,313

Apparel segment	PLN ths			
	1Q20	1Q19	1Q20 excl. IFRS16	1Q19 excl. IFRS16
Other operating costs	605	201	605	201
Loss on sale of non-financial non-current assets	29	-	29	0
Profit (loss) from operations	**- 12,612**	**- 5,158**	**- 12,844**	**- 5,055**
Financial income / costs	- 13,798	- 1,302	- 2,735	- 642
Pre-tax profit (loss)	- 26,410	- 6,460	- 15,579	- 5,697
Income tax	- 2,868	- 2,122	- 2,868	- 2,122
Net profit (loss) for the period	**- 23,542**	**- 4,338**	**- 12,711**	**- 3,575**

Retail sales

Revenues from the apparel segment sales amounted to PLN 123.3 million in 1Q20 and were PLN 18.3 million (i.e. 13%) lower than revenues in 1Q19.

Apparel segment	PLN m	
	1Q20	1Q19
Revenues	**123.3**	**141.6**
Retail sales	116.9	132.2
Processing	5.0	5.2
B2B	1.4	4.2

In 1Q20, the Group recorded the following results in the following retail channels:

VISTULA	WÓLCZANKA	BYTOM	DENI CLER MILANO
PLN 10m fall (- 17%)	PLN 0.2m (- 1%)	PLN 4.5m (- 12%)	PLN 0.6m (- 6%)

Due to a lower number of trading days resulting from the introduction of the epidemiological status in the country from March 14, 2020, in the first quarter of 2020 there was a decrease in off-line sales (-24%) and an increase in online sales (34%) to 32% share in the apparel segment sales compared to the same period last year.

Apparel segment	PLN m	
	1Q20	1Q19
Retail sales	**116.9**	**132.2**
off-line	79.4	104.3
on-line	37.5	27.9

Gross profit on sales margin

Gross profit on sales in 1Q20 reached PLN 56.8m and was 15.8% YoY lower than in comparable period. Gross profit on sales margin fell 1.6 pp. compared to 1Q19 and reached 46.1%. The decrease in the gross margin resulted from the increase in the share of on-line channel (characterized by a lower level of gross margin on sales) in retail sales, closing down of traditional stores which limited the possibilities of selling the new collection (the period January - February is the sell-off period and March is the month, in which the new collection is sold at high margins) and the fact that the Group's activities in the field of processing services (with a lower level of gross margin) were not significantly affected by the coronavirus impact. Due to the trends in retail sales described above, the share of processing services increased to 4.1% of the segment's revenues.

VISTULA 0.2 pp. margin growth	WÓLCZANKA 2.9 pp. margin fall	BYTOM 3.3 pp. margin fall	DENI CLER MILANO 2.5 pp. margin fall

Selling costs

Selling costs amounted to PLN 58.1 million in 1Q20 and were PLN 4.3 million lower (down 7%) than costs in the comparable period. The share of selling costs in revenues in 1Q20 was 44.7% compared to 41.9% in 1Q19. Growth in selling costs as percentage of revenues is related to shopping malls being closed since March 14, 2020 while maintaining stable YoY selling costs.

Administrative expenses

General administrative expenses amounted to PLN 13.9 million in 1Q20 versus PLN 13.3 million in 1Q19 (+4.5%). At the same time, the share of general administrative expenses in revenues increased to 11.3% versus 9.4% in 1Q19. The increase results from lower off-line revenues.

Operating result in the apparel segment

In 1Q20, the apparel segment recorded an operating loss of PLN 12.6 million, which means that the result of this segment was lower by PLN 7.5 million than the operating result in 1Q19. Fall in sales/ m2 (17 trading days fewer YoY) with stable selling costs/ m2 resulted in lower profitability of own network. Despite on-line sales growth, operating result in the apparel segment was sizeably lower compared to 1Q19.

Financial income and costs

In 1Q19, the net financial result in the apparel segment amounted to PLN -13.8 million in comparison to PLN -1.3 million in 1Q19. IFRS16 in 1Q20 had a more unfavourable impact on the net financial line (-PLN 11m) compared to 1Q19 (-PLN0.7 m) due to higher EURO/PLN as at the end of March 31, 2020.

Apparel segment	PLN ths	
	1Q20	1Q19
net financial costs	41	- 316
FX differences net (excl. IFRS 16)	- 2,777	- 326
IFRS 16 impact	- 11,062	- 660
- incl. FX losses	- 10,501	- 71
- incl. interest	- 561	- 589
Financial income/ costs	**- 13,798**	**- 1,302**

Net profit in the apparel segment

In the apparel segment, VRG Group achieved a net loss of PLN 23.5 million in 1Q19 compared to PLN 4.3 million loss in 1Q19. Lower net result is a consequence of fall in sales/ m2 in the apparel segment (17 trading days fewer YoY) and application of IFRS16, which negatively affected the bottom-line by PLN 11.1 million compared to a PLN 0.6 million loss in 1Q19.

JEWELLERY SEGMENT

Jewellery segment	PLN ths			
	1Q20	1Q19	1Q20 excl. IFRS16	1Q19 excl. IFRS16
Revenues	**74,173**	**72,846**	**74,173**	**72,846**
Cost of sales	37,021	35,309	37,021	35,309
Gross profit on sales	37,152	37,537	37,152	37,537
Other operating income	403	111	390	111
Gain on sale of non-financial non-current assets	-	-	-	-
Selling costs	28,503	26,585	28,634	26,521
Administrative expenses	8,082	6,929	7,966	6,925
Other operating costs	270	217	270	217
Loss on sale of non-financial non-current assets	2	-	2	-
Profit (loss) from operations	**698**	**3,917**	**670**	**3,985**
Financial income / costs	- 9,385	- 1,426	- 2,234	- 1,055
Pre-tax profit (loss)	- 8,687	2,491	- 1,564	2,930
Income tax	- 274	561	- 274	561
Net profit (loss) for the period	**- 8,413**	**1,930**	**- 1,290**	**2,369**

Revenues

Despite introduction of a ban to trade in shopping malls since March 14, 2020 due to epidemiologic state for the whole country, the jewellery segment recorded a 2% positive revenue dynamics. Revenues of the jewellery segment in VRG Capital Group amounted to PLN 74.2 million in 1Q20 compared to PLN 72.8 million in 1Q19.
The increase in revenues of the jewellery segment was achieved due to higher floorspace and improvements in store inventory management, which favourably affected sales/ m2 and on-line sales.

Jewellery segment	PLN m	
	1Q20	1Q19
Revenues	**74.2**	**72.8**
B2B	1.0	0.8
Retail revenues	73.2	72.0
off-line	65.3	66.6
on-line	7.9	5.4

Gross profit on sales margin

Gross profit on sales of the jewellery segment amounted to PLN 37.2 million in 1Q20 and was PLN 0.3 million (-1%) lower than the one generated in the corresponding period of the previous year. Gross profit margin fell 1.4 pp. and reached 50.1% in 1Q20 versus 51.1% in 1Q19. Fall in gross profit margin results from higher share of on-line sales characterised by lower gross profit margin.

Selling costs

Selling expenses in the first quarter of 2020 amounted to PLN 28.5 million compared to PLN 26.6 million in the same period of the previous year, which means an increase in sales costs by PLN 1.9 million. The highest increase in selling costs was recorded in marketing expenses (+1.6 million PLN) and e-commerce expenses (+1 million PLN). In the jewellery segment, the share of selling costs in total sales increased from 36.5% in the first quarter of 2019 to 38.4% in the first quarter of 2020. The ratio increased due to lower than expected off-line sales in the first quarter of 2020.

Administrative expenses

In the first quarter of 2020, general and administrative expenses amounted to PLN 8.1 million and were higher by PLN 1.2 million (+ 17%) compared to the first quarter of 2019. Increase in general and administrative expenses related to the increase in the business scale of the jewellery segment. The share of general and administrative expenses in sales was 10.9% and was higher by 1.4 pp compared to the first quarter of 2019.

Operating profit in the jewellery segment

VRG Group within the jewellery segment achieved an operating profit of PLN 0.7m in 1Q20 compared to PLN 3.9m profit in 1Q19. Lower operating profit was a consequence of higher selling costs and administrative costs fitted to a larger scale of the jewellery business.

Financial income and costs

The net financial activity in the jewellery segment amounted to PLN -9.4 million in 1Q20. Application of IFRS16 unfavourably affected the line in 1Q20 (-PLN 7.2m) compared to 1Q19 (-PLN 0.4 million).

Jewellery segment	PLN ths	
	1Q20	1Q19
net financial costs	- 676	- 840
FX differences net (excl. IFRS 16)	- 1,558	- 215
IFRS 16 impact	- 7,151	- 371
- incl. FX losses	- 6,777	- 39
- incl. interest	- 374	- 332
Financial income/ costs	**- 9,385**	**- 1,426**

Net loss in the jewellery segment

Net loss of the jewellery segment amounted to PLN 8.4 million in 1Q20 compared to PLN 1.9 million in 1Q19. Application of IFRS16 unfavourably affected the bottom-line in 2019 by PLN 7.2 million.

Structure and characteristics of statement of financial position

CONSOLIDATED BALANCE SHEET	31.03.2020		31.03.2019	
	value (PLN ths)	share (%)	value (PLN ths)	share (%)
Non-current assets, including:	**848,483**	**59.2%**	**879,810**	**61.8%**
Intangible assets	499,565	34.8%	507,084	35.6%
Fixed assets	71,815	5.0%	79,003	5.5%
Right of use assets IFRS16	264,571	18.4%	284,921	20.0%
Current assets, including:	**585,826**	**40.8%**	**544,879**	**38.2%**
Inventory	547,054	38.1%	488,904	34.3%
Receivables	26,758	1.9%	32,159	2.3%
Cash	7,271	0.5%	20,555	1.4%
Total assets	**1,434,309**		**1,424,689**	
Equity attributable to dominating entity, including:	831,331	58.0%	802,902	56.4%
Share capital	49,122	3.4%	49,122	3.4%
Net profit (loss) for the current period	-31,955	-3.8%	-2,408	-0.2%
Long-term liabilities and provisions	**251,652**	**17.5%**	**282,149**	**19.8%**
Long-term loans and borrowings	55,745	3.9%	70,523	5.0%
Financial leases	194,451	13.6%	210,533	14.8%
'- including IFRS16	*192,314*	*13.4%*	*207,289*	*14.5%*
Short-term liabilities and provisions, including:	**351,326**	**24.5%**	**339,638**	**23.8%**
Trade liabilities	173,304	12.1%	159,239	11.2%
Short-term loans and borrowings	74,350	5.2%	91,708	6.4%
Financial leases	93,992	6.6%	80,275	5.6%
'- including IFRS16	*92,142*	*6.4%*	*78,835*	*5.5%*
Total equity and liabilities	**1,434,309**		**1,424,689**	

Assets

The level of assets as at March 31, 2020 is at a level similar to March 31, 2019.

Fall in fixed assets by PLN 7.2 million

Change in fixed assets was primarily the effect of depreciation in 1Q20 and lack of material investments (new store openings) in the reporting period.

Right of use assets IFRS16

The change in this item is the result of calculating depreciation on the right to use recognized as at January 1, 2019, partly netted by increasing this right in connection with the signing or extension of the lease contracts.

Inventory

The value of inventories as at March 31, 2020 amounted to PLN 547.1 million, which means an increase compared to March 31, 2019 by 12%. In the apparel segment, the inventories increased by + 11% YoY, while in the jewellery segment by + 13%. The increase in the value of inventories is a result of higher YoY floorspace and closing down of traditional stores related to the epidemiological situation, which had a negative impact on sales, and thus on inventory.

The Group's inventories in terms of m2 amounted to PLN 10,188, up 9% YoY:

INVENTORY / m2	1Q20	1Q19	r/r
VRG	10,188	9,327	9%
Apparel segment	7,245	6,592	10%
Jewellery segment	21,971	20,939	5%

Receivables

The decrease in receivables is the result of lower prepayments for goods purchased on Asian markets due to a change in the method of financing them (conversion of prepayments to letters of credit with extended payment dates or payments by means of reverse factoring).

Equity and liabilities

Equity

In the first quarter of 2020, changes in equity result from the loss recorded in the reporting period.

Long-term and short-term debt

The debt under long-term loans as at March 31, 2020 amounted to PLN 55.7 million compared to PLN 70.5 million at the end of March 2019, which means a decrease of PLN 14.8 million. The VRG Group companies have signed annexes postponing the repayment dates of long-term loan installments due at the end of March and June 2020 at the end of the loan period. The value of lease liabilities has not changed significantly, which is related to the measurement of IFRS 16 liabilities (these liabilities are in EUR and due to the high EUR / PLN exchange rate at the end of March 2020, their value increased significantly). Total liabilities on this account amount to PLN 284.5 million, of which PLN 192.3 million is a long-term part, and PLN 92.1 million is a short-term part.

The table below presents the evolution of financial liabilities as at March 31, 2020 and March 31, 2019 and net debt. In addition, net debt data was also presented without the impact of IFRS 16, which significantly changes its value.

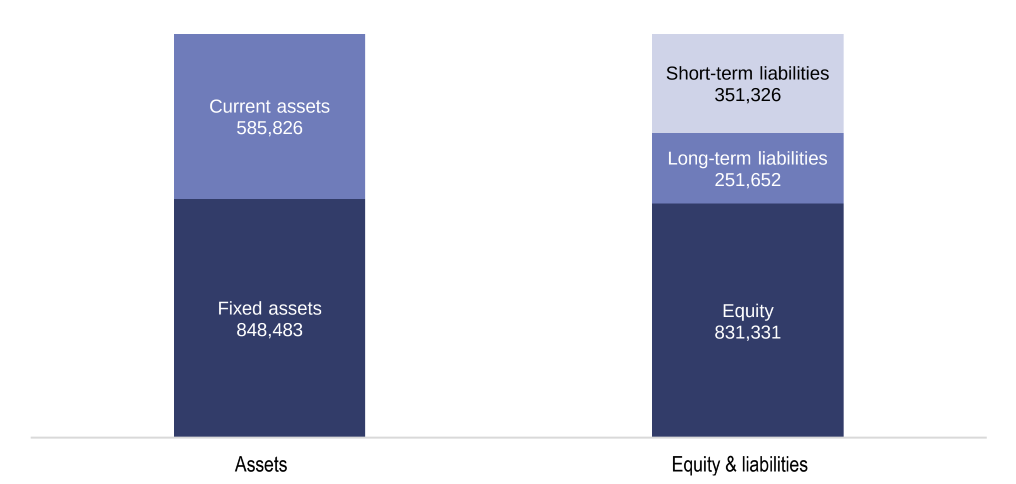
Net debt with IFRS16	31.03.2020	31.03.2019
Long-term debt	250,196	281,056
Long-term loans and borrowings	55,745	70,523
Finance lease liabilities	194,451	210,533
- including IFRS16	*192,314*	*207,289*
Short-term debt	184,002	188,618
Loans and borrowings	60,313	80,454
Short-term part of long-term loans	14,037	11,254
Reverse factoring	15,660	16,635
Finance lease liabilities	93,992	80,275

- including IFRS16	*92,142*	*78,835*
Cash	- 7,271	- 20,555
Net debt	**426,927**	**449,119**

Net debt excl. IFRS16	31.03.2020	31.03.2019
Long-term debt	57,882	73,767
Long-term loans and borrowings	55,745	70,523
Finance lease liabilities	2,137	3,244
- including IFRS16	*0*	*0*
Short-term debt	91,860	109,783
Loans and borrowings	60,313	80,454
Short-term part of long-term loans	14,037	11,254
Reverse factoring	15,660	16,635
Finance lease liabilities	1,850	1,440
- including IFRS16	*0*	*0*
Cash	- 7,271	- 20,555
Net debt	**142,471**	**162,995**

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

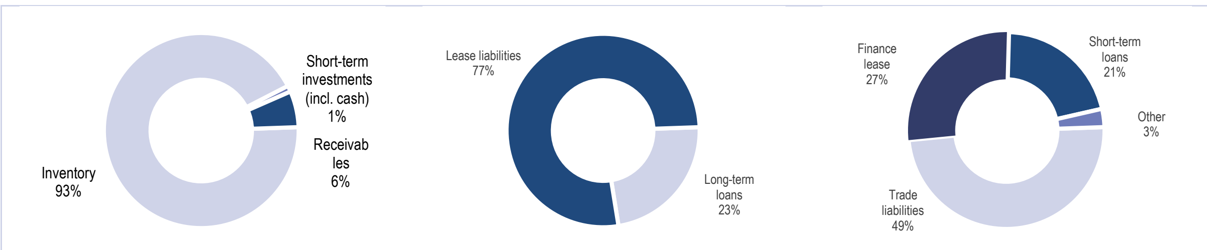
Statement of financial position analysis as of the end of 1Q20



Current assets

Long-term liabilities

Short-term liabilities



2. Planned development activities

As indicated in the Company's annual report for 2019 published on March 31, 2020, the development prospects of the VRG Capital Group in 2020 will be determined by the extraordinary circumstances related to the outbreak of the coronavirus pandemic, which has a negative impact on the functioning of all areas of social life and the economy. Actions taken by the state authorities to limit the spread of this disease and minimize its impact on public health of citizens, however, directly affect the operating conditions of the VRG Capital Group this year and the real possibilities of improving its financial results compared to 2019. Introduced in the administrative mode on March 14 stringent restrictions on the operation of shopping mall, in force until May 4 of this year, overnight deprived retail companies of the VRG Capital Group of the ability to generate revenues in traditional stores. Negative impact of the COVID-19 pandemic on the Polish economy causing, among others:
a) a sharp decline in the revenues of enterprises, in particular in sectors affected by the operating ban due to restrictive sanitary requirements;
b) a fall in consumer and business sentiment, especially on the demand side;
c) threat of payment gridlocks and loss of liquidity due to a lack of operating cash flows,
d) risk of breaking supply chains
forced us to significantly revise our development plans. At present, we are still facing the need to ensure continuity of operations of the VRG Capital Group and to maintain the presence of its brands on the market.

The VRG Capital Group is currently in a safe liquidity situation, but despite this, facing uncertainty regarding revival of consumer demand and sales levels to those in the period preceding the outbreak of the pandemic, it conducts a number of actions aimed at preventing significant deterioration of its liquidity situation. The management boards of key retail companies from the Capital Group have undertaken efforts at the banks financing the VRG Capital Group to adjust the repayment dates of long-term and working capital financing installments, as well as to provide additional limits. These have been successful.

As part of day-to-day liquidity management, the Group companies obtained from banks financing additional short-term credit lines in the period from the closing of store premises to the date of publication of this report in the amount of approximately PLN 32.5 million and obtained extension of maturity dates for maturing working capital loans and long-term loans in the amount of about PLN 12 million.

At the same time, the VRG Capital Group continues to develop sales in on-line stores, which in the period of complete closing of shopping centers constituted the basic source of revenue. The share of on-line channel in sales of the Capital Group in 2019 represented about 14%. For the current year, the goal is to increase its share in total sales to 25%. Due to the temporary reduction in traditional trade, the Capital Group companies reduced their orders for the Spring/Summer 2020 season and the second half of this year and implemented measures to reduce particularly significant cost items of their operations. This applies in particular to renegotiating rental of commercial space, reducing investments in the development of a fixed sales network, restructuring employment costs, as well as halving marketing expenditure on promotion and advertising (except for on-line advertising).

The Capital Group expects lower revenues this year compared to the previous year and is taking active steps to ensure that the expected reduction is as low as possible. In the base case scenario, we assume that reduced sales dynamics after opening stationary stores may last until the end of August, which may translate into a loss of about 20% of annual revenues. Data for the first 18 days of May show a decrease in retail sales of around 40% compared to the same period of the previous year (13 trading days in 2020 and 14 in 2019).

In connection with the anticipated promotional activities resulting from the intensification of on-line sales and its growing share in the total revenues, we do not assume an improvement in the gross percentage margin. The use of synergy mechanisms resulting from the merger with Bytom SA, further growth of Asian sourcing, acquisition of new production markets for the formal offer, joint supplier policies will have a positive impact on the financial results, which will translate into more favorable purchase prices than the Spring/Summer collection on 2021.

In 2020, VRG Capital Group, as part of its savings measures, envisages reducing the net retail space compared to the end of 2019 by about 5%. The capital expenditures planned for the current year in the amount of PLN 15 million will be largely allocated to the modernization of existing stores in major shopping centers as well as the development of IT infrastructure and systems.

The Management Board's goal will be to maintain positive EBITDA in 2020 (under IAS17), which should be achieved by maximizing sales activities and a series of actions reducing fixed costs, as well as obtaining state support. Cost activities are primarily focused on fixed costs in stores: employee and rent. In terms of employee costs, in addition to the maximum use of overdue and ongoing holidays, sales bonuses and bonuses at the headquarters are limited, and the order contracts are also canceled. On the basis of the Anti-Crisis Shield Act, Group companies benefited from the regulations provided for in this Act. The working time for all employees of companies meeting the criteria was limited to 4/5 of the time, and then they applied for co-financing of remuneration from the Guaranteed Employee Benefits Fund for the months of April, May and June 2020. As at the date of publication of the report, the relevant applications were approved by the Fund and the Group companies received the first tranche of financing. In the interests of employees' health, remote work is used to the greatest possible extent, which is also continued after May 4, i.e. the date on which some trade restrictions are lifted. Expected savings in this regard during the second quarter of 2020 are approximately PLN 11 million. We have also taken measures to reduce rental rates not only for the shopping malls' closure period, but also for the weaker traffic expected by the shopping centers when we launch them.

One of the main goals for 2020, which is closely related to the current activities related to securing the Group's financial liquidity, will be the improvement of working capital utilization, which we intend to achieve through a decrease in the level of inventories YoY, change in the structure of financing purchases. Cooperation with suppliers offering longer payment terms was expanded, while the orders for the Spring/Summer and Autumn/Winter collections themselves were significantly reduced (Autumn/Winter 2020 by about 30% compared to the value of orders from 2019). Successful implementation of the above-mentioned activities will allow the level of net debt in the Capital Group to be maintained at a similar level to 2019. The board of VRG S.A. maintains that continuation of activities related to the strategy of building the House of Brands and a definite acceleration of development through acquisition activities regarding strong and recognizable apparel and jewellery brands will be possible only after the coronavirus pandemic has ceased and the market situation has stabilized.

3. Financial forecasts

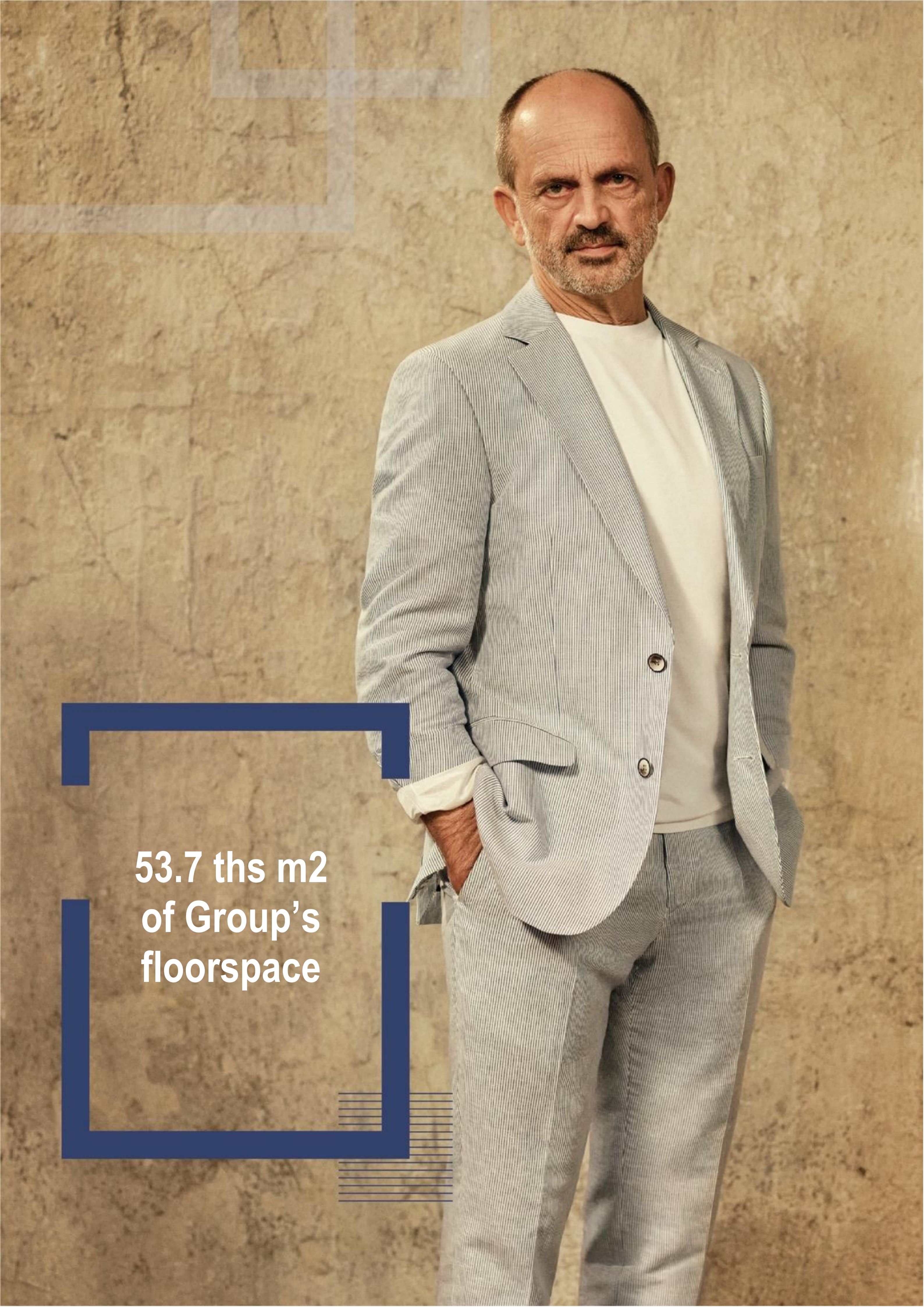
VRG S.A. has not made public any financial forecasts for 2020.

4. Statement of the Management Board

The Management Board declares that, to the best of its knowledge, the financial statements and comparable data have been prepared in accordance with the applicable accounting principles and that they reflect in a true, reliable and clear manner the financial position 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, 2020


53.7 ths m2
of Group's
floorspace

CONDENSED INTERIM SEPARATE

FINANCIAL STATEMENTS

FOR 3 MONTHS ENDED MARCH 31, 2020

SELECTED FINANCIAL DATA TO CONDENSED INTERIM SEPARATE FINANCIAL STATEMENTS

	PLN ths		EUR ths	
	1Q20 January 1, 2020 to March 31, 2020	1Q19 January 1, 2019 to March 31, 2019	1Q20 January 1, 2020 to March 31, 2020	1Q19 January 1, 2019 to March 31, 2019
Revenues	111,021	129,629	25,253	30,161
Profit (loss) from operations	- 11,484	- 5,124	- 2,612	- 1,192
Pre-tax profit (loss)	- 24,313	- 6,554	- 5,530	- 1,525
Net profit (loss)	- 21,605	- 4,480	- 4,914	- 1,042
Net cash flows from operating activities	- 16,958	- 33,620	- 3,857	- 7,823
Net cash flows from investing activities	- 1,481	- 2,477	- 337	- 576
Net cash flows from financing activities	4,233	24,053	963	5,597
Total net cash flows	- 14,206	- 12,044	- 3,231	- 2,802
	31.03.2020	**31.12.2019**	**31.03.2020**	**31.12.2019**
Total assets	1,031,483	1,035,211	226,585	243,093
Liabilities and provisions	307,455	289,578	67,538	68,000
Long-term liabilities	124,101	121,123	27,261	28,443
Short-term liabilities	176,553	160,343	38,783	37,652
Total equity	724,028	745,633	159,047	175,093
Share capital	49,122	49,122	10,791	11,535
Shares outstanding	234,455,840	234,455,840	234,455,840	234,455,840
Diluted number of shares	241,505,840	241,505,840	241,505,840	241,505,840
Earnings (loss) per ordinary share (in PLN/EUR)	- 0.09	- 0.02	- 0.02	0.00
Diluted earnings (loss) per share (in PLN/EUR)	- 0.09	- 0.02	- 0.02	0.00
Book value per share (in PLN/EUR)	3.09	3.18	0.68	0.75
Diluted book value per share (in PLN/EUR)	3.00	3.09	0.66	0.73
Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

CONDENSED INTERIM SEPARATE

STATEMENT OF FINANCIAL POSITION

AS OF MARCH 31, 2020

	PLN ths			
	1Q20 March 31, 2020	4Q19 December 31, 2019	1Q19 March 31, 2019	4Q18 December 31, 2018
Non-current assets	**708,740**	**711,963**	**805,288**	**637,925**
Goodwill	120,855	120,855	142,140	142,140
Other intangibles	114,934	115,000	98,209	98,567
Fixed assets	34,625	35,969	37,386	38,039
Investment property	874	874	7,001	7,170
Assets held for sale	-	-	-	-
Right of use assets	145,704	150,180	166,517	-
Long-term receivables	276	322	224	272
Long-term loans granted	343	343	20	20
Shares and stakes	283,834	283,834	349,222	349,222
Other long-term investments	4	4	4	4
Deferred tax assets	7,291	4,582	4,565	2,491
Other non-current assets	-	-	-	-
Current assets	**322,743**	**323,248**	**304,831**	**292,394**
Inventory	292,805	286,515	260 530	247 112
Trade and other receivables	22,144	15,942	30 422	20 200
of which corporate income tax assets	-	-	*126*	-
Short-term loans granted	-	-	-	-
Short-term part of long-term loans	15	15	15	15
Cash and equivalents	5,643	19,849	12 395	24 439
Other short-term assets	692	-	209	8
Other current assets	1,444	927	1 260	620
Total assets	**1,031,483**	**1,035,211**	**1,110,119**	**930,319**
Equity	**724,028**	**745,633**	**709,880**	**714,214**
Share capital	49,122	49,122	49,122	49,122
Capital reserves	648,066	648,066	625,374	625,374
Other reserves	17,390	17,390	17,172	17,026
Retained earnings	31,055	-	22,692	-
Net profit (loss) for the current period	- 21,605	31,055	- 4,480	22,692
Total equity	**724,028**	**745,633**	**709,880**	**714,214**

	PLN ths			
	1Q20 March 31, 2020	4Q19 December 31, 2019	1Q19 March 31, 2019	4Q18 December 31, 2018
Long-term liabilities	**124,101**	**121,123**	**209,490**	**92,921**
Liabilities due to purchase of fixed assets	-	-	-	-
Lease liabilities	102,296	99,318	182,046	65,476
incl. IFRS16	*101,352*	*98,190*	*116,993*	
Loans and borrowings	21,805	21,805	27,444	27,445
Deferred tax liabilities	-	-	-	-
Long-term provisions	608	608	483	483
Total long-term liabilities and provisions	**124,709**	**121,731**	**209,973**	**93 404**
Short-term liabilities	**176,553**	**160,343**	**184,015**	**114,326**
Lease liabilities	56,519	54,181	52,149	1,981
incl. IFRS16	*55,398*	*53,014*	*50,249*	-
Trade and other liabilities	94,638	100,787	89,762	107,896
of which corporate income tax liabilities	*4,594*	*5,257*	-	*967*
Loans and borrowings	20,021	-	38,166	511
Short-term part of long-term loans and borrowings	5,375	5,375	3,938	3,938
Short-term provisions	6,193	7,504	6,251	8,375
Total short-term liabilities and provisions	**182,746**	**167,847**	**190,266**	**122,701**
Total liabilities and provisions	**307,455**	**289,578**	**400,239**	**216,105**
Total equity and liabilities	**1,031,483**	**1,035,211**	**1,110,119**	**930,319**
Book value of equity	724,028	745,633	709,880	714,214
Shares outstanding	234,455,840	234,455,840	234,455,840	234,455,840
Book value per share	3.09	3.18	3.03	3.05
Diluted number of shares	241,505,840	241,505,840	241,505,840	241,505,840
Diluted book value per share	3.00	3.09	2.94	2.96

CONDENSED INTERIM SEPARATE OFF-BALANCE SHEET ITEMS AS OF MARCH 31, 2020

	PLN ths			
	1Q20 March 31, 2020	4Q19 December 31, 2019	1Q19 March 31, 2019	4Q18 December 31, 2018
bank guarantees issued for store rental expenses	27,192	25,351	26,083	24,163
open letters of credit	23,155	36,997	23,066	30,803
bills of exchange securing lease liabilities	-	-	-	-
Total off-balance sheet items	**50,347**	**62,348**	**43,510**	**54,966**

CONDENSED INTERIM SEPARATE

STATEMENT OF PROFIT OR LOSS

FOR 3 MONTHS ENDED 31 MARCH, 2020

	PLN ths	
	1Q20 January 1, 2020 to March 31, 2020	1Q19 January 1, 2019 to March 31, 2019
Revenues	**111,021**	**129,629**
Cost of sales	58,800	67,171
Gross profit on sales	52,221	62,458
Other operating income	123	159
Gain on sale of non-financial non-current assets	-	54
Selling costs	50,163	54,521
Administrative expenses	13,289	13,112
Other operating costs	346	162
Loss on sale of non-financial non-current assets	30	-
Profit (loss) from operations	- 11,484	- 5,124
Financial income	810	272
incl: financial income from IFRS16	-	-
Financial costs	13,639	1,702
incl: financial costs from IFRS16	*10,235*	*604*
Pre-tax profit (loss)	- 24,313	- 6,554
Income tax	- 2,708	- 2,074
Net profit (loss) for the period from continuing operations	**- 21,605**	**- 4,480**
Weighted average number of ordinary shares	234,455,840	234,455,840
Diluted weighted average number of ordinary shares	241,505,840	241,505,840
- basic	- 0.09	- 0.02
- diluted	- 0.09	- 0.02

CONDENSED INTERIM SEPARATE

STATEMENT OF COMPREHENSIVE INCOME

FOR 3 MONTHS ENDED 31 MARCH, 2020

	PLN ths	
	1Q20 January 1, 2020 to March 31, 2020	1Q19 January 1, 2019 to March 31, 2019
Net profit for the period	**- 21,605**	**- 4,480**
Other comprehensive income, including:	-	-
Revaluation of financial assets available for sale	-	-
Income tax related to other comprehensive income	-	-
Total comprehensive income	**- 21,605**	**- 4,480**

CONDENSED INTERIM SEPARATE

STATEMENT OF CHANGES IN EQUITY

FOR 3 MONTHS ENDED MARCH 31, 2020

	PLN ths				
	Share capital	Capital reserves	Other reserves	Retained earnings	Total equity
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**
2019 period from January 1, 2019 to December 31, 2019					
As at 01.01.2019	**49,122**	**625,374**	**17,026**	**22,692**	**714,214**
Distribution of net profit		22,692		- 22,692	-
Net profit (loss) for the period				31,055	31,055
Stock-option program valuation			364		364
Share issuance					
Balance as at 31.12.2019	**49,122**	**648,066**	**17,390**	**31,055**	**745,633**
1Q20 period from January 1, 2020 to March 31, 2020					
As at 01.01.2020	**49,122**	**648,066**	**17,390**	**31,055**	**745,633**
Distribution of net profit					
Net profit (loss) for the period				- 21,605	- 21,605
Stock-option program valuation					
Share issuance					
Balance as at 31.03.2020	**49,122**	**648,066**	**17,390**	**9,450**	**724,028**

CONDENSED INTERIM SEPARATE

STATMENT OF CASH FLOWS

FOR 3 MONTHS ENDED MARCH 31, 2020

	PLN ths	
	1Q20 January 1, 2020 to March 31, 2020	1Q19 January 1, 2019 to March 31, 2019
Pre-tax profit (loss)	- 24,313	- 6,554
Share in equity consolidated entities	-	-
Amortization and depreciation	17,640	16,301
Profit (loss) on investing activities	30	54
Income tax paid	- 663	- 841
Interest costs	840	943
Change in provisions	- 1,311	- 2,124
Change in inventories	- 6,290	- 13,418
Change in receivables	- 6,156	- 10,679
Change in short-term liabilities, excluding bank loans and borrowings	3,568	- 17,430
Other adjustments	- 303	128
Net cash flows from operating activities	**- 16,958**	**- 33,620**
Interest received	19	1
Dividends from subsidiaries	-	-
Inflows from sale of intangibles	-	-
Inflows from sale of fixed assets	256	602
Disposal from investment property	-	-
Repayment of loans granted	-	-
Purchase of intangible assets	- 64	- 23
Purchase of fixed assets	- 1,692	- 3,057
Purchase of investment property	-	-
Interest received	-	-
Net cash flows from investing activities	**- 1,481**	**- 2,477**
Proceeds from issuance of shares and other capital instruments and additional payments to capital	-	-
Inflows from loans and borrowings	20,021	37,652
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	-	-

	PLN ths	
	1Q20 January 1, 2020 to March 31, 2020	1Q19 January 1, 2019 to March 31, 2019
Redemption of debt securities	-	-
Finance lease payments	- 281	- 505
Interest paid	- 321	- 408
Interest IFRS16	- 519	- 536
Leases IFRS16	- 14,667	- 12,150
Other financial expenses	-	-
Net cash flows from financing activity	**4,233**	**24,053**
Change in cash and cash equivalents in the balance sheet	**- 14,206**	**- 12,044**
Opening balance of cash	**19,849**	**24,439**
Change in cash due to foreign currency translation	-	-
Closing balance of cash	**5,643**	**12,395**

The value shown under "Other adjustments" consists of:

	PLN ths	
capital reserves increase – valuation of stock options	-	146
interest received	- 19	
fixed assets - impairment - liquidation	- 284	- 18
balance sheet valuation of W.KRUK S.A. subsidiary	-	-
Total	**- 303**	**128**

INFORMATION AND EXPLANATIONS

TO CONDENSED INTERIM SEPARATE FINANCIAL STATEMENTS FOR 1Q20

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 19, 2020

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