INDEPENDENT STATUTORY AUDITOR'S REPORT
ON THE REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS
Of the Capital Group VRG S.A.
for the period beginning 1 January 2019 and ended 30 June 2019

To the Shareholders and Supervisory Board of VRG S.A.

Introduction

We have performed a review of the accompanying consolidated condensed interim financial statements of the Capital Group VRG S.A (hereinafter "the Group") whose parent entity is VRG S.A. (hereinafter "the Parent Entity", "the Parent Company"), with its registered office in Cracow, ul. Pilotów 10, which comprise: the consolidated condensed interim statement of financial position as at 30 June 2019, the consolidated condensed interim statement of profit or loss, the consolidated condensed interim statement of comprehensive income, the consolidated condensed interim statement of changes in equity, the consolidated condensed interim statement of cash flows for the period from 1 January 2019 to 30 June 2019 and information and explanations to the consolidated condensed interim financial statements ("consolidated condensed interim financial statements").

Responsibility for preparation and presentation of the accompanying consolidated condensed interim financial statements in line with requirements of the International Accounting Standard 34 *Interim financial reporting,* published in the form of European Commission regulations, lies with the Management Board of the Parent Entity.

Our aim was to prepare conclusions on the accompanying consolidated condensed interim financial statements on the basis of the review that we have performed.

Scope of works

Our review was carried in accordance with the requirements of the National Standard on Review 2410 as per International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* adopted by resolution no. 2041/37a/2018 of the National Council of Statutory Auditors of 5 March 2018. A review of the financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with National Standards on Auditing and consequently does not enable the auditor to obtain assurance that the auditor would become aware of all significant matters that might be identified in an audit. Given the above, we do not express opinion on audit of the accompanying consolidated condensed interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated condensed interim financial statements are not prepared, in all material respects, in line with requirements of the International Accounting Standard 34 *Interim financial reporting,* published in the form of European Commission regulations.

On behalf of

Mazars Audyt Sp. z o.o. Nr 186
Warsaw, ul. Piękna 18

Jarosław BOCHENEK

Signed on polish original

Key Statutory Auditor
No. 90086

Michel KIVIATKOWSKI

Signed on polish original

Partner

Warsaw, 27 August 2019

VRG
VISTULA RETAIL GROUP

www.vrg.pl

INTERIM CONDENSED CONSOLIDATED

FINANCIAL STATEMENT

of VRG S.A. Capital Group
for 6 months ended June 30, 2019
in accordance with IFRS approved by European Union

Cracow, August 27, 2019

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PLN 484.6m
of revenues,
+37.1% YoY
in 1H19

INTERIM CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

FOR 6 MONTHS ENDING JUNE 30, 2019

SELECTED FINANCIAL DATA TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATMENTS

	PLN ths		EUR ths	
	1H19 January 1, 2019 to June 30, 2019	1H18 January 1, 2018 to June 30, 2018	1H19 January 1, 2019 to June 30, 2019	1H18 January 1, 2018 to June 30, 2018
Revenues	484,649	353,446	113,024	82,426
Profit (loss) from operations	27,334	21,107	6,374	4,922
Pre-tax profit (loss)	25,312	18,040	5,903	4,207
Net profit (loss)	21,470	14,218	5,007	3,316
Net cash flows from operating activities	- 1,323	- 2,018	- 309	- 471
Net cash flows from investing activities	- 8,278	-7,477	- 1,930	- 1,744
Net cash flows from financing activities	- 885	10,770	- 206	2,512
Total net cash flows	- 10,486	1,275	- 2,445	297
	30.06.2019	31.12.2018	30.06.2019	31.12.2018
Total assets	1,440,540	1,113,351	338,791	258,919
Liabilities and provisions	613,546	308,254	144,296	71,687
Long-term liabilities	275,239	74,561	64,732	17,340
Short-term liabilities	328,053	220,440	77,153	51,265
Total equity	826,994	805,097	194,495	187,232
Share capital	49,122	49,122	11,553	11,424
Shares outstanding	234,455,840	234,455,840	234,455,840	234,455,840
Diluted number of shares	241,505,840	241,505,840	241,505,840	241,505,840
Earnings (loss) per ordinary share (in PLN/EUR)	0.09	0.29	0.02	0.07
Diluted earnings (loss) per share (in PLN/EUR)	0.09	0.28	0.02	0.07
Book value per share (in PLN/EUR)	3.53	3.43	0.83	0.80
Diluted book value per share (in PLN/EUR)	3.42	3.33	0.80	0.77
Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

INTERIM CONDENSED CONSOLIDATED

STATEMENT OF COMPREHENSIVE INCOME

FOR 6 MONTHS ENDING JUNE 30, 2019

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	PLN ths			
		1H19	1H18	2Q19	2Q18
Revenues	1, 2	**484,649**	**353,446**	**270,224**	**192,888**
Cost of sales	3	235,072	175,092	125,665	92,337
Gross profit on sales		249,577	178,354	144,559	100,551
Other operating income	1	789	749	501	214
Gain from sale of non-financial non-current assets		827	17	803	8
Selling costs	3	180,613	125,031	94,685	65,420
Administrative expenses	3	41,031	31,190	20,806	15,349
Other operating costs	3	2,215	1,792	1,797	828
Loss from sale of non-financial non-current assets		-	-	-	-
Profit (loss) from operations		27,334	21,107	28,575	19,176
Financial income	1, 5	3,699	84	3,862	62
Gain from sale of subsidiaries		-	-	-	-
Financial costs	6	5,721	3,151	3,156	1,616
Loss from sale of subsidiaries		-	-	-	-
Pre-tax profit (loss)		25,312	18,040	29,281	17,622
Income tax	7	3,842	3,822	5,403	3,515
Net profit (loss) for the period		**21,470**	**14,218**	**23,878**	**14,107**
Attributed to dominating entity		21,470	14,218	23,878	14,107
Attributed to non-controlling interest		-	-	-	-
Weighted average number of ordinary shares	8	234,455,840	180,089,992	234,455,840	180,975,184
Diluted weighted average number of ordinary shares	8	241,505,840	180,089,992	241,505,840	180,975,184
- basic	8	0.09	0.08	0.10	0.08
- diluted	8	0.09	0.08	0.10	0.08

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	PLN ths			
		1H19	1H18	2Q19	2Q18
Net profit for the period		**21,470**	**14,218**	**23,878**	**14,107**
Other comprehensive income, including:		-	-	-	-
Valuation of financial assets available for sale		-	-	-	-
Income tax related to items presented in other comprehensive income		-	-	-	-
Total comprehensive income		**21,470**	**14,218**	**23,878**	**14,107**
Related to dominating entity		21,470	14,218	23,878	14,107
Related to non-controlling interest		-	-	-	-

INTERIM CONDENSED CONSOLIDATED

STATEMENT OF FINANCIAL POSITION

AS OF JUNE 30, 2019

	Note	PLN ths			
		30.06.2019	01.01.2019 restated	31.12.2018	30.06.2018
Assets					
Non-current assets		**876,952**	**892,829**	**593,249**	**423,102**
Goodwill	9	324,033	324,033	324,033	242,590
Other intangible assets	10	183,088	183,220	183,220	117,114
Fixed assets	11	73,758	78,046	78,046	56,772
Investment property		874	874	874	874
Assets held for sale		-	-	-	-
Right of use assets		287,222	299,580	-	-
Long-term receivables		497	586	586	519
Shares and stakes		27	27	27	27
Other long-term investments		4	4	4	4
Deferred tax assets	17	7,416	6,429	6,429	5,150
Other non-current assets		33	30	30	52
Current assets		**563,588**	**520,102**	**520,102**	**369,706**
Inventory	12	507,569	460,781	460,781	313,846
Trade and other receivables	13	30,629	23,907	23,907	35,889
of which corporate income tax receivables	13	-	-	-	*185*
Cash and cash equivalents	14	23,038	33,523	33,523	17,695
Other short-term assets		-	8	8	-
Other current assets		2,352	1,883	1,883	2,276
Total assets		**1,440,540**	**1,412,931**	**1,113,351**	**792,808**

	Note	PLN ths			
		30.06.2019	01.01.2019 restated	31.12.2018	30.06.2018
Equity and liabilities					
Dominating entity's equity		**826,994**	**805,097**	**805,097**	**560,744**
Share capital	21	49,122	49,122	49,122	38,470
Other reserves	22	14,394	13,968	13,968	13,908
Retained earnings	23	742,008	688,435	688,435	494,148
Net profit (loss) for the current period	23	21,470	53,572	53,572	14,218
Non-controlling interest		-	-	-	-
Total equity		**826,994**	**805,097**	**805,097**	**560,744**
Long-term liabilities		**275,239**	**296,849**	**74,561**	**81,626**
Liabilities due to purchase of fixed assets		161	176	176	111
Lease liabilities	18	206,762	225,915	3,627	1,691
Including IFRS16		*203,626*	*222,288*	-	-
Loans and borrowings	15	68,316	70,758	70,758	79,824
Deferred tax liabilities	17	939	1,320	1,320	743
Long-term provisions	20	907	907	907	536
Total long-term liabilities and provisions		**277,085**	**299,076**	**76,788**	**82,905**
Short-term liabilities		**328,053**	**297,732**	**220,440**	**144,149**
Lease liabilities	18	84,548	79,031	1,739	549
Including IFRS16		82,924	77,292	-	-
Trade and other liabilities	19	167,472	192,820	192,820	99,188
of which corporate income tax liabilities	19	2,183	*4,897*	*4,897*	-
Loans and borrowings	15	64,923	14,627	14,627	33,577
Short-term part of long-term loans and borrowings	15	11,110	11,254	11,254	10,835
Short-term provisions	20	8,408	11,026	11,026	5,010
Total short-term liabilities and provisions		**336,461**	**308,758**	**231,466**	**149,159**
Total liabilities and provisions		**613,546**	**607,834**	**308,254**	**232,064**
Total equity and liabilities		**1,440,540**	**1,412,931**	**1,113,351**	**792,808**
Book value of equity		826,994	805,097	805,097	560,744
Shares outstanding	8	234,455,840	234,455,840	234,455,840	181,194,964
Book value per share		3.53	3.43	3.43	3.09
Diluted number of shares	8	241,505,840	241,505,840	241,505,840	181,194,964
Diluted book value per share		3.42	3.33	3.33	3.09

INTERIM CONDENSED CONSOLIDATED

STATEMENT OF CHANGES IN EQUITY

FOR 6 MONTHS ENDING JUNE 30, 2019

	PLN ths					
	Share capital	Capital reserves	Retained earnings	Dominating entity's equity	NCI	Total equity
As at 01.01.2018	**38,070**	**13,729**	**490,692**	**542,491**	**-**	**542,491**
Changes in equity in 1H18						
Consolidation adjustment	-	-	-	-	-	-
Profit distribution	-	-	- 142	- 142	-	- 142
Net profit (loss) for the period	-	-	14,218	14,218	-	14,218
Stock option programme valuation	-	179	-	179	-	179
Share issuance	400	-	3,598	3,998	-	3,998
As at 30.06.2018	**38,470**	**13,908**	**508,366**	**560,744**	**-**	**560,744**
As at 01.01.2018	**38,070**	**13,729**	**490,692**	**542,491**	**-**	**542,491**
Changes in equity in 2018						
Consolidation adjustment	-	-	2,547	2,547	-	2,547
Profit distribution	-	-	- 141	- 141	-	- 141
Net profit (loss) for the period	-	-	53,572	53,572	-	53,572
Stock option programme valuation	-	239	-	239	-	239
Share issuance	11,052	-	195,337	206,389	-	206,389
As at 31.12.2018	**49,122**	**13,968**	**742,007**	**805,097**	**-**	**805,097**
As at 01.01.2019	**49,122**	**13,968**	**742,007**	**805,097**	**-**	**805,097**
Changes in equity in 1H19						
Consolidation adjustment	-	-	1	1	-	1
Profit distribution	-	-	-	-	-	-
Net profit (loss) for the period	-	-	21,470	21,470	-	21,470
Stock option programme valuation	-	426	-	426	-	426
Share issuance	-	-	-	-	-	-
As at 30.06.2019	**49,122**	**14,394**	**763,478**	**826,994**	**-**	**826,994**

Information and explanations regarding the interim consolidated statement of changes in equity are presented in notes 21, 22 and 23.

INTERIM CONDENSED CONSOLIDATED

STATEMENT OF CASH FLOWS

FOR 6 MONTHS ENDED JUNE 30, 2019

	Note	PLN ths	
		1H19	1H18
Cash flows from operating activities			
Pre-tax profit (loss)		**25,312**	**18,040**
Amortization and depreciation		54,127	8,547
Profit (loss) on investing activities		- 845	174
Income tax paid		- 7,934	- 6,064
Interest costs		4,383	2,109
Change in provisions		- 2,628	- 2,685
Change in inventories		- 46,788	1,435
Change in receivables		- 7,188	- 15,779
Change in short-term liabilities, excluding bank loans and borrowings		- 19,413	- 7,802
Other adjustments		- 349	7
Net cash flows from operating activities		**- 1,323**	**- 2,018**
Cash flows from investing activities			
Interest received		4	7
Dividends obtained from subsidiaries		-	-
Dividends received from investments held for sale		-	-
Disposal of investments held for trading		-	-
Disposal of investments available for sale		-	-
Disposal of subsidiaries		-	-
Disposal of intangibles		-	-
Disposal of fixed assets		6,494	281
Disposal of investment property		-	-
Repayment of loans granted		-	-
Inflow from treasury transactions		-	-
Purchase of investments available for trading		-	-
Purchase of investments available for sale		-	-
Purchase of subsidiary		-	-
Purchase of intangible assets		- 620	- 1,262
Purchase of fixed assets		- 14,156	- 6,503
Purchase of investment property			
Purchase of financial assets in subsidiaries		-	-
Purchase of financial assets in other entities		-	-

	Note	PLN ths	
		1H19	1H18
Loans granted		-	-
Outflows related to sale of subsidiary		-	-
Net cash flows from investing activities		**- 8,278**	**- 7,477**
Proceeds from issuance of shares and other capital instruments and additional payments to capital			3,998
Inflows from loans and borrowings		58,295	19,820
Issuance of debt instruments and securities convertible for shares		-	-
Other financial inflows		-	-
Dividends and other payment to owners		-	-
Repayment of bank loans and borrowings		- 10,586	- 10,642
Redemption of debt securities		-	-
Finance lease payments		- 44,201	- 297
Interest paid		-4,393	- 2,109
Net cash flows from financing activity		**- 885**	**10,770**
Change in cash and cash equivalents in the balance sheet		**- 10,486**	**1,275**
Opening balance of cash		**33,523**	**16,420**
change in cash due to foreign currency translation		-	-
Closing balance of cash	**14**	**23,037**	**17,695**

Value shown under “other adjustments” consists of:

	PLN ths	
	1H19	1H18
capital reserves increase – valuation of stock options	426	179
fixed assets - impairment - liquidation	- 775	- 165
interest received		- 7
Total	**349**	**7**

PLN 81.4 m
EBITDA
under IFRS16

SUPPLEMENTARY INFORMATION

TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FIRST HALF OF 2019

1. GENERAL INFORMATION

1.1. Name, registered office, business activity

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

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

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

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

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

The Company's key corporate milestones

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

2018 | ■ **Merger with Bytom S.A. (change of the company name to VRG S.A.)**

The lifespan of the Issuer is indefinite.

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

As at the end of 1H19 VRG S.A. Capital Group consisted of the following entities:

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

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

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

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

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

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

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

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

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

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

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

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

The consolidated financial statements for 1H19 include data of the Parent Company and subsidiaries: W.KRUK S.A., DCG S.A., Wólczanka Shirts Manufacturing Sp. z o.o., VG Property Sp. z o.o., BTM 2 Sp. z o.o.

Changes in Capital Group structure in 1H19.

Between January 1, 2019 and June 30, 2019 there were no changes in VRG S.A. Capital Group structure.

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

As at June 30, 2019 the composition of the Management Board of VRG S.A. was as the following:

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

In the period from June 30, 2019 to the date of approval of these financial statements, the composition of the Management Board has not changed.

As at June 30, 2019 the composition of the Supervisory Board of VRG S.A. was the following:

<table>
<tr><td rowspan="2">Supervisory Board</td><td>Jerzy Mazgaj
Chairman
of the Supervisory Board</td><td colspan="2">Piotr Kaczmarek
Member
of the Supervisory Board</td><td colspan="2">Artur Małek
Member
of the Supervisory Board</td></tr>
<tr><td>Jan Pilch
Member
of the Supervisory Board</td><td>Grażyna Sudzińska-Amroziewicz
Member
of the Supervisory Board</td><td colspan="2">Andrzej Szumański
Member
of the Supervisory Board</td><td>Paweł Tymczyszyn
Member
of the Supervisory Board</td></tr>
</table>

In 1H19 the following changes took place within the Supervisory Board.

On April 9, 2019, the Company received a statement from Ms. Katarzyna Basiak-Gała about resignation from the position of a member of the Company's Supervisory Board as of the day of the next General Shareholder Meeting. The statement of Ms. Basiak-Gała, referred to above, was made on the basis of art. 26 of the Act of August 21, 1997 on limitation of conducting business activity by persons performing public functions (Official Journal of Laws of 2017, item 1393, as amended). Pursuant to the above statement, Ms. Katarzyna Basiak-Gała's resignation from the function of a member of the Company's Supervisory Board took place on the day of the Annual General Meeting of the Company on June 17, 2019 ("General Meeting").

In addition, the General Meeting 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. 20/06/2019 of the General Meeting regarding the dismissal of a member of the Company's Supervisory Board, Mr. Maciej Matusiak was dismissed from the Company's Supervisory Board of the current joint term of office.

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

c) pursuant to Resolution No. 22/06/2019 of the General Meeting regarding the appointment of a new member of the Company's Supervisory Board, Paweł Tymczyszyn.

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 August 27, 2019.

1.5. Going concern

Consolidated financial statements of the VRG S.A. Capital Group (hereinafter also referred to as the "Capital Group" or "VRG Group"), have been prepared assuming a going concern of companies forming the Capital Group in an unchanged form and scope for at least 12 months from the date of the financial statements, i.e. June 30, 2019. In the opinion of the Management Board of the Parent Company as at the date of approval of these consolidated financial statements, there are no indications or circumstances indicating going concern threats to companies of the Group in the foreseeable future.


PLN 27.3m
EBIT in 1H19

2. PRINCIPLES FOR PREPARATION OF FINANCIAL STATEMENTS

The basis for preparation of these consolidated financial statements is the Ordinance of Minister of Finance from March 29, 2018 regarding current and periodic information submitted by issuers of securities and conditions for recognizing information required by law of a non-member country as equivalent (Official Journal of Laws of 2018, item 757).

Consolidated financial statements for 1H19 have been prepared in accordance with the principles of International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and to the extent not regulated by the above standards in accordance with the requirements of the Accounting Act of September 29, 1994 (Official Journal of Laws from 2019, item 351, as amended) and executive regulations issued based on it, and presents the financial position of the VRG S.A. Capital Group as of June 30, 2019, January 1, 2019 (IFRS16 application) and December 31, 2018 and June 30, 2018, the results of its operations for 6 and 3 months ended June 30, 2019 and June 30, 2018 and cash flows for 6 months ended June 30, 2019 and June 30, 2018.

These consolidated financial statements have been prepared based on the concept of fair value, except for items:

- fixed assets, investment property and intangible assets valued at purchase price or costs incurred to manufacture them, net of possible depreciation and amortization and impairments,
- inventory valued at purchase price or costs incurred to manufacture them, net of possible impairments,
- loans, borrowings and financial lease liabilities valued at amortized cost.

Consolidated financial statements for 1H19 have been prepared in Polish zloty, rounded up to full thousands (ths).

The consolidated financial statements are presented for the period from January 1, 2019 to June 30, 2019. The fiscal year is the calendar year. Comparable financial data are presented for the period from January 1, 2018 to June 30, 2018 and as of December 31, 2018 and January 1, 2019 in case of statement of financial position (first time IFRS16 application).

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

The presented financial data of the Parent Company as at June 30, 2019 and for the six-month period ended with that date, were audited by a certified auditor. The independent auditor's review on the audit of the annual consolidated financial statements is attached to this report. Comparable financial data as at June 30, 2018 contained in these financial statements were reviewed for the purpose of 1H18 report.

The entity authorized to review financial statements in the scope of the separate and consolidated financial statements for 1H19 was Mazars Audyt Sp. z o.o., with which on August 2, 2019 a contract was concluded for review of the separate and consolidated interim financial statements and audit of separate and consolidated interim financial statements.

Consolidated financial statements for 1H19 and comparable data for the previous year include data on the Parent Company and subsidiaries as entities preparing stand-alone financial statements. Neither the Company nor its subsidiaries have business units required to prepare separate financial statements.

Preparation of a report in accordance with IFRS requires the Company's Management Board to make estimates, assessments and assumptions that affect the accounting principles applied and the presented amounts of assets and liabilities as well as costs and revenues. Estimates and assumptions are made on the basis of available historical data and also on the basis of other factors considered proper in the given circumstances. The results of these activities form the basis for estimates with regard to the balance sheet values of assets and liabilities that cannot be determined unequivocally based on other sources. The validity of the above estimates and assumptions is verified on an ongoing basis.

Adjustments to estimates are recognized in the period in which changes were made to the adopted estimates, provided that the adjustment applies only to that period or in the period in which the changes were made and in the following periods (prospective approach), if the adjustment applies both to the current period and the next periods.

Below please find the list of important estimates and judgments for particular items of the statement of financial position:

Note	9	Goodwill
Note	10	Other intangible assets (useful lives)
Note	11	Fixed assets
Note	12	Inventory write-offs
Note	13	Receivables write-offs
Note	17	Deferred tax assets and liabilities
Note	19	Liabilities resultant from loyalty program
Note	20	Provisions for liabilities
Note	25	Share-based compensation

This interim condensed consolidated financial statements have been prepared for the period of the first half of 2019, in which no merger of companies took place.

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

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

- Amendments to IFRS 9 "Right of Prepayment with Negative Remuneration" modify the applicable rights requirements for early termination of the contract to enable the valuation at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in case of negative compensation payments. The amendments provide that the sign (plus or minus) of the prepayment amount is not material – i.e., depending on the interest rate applicable at the time of termination of the contract, payment may be made to the party resulting in early repayment. The calculation of this compensation must be the same for both penalty for early repayment and early repayment gains. Date of application - annual periods commencing on January 1, 2019 or after this date.
- IFRS 16 "Leases" - In accordance with IFRS 16, the lessee recognizes the right to use an asset and liability under leasing. The right to use an asset is treated similarly to other non-financial assets and depreciated accordingly. Lease liabilities are initially measured at the present value of lease payments payable during the lease period, discounted at the rate included in the lease, if it is not difficult to determine it, or at the marginal interest rate. IFRS 16 defines the lease period as a total, irrevocable period during which the lessee has the right to use the asset. The leasing period also includes optional periods when the entity is confident of the option of renewing (or not executing the termination option) of the lease.
- Interpretation of IFRIC 23 "Uncertainty in income tax settlement" - it may be unclear how the tax law relates to a specific transaction or circumstances or whether the tax authority will accept tax records of the entity. IAS 12 “Income Taxes” defines the method of settling current and deferred taxes, but does not reflect the effects of uncertainty. IFRIC 23 contains guidelines that supplement the requirements of IAS 12, specifying how to reflect the effects of uncertainty when recognizing income tax. Date of application - annual periods commencing on January 1, 2019 or after this date.
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" - long-term stakes in associates and joint ventures were introduced to clarify that an entity applies IFRS 9 (including impairment regulations) to long-term involvement in associates or joint ventures that are included in the net investment in an associate or joint venture, for which the equity method was not applied. The amendments also remove paragraph 41, as it was considered that this paragraph only repeated the requirements contained in IFRS 9 and caused confusion

regarding the settlement of long-term stakes. Date of application - annual periods commencing on January 1, 2019 or after this date.

- Amendments to IFRS (cycle 2015-2017) - changes made as part of the process of introducing annual amendments to IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) mainly focused on solving incompatibilities and refinement of vocabulary (valid for annual periods starting on January 1, 2019 or after that date).
- Amendments to IAS 19 "Employee benefits" - change, limitation or settlement of the plan require that after the plan change, updated valuation assumptions are applied to determine current service costs and net interest for the remainder of the reporting period. Date of application - annual periods commencing on January 1, 2019 or after this date.

Changes in the above mentioned standards, interpretations and amendments to standards have not had a sizeable impact on financial statements according to the Group at the moment of their initial implementation except for changes to IFRS16. Impact of IFRS16 Leases on statement of financial position and statement of comprehensive income has been described below.

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

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

- Amendments to IFRS 3 "Business Combinations" - the amendment clarifies the definition of a business (business) and aims to make it easier to distinguish business acquisitions from asset groups for the purpose of accounting for connections (effective for annual periods beginning on 1 January 2020) year or after this date).
- Changes in reference to the Conceptual Framework in IFRS - will apply from January 1, 2020.
- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies (Policy), Changes in Estimates and Correction of Errors" - they clarify the definition of materiality and increase consistency between standards, but are not expected to have a significant impact on preparation of financial statements. The change is mandatory for annual periods beginning on or after January 1, 2020. As at the date of these financial statements, these changes have not yet been approved by the European Union.
- IFRS 17 "Insurance Contracts" - was issued by the International Accounting Standards Board on May 18, 2017 and is effective for annual periods beginning on or after January 1, 2021. 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 of all entities that deal with insurance and investment contracts. The Bank will apply IFRS 17 after it has been approved by the European Union. As at the date 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 amendments to standards. According to the current estimates of the Group, they will not have a significant impact on the financial statements in the period of their first application.

IFRS 16 Leasing from January 1, 2019.

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

IFRS 16 Leasing has a material impact on the Group's financial statements, as the Group is a party in lease agreements for premises in which it sells goods and leases office space. These contracts have so far been classified in accordance with IAS 17 as operating lease, therefore, the fees were included in operating costs in amounts resulting from invoices. In accordance with IFRS 16 Leases, the Group from January 1, 2019 has implemented a unified accounting approach that require 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.

Application of IFRS 16 required the Group to analyse data and make estimates and calculations that affect 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 IFRS 16 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 current 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 IFRS 16 using a simplified approach, i.e. retrospectively with the combined effect of the first application of this standard recognized on the first application date. In the opinion of the Management Board, the implementation of IFRS 16 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 leasing liabilities and exchange rate differences due to the valuation of these liabilities) while reducing third-party costs of services (i.e. rental costs of premises previously presented in selling costs) and, hence, improves EBITDA.

The Group took advantage of the exemption from applying the standard requirements for short-term leasing and leasing of low-value assets. At the balance sheet date the Group did not have any sizeable low-value lease items.

The impact of applying IFRS 16 for between January 1, 2019 and June 30, 2019 is presented in the table below:

Item	PLN ths		
	1H19 excluding IFRS16	Recognition of lease agreements according to IFRS16	1H19 published data
Gross profit on sales	249,577	0	249,577
Selling and general and administrative costs	221,269	375	221,644
Other operating line	734	55	789
Result on operations	27,654	- 320	27,334
Financial income	655	3,044	3,699
Financial costs	3,669	2,052	5,721
Net profit (loss) for the period	**20,798**	**672**	**21,470**

Amortisation related to IFRS16 reached PLN 42,383 ths in 1H19.

The impact of applying IFRS 16 for between April 1, 2019 and June 30, 2019 is presented in the table below:

Item	PLN ths		
	2Q19 excluding IFRS16	Recognition of lease agreements according to IFRS16	2Q19 excluding IFRS16
Gross profit on sales	144,559	0	144,559
Selling and general and administrative costs	115,287	204	115,491
Other operating line	438	55	493
Result on operations	28,724	- 149	28,575
Financial income	818	3,044	3,862
Financial costs	2,136	1,020	3,156
Net profit (loss) for the period	**22,003**	**1,875**	**23,878**

Amortisation related to IFRS16 reached PLN 22,000 ths in 2Q19.

The impact of applying IFRS16 on balance of opening as of January 1, 2019 and June 30, 2019 on selected items of Statement of Financial Position is presented below:

ASSETS	PLN ths		
	As at 30.06.2019	Balance of opening 01.01.2019	As at 31.12.2018
Right of use assets *	287,222	299,580	0
			0

EQUITY & LIABILITIES	PLN ths		
	As at 30.06.2019	Balance of opening 01.01.2019	As at 31.12.2018
Finance leases IFRS16	286,550	299,580	0

* 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. These assets in the previous financial year were treated as operating leases in accordance with IAS 17.

The item Property, plant and equipment also includes right of use in the net value of PLN 4,874 thousand, which in the previous financial year were treated as financial leasing in accordance with IAS 17. These rights mainly include car leasing.

The following is the impact of applying IFRS 16 on Group's cash flow statement in the reporting period from 01.01.2019 to 30.06.2019.

Cash flow statement items	PLN ths		
	2Q19 excluding IFRS16	Recognition of lease agreements according to IFRS16	2Q19 excluding IFRS16
Net cash flows from operating activities	- 46,316	44,993	- 1,323
Net cash flows from financing activities	44,108	- 44,993	- 885

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 recognized directly in the profit and loss account.

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

Consolidation exclusions

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

3.2. Transactions in foreign currencies

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

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

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

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

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

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

3.3. Financial instruments

Classification of financial instruments

The classification of financial instruments is based on the business model of managing groups of financial assets and the characteristics of contractual cash flows for a given financial asset and financial liability.
Classification is made at the moment of initial recognition. The classification of derivative instruments depends on their intended use and compliance with the requirements contained in IFRS 9.

Financial instruments are classified into the following categories:
- Assets / liabilities measured at amortized cost
- Assets / liabilities at fair value through profit or loss
- Assets / liabilities measured at fair value through other comprehensive income.

Financial assets measured at amortized cost

Financial assets at amortized cost include loans granted, trade receivables and other receivables falling under the scope of IFRS 9. Income from interest on investments in debt instruments is recognized by the Group in profit or loss. At the moment of disposal of investments in debt instruments, the Group recognizes cumulative profits / losses from measurement in the financial result.
Loans and trade receivables and other receivables are measured at amortized cost using the effective interest rate. Loans and long-term receivables are discounted as at the balance sheet date. Loans and receivables with maturities not exceeding 12 months from the balance sheet date classified as current assets are valued at their nominal value after being decreased by the value of expected loan losses.
Financial assets valued at amortized cost are recognised taking into account expected credit losses.

Financial assets at fair value through profit or loss

The Group classifies into this category financial assets held for trading, investments in equity instruments listed on an active market, as well as financial assets not classified as financial assets at amortized cost or at fair value through other comprehensive income. Due to the classification, changes in the fair value of financial assets classified to this category of financial assets (fair value through profit or loss) are recognized in the financial result in the period in which they arose.
The financial result also includes interest income and dividends received from capital instruments listed on an active market.

Financial assets measured at fair value through other comprehensive income

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

Financial liabilities measured at amortized cost

The Group classifies for amortized cost measurement loans received, loans taken, liabilities due to debt securities, trade liabilities (for deliveries and services) and other liabilities subject to IFRS 9. Interest expenses are recognized by the company in profit or loss, 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 amortized cost and to debt financial assets measured at fair value through other comprehensive income, as well as to financial guarantees and loan commitments granted (except for those measured at fair value).

In 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.


PLN 21.5m
of net profit
in 1H19

3.4. Non-current assets available for sale

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

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

3.5. Investment property

Property kept by the Company to benefit from rental income, rents or increase in their value are valued at the acquisition date at their purchase price (production cost), at the balance sheet date they are valued at their purchase price or production cost less accumulated depreciation and accumulated impairments.
Depreciation and impairment losses principles relating to investment properties are similar to those applied to property, plant and equipment.

3.6. Fixed assets

Tangible fixed assets constitute buildings, machines and devices used for production, product delivery and provision of services or for management purposes, were valued as of the day of initial recognition at purchase price or production cost.
As at the balance sheet date, property, plant and equipment are valued at the purchase price or manufacturing cost less accumulated depreciation and impairment losses.

Fixed assets are depreciated using the straight-line method, according to the estimated useful life of particular groups of fixed assets. The depreciation method and rate are subject to verification as at each balance sheet date. Land is not depreciated.

For individual groups of fixed assets the following ranges of useful lives were adopted:

Buildings and structures	Machines and appliances	Other fixed assets
2.5% - 40.0 years	**10-14% - 8.5 years**	**20.0% - 5.0 years**

Depreciation begins when the fixed asset is ready for use. The basis for calculating amortization charges is the purchase price less its residual value. Amortization ceases when a fixed asset is classified as available for sale or when it is removed from the balance sheet due to liquidation, sale or withdrawal (whichever occurs first).

The carrying amount of a fixed asset is subject to impairment to its recoverable amount if the carrying amount of a given asset exceeds its estimated recoverable amount.

At the later time, expenditure on property, plant and equipment is included in the carrying amount of a given fixed asset only if it is probable that the item will receive economic benefits and the cost of the item can be reliably assessed.

Costs incurred after the date of putting the fixed asset into use, such as maintenance and repair costs, are charged to the costs of the period in which they were incurred.

Non-current assets under financial leases have been shown on the balance sheet equally with other components of fixed assets and are subject to depreciation according to the same principles. The adopted period of use equals to their useful lives or length of the lease contract.

The initial value of fixed assets being the subject of finance lease and corresponding liabilities were determined in the amount equal to the value of lease payments (initial fees included in the valuation). Lease payments incurred in the reporting period decreased financial lease liability in an amount equal to capital instalments, the surplus being financial costs was charged in full the financial costs of the period.

3.7. Goodwill

If recognised as asset at the acquisition date, goodwill is the excess of the purchase price over the fair value of the assets, liabilities and contingent liabilities of the acquired enterprise.
Goodwill is tested annually for impairment and is recognised in the balance sheet at its initial value less accumulated impairment losses. The impairment determined as a result of the tests is immediately recognized in the profit and loss account and is not subject to subsequent adjustment.
The goodwill recognized in the financial statements regarding the acquisition of an enterprise is subject to impairment tests carried out as at the balance sheet date.
The surplus of acquired net assets over the purchase price is recognised in the profit and loss account for the accounting year in which the acquisition took place.

3.8. Other intangible assets

Other intangible assets acquired as part of a separate transaction are capitalized at purchase price or manufacturing cost. Intangible assets acquired as part of a business combination or takeover transaction are recognized as assets separately from goodwill, if their fair value can be determined reliably at the initial recognition.
As at the balance sheet date, intangible assets are measured at the purchase price less the accumulated depreciation and accumulated amount of impairment losses.
Intangible assets with a definite useful life are amortized using the straight-line method. The depreciation method and rate are subject to verification as at each balance sheet date. Intangible assets with an indefinite useful life (trademarks) are not subject to amortization. The value of components with an indefinite useful life is tested for permanent impairment for each balance sheet date.
Intangible assets with a definite useful life are depreciated using the straight-line method for the period of their estimated usability, which is 5 years on average.

3.9. Shares and stakes in controlled entities

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

3.10. Impairment of non-financial assets

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

Impairment losses on assets subject to a previous revaluation adjust the revaluation reserve to the amounts recognized in equity, and if they fall below the purchase price, they are recognized in the profit or loss account.
The amount of revaluation write-offs is determined as the surplus of the carrying amount of these components over their recoverable amount. The recoverable amount is the higher of the following: net realisable value or value in use.

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

3.11. Inventory

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

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

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

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 account as selling expenses. Amounts of write-offs reversals for receivables adjust costs of sales.
Receivables with maturities over 12 months from the balance sheet date are classified as non-current assets. Current assets include receivables with a maturity period of up to 12 months from the balance sheet date.

3.13. Cash and cash equivalents

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

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

3.14. Equity

Share capital	The share capital is shown in the amount specified in the Articles of Association and registered by the court.
Capital reserves	The value presented in the Capital reserves consists of: ▪ share premium from issuance of shares at a price that exceeds their nominal value, reduced by issue costs, ▪ amounts of profits from previous years, classified on the basis of decisions of the General Shareholders Meetings.
Revaluation reserve	The revaluation reserve was created from the surplus achieved with the revaluation of tangible fixed assets as at 1 January 1995.

Other reserves	Other reserves capital is created from the valuation of stock option plan in proportion to the duration of the program.
Retained earnings	This item presents the net financial result of the previous financial years until the decision on its distribution (or other usage) has been made, as well as the adjustment of the financial result from previous years, resulting from errors in previous years or changes in accounting principles.
Capital management	The Group's capital management is aimed at maintaining the ability to continue operations, with consideration of planned investments, so that the Capital Group could generate returns and economic benefits for shareholders/investors in the future. The use of capital is monitored on an ongoing basis by analysing indicators and comparing the situation of the Capital Group against the industry in which the Capital Group operates. The Capital Group does not have externally imposed capital restrictions. In relation to the previous reporting period there were no changes in terms of rules and processes for capital management.

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

Debt ratio	PLN ths		
	30.06.2019	31.12.2018	30.06.2018
Equity	826,994	805,097	560,744
Long-term debt	79,426	82,012	90,659
Long-term debt and borrowings	68,316	70,758	79,824
Short-term part of long-term debt and borrowings	11,110	11,254	10,835
Long-term debt / Equity	**9.6%**	**10.2%**	**16.2%**

The change in the ratio is consistent with the actions taken by the Group and the ratio is at the level expected by the Management Board of the dominating entity.

3.15. Liabilities

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

Trade and other liabilities are recognized at fair value.

3.16. Provisions

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

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

Adequacy of provisions is assessed at each balance sheet date.

3.17. Leases

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

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

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

3.18. Revenues

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

Costs of external financing

Costs of external financing (interest and other costs related to the financing obtained) are recognised in costs of the period to which they relate.

Interest

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

Dividends

Dividends are recognized when the right to receive them is granted.

Rental income

Revenue from lease of investment property is recognized on a straight-line basis over the lease period in relation to ongoing contracts.

3.19. Costs

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

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

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

3.19a Costs of employee benefits

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

3.20. Income tax

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

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

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

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

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

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

3.21. Share-based compensation (stock options)

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

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

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

The diluting effect of issued options is taken into account when determining the amount of profit per share as an additional dilution of shares.

3.22. Operating segments

The VRG Group specialises in design and retail sales of branded clothing for men and women in the medium segment and up-market as well as luxury jewellery and watches. Currently, it is building its revenue base on following brands: Vistula, Lantier, Vistula Red, Vesari, Wólczanka, Lambert, Bytom, Intermoda, W.KRUK (via a subsidiary) and Deni Cler (via a subsidiary). From November 30, 2018, the Group also possesses the Bytom and Intermoda brands.

Leading brands of the Vistula business line:

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

Leading brands of the Bytom business line:

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

Leading brands of the Wólczanka business line:

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

Other own brands in the apparel segment:

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

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

Own brands in jewellery segment:

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

Manufacturing operations

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

Seasonality and cyclicality of operations

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

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

3.23. 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 28.06.2019 announced by the National Bank of Poland, which amounted to 4.2520 PLN/EUR. Selected items of the profit or loss statement have been converted into EUR at the rate of 4.2880 PLN/EUR, which is the arithmetic average of the average EURO rates set by the National Bank of Poland on the last day of each completed reporting month.

To calculate the average exchange rate, the following EURO rates were adopted: 31.01.19 – 4.2802 PLN/EUR, 28.02.19 – 4.3120 PLN/EUR, 29.03.19 – 4.3013 PLN/EUR, 30.04.19 – 4.2911 PLN/EUR, 31.05.19 – 4.2916 PLN/EUR, 28.06.19 – 4.2520 PLN/EUR.

The lowest exchange rate in the reporting period was 4.2520 PLN/EUR.
The highest exchange rate in the reporting period was 4.3402 PLN/EUR.

4. SUPPLEMENTARY NOTES TO FINANCIAL STATEMENTS

Note 1 Revenues from continuing operations

Analysis of Company's revenues	PLN ths			
	1H19	1H18	2Q19	2Q18
Revenues from the sale of products, goods and materials	484,560	353,344	270,183	192,839
Revenue from property lease	89	102	41	49
Revenue from lease of other fixed assets	-	-	-	-
Total revenue	**484,649**	**353,446**	**270,224**	**192,888**
Result on the sale of fixed assets	827	17	803	8
Other operating income	789	749	501	214
Financial income	3,699	84	3,862	62
Total	**489,964**	**354,296**	**275,390**	**193,172**

Increase in sales revenues is related to including Bytom brand revenues, sales network expansion and dynamic on-line sales growth.

Due to the nature of the Group's main business activity (retail sales), there is no concentration of sales to customers whose share in the total revenues would exceed 10%.

PLN 23.0m of cash and equivalents

Note 2 Segments by type of activity and geographical breakdown

The Group's operations can be divided into two operating segments. These segments are the basis for preparing the Group's reports.

Basic activities:

Information about business segments is presented below:

Current year 1H19	PLN ths		
	Apparel segment	Jewellery segment	Total
External sales	325,131	159,518	484,649
Gross profit on sales	166,184	83,393	249,577
Segmental operating costs	152,239	69,405	221,644
of which depreciation	*36,446*	*17,681*	*54,127*
Other operating income and costs	- 433	- 166	- 599
Financial income and costs	- 791	- 1,231	- 2,022
Income tax	1,345	2,497	3,842
Net profit	**11,376**	**10,094**	**21,470**

Previous year 1H18	PLN ths		
	Apparel segment	Jewellery segment	Total
External sales	217,751	135,695	353,446
Gross profit on sales	109,133	69,221	178,354
Segmental operating costs	98,421	57,800	156,221
of which depreciation	*4,635*	*3,912*	*8,547*
Other operating income and costs	- 995	- 31	- 1,026
Financial income and costs	- 736	- 2,331	- 3,067
Income tax	1,930	1,892	3,822
Net profit	**7,051**	**7,167**	**14,218**

Current year 2Q19	PLN ths		
	Apparel segment	Jewellery segment	Total
External sales	183,552	86,672	270,224
Gross profit on sales	98,703	45,856	144,559
Segmental operating costs	79,600	35,891	115,491
of which depreciation	*18,933*	*9,168*	*28,101*
Other operating income and costs	- 433	- 60	- 493
Financial income and costs	511	195	706
Income tax	3,467	1,936	5,403
Net profit	**15,714**	**8,164**	**23,878**

Previous year 2Q18	PLN ths		
	Apparel segment	Jewellery segment	Total
External sales	119,067	73,821	192,888
Gross profit on sales	62,945	37,606	100,551
Segmental operating costs	51,391	29,378	80,769
of which depreciation	*2,372*	*2,043*	*4,415*
Other operating income and costs	- 607	1	- 606
Financial income and costs	- 18	- 1,536	- 1,554
Income tax	2,162	1,353	3,515
Net profit	**8,767**	**5,340**	**14,107**

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

- for the apparel segment PLN 1,144 ths for 1H19 (PLN 1,005 ths for 1H18),
- for the jewellery segment PLN1,293 ths for 1H19 (PLN 1,390 ths for 1H18).

Transactions between the operating segments are based on the accounting principles applied by the Group. In comparison to the last annual financial statement, there were no differences in the basis of segment separation or calculation of the segmental results.

As both in 1H19 and in the comparable period the value of booked or reversed impairment losses on non-current assets and current assets was not significant, the Group did not disclose these as a separate line in operating segments.

Geographical segments of activity:

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

Sales revenues in various markets in terms of geographical location	PLN ths			
	1H19	1H18	2Q19	2Q18
Poland	477,358	345,166	266,142	188,909
EURO area	7,246	7,704	4071	3,694
USD area	45	576	11	285
Other	-	-	-	-
Total	**484,649**	**353,446**	**270,224**	**192,888**

Segmental assets and liabilities as at June 30, 2019 are as follows:

Current year 1H19	PLN ths		
	Apparel segment	Jewellery segment	Total
Assets	810,585	629,955	1,440,540
Liabilities	352,079	261,467	613,546

Segmental assets and liabilities as at June 30, 2018 are as follows:

Previous year 1H18	PLN ths		
	Apparel segment	Jewellery segment	Total
Assets	325,666	467,142	792,808
Liabilities	102,648	129,416	232,064

Note 3 Operating expenses and other operating costs

	PLN ths			
	1H19	1H18	2Q19	2Q18
Depreciation of fixed assets	54,127	8,547	28,101	4,415
Materials and energy	48,517	48,789	21,937	22,250
Costs of goods sold	222,259	161,550	118,777	85,927
Change in products and work in progress	- 54,826	- 56,163	- 22,448	- 25,143
Inventory write-offs	299	45	254	23
Remuneration and employee benefits	74,388	64,761	35,777	30,612
Other costs by type	18,013	18,438	10,103	10,052
Third party costs	94,238	85,391	48,909	44,993
Other operating costs	1,916	1,747	1,543	805
Total costs of products sold, goods and materials, distribution, general and administrative expenses and other operating costs	**458,931**	**333,105**	**242,953**	**173,934**

Note 4 Remuneration and employee benefits

General remuneration divided into wages, insurance and other (value):	PLN ths			
	1H19	1H18	2Q19	2Q18
Total remuneration, including:	**74,388**	**64,761**	**35,777**	**30,612**
Salaries	61,395	53,505	30,076	25,788
Social security and other benefits	12,993	11,256	5,701	4,824
Other	-	-	-	-

Note 5 Financial income

	PLN ths			
	1H19	1H18	2Q19	2Q18
Interest on bank deposits	3	10		9
Dividends received				
Profit from foreign exchange rate differences	3,680		3,861	
Valuation of loans at amortized cost				

Derivatives valuation				8
Gain on sale of subsidiary				
Other	16	74	1	45
Total	**3,699**	**84**	**3,862**	**62**

Note 6 Financial costs

	PLN ths			
	1H19	1H18	2Q19	2Q18
Interest on overdrafts and bank loans	2,328	2,342	1,139	1,185
Interest on finance lease liabilities	109	53	52	26
Loss on sale of investments held for sale	2,053	2	1,132	2
Fees on loans and guarantees	941	446	450	142
Loss on foreign exchange rate differences		260		256
Derivatives valuation	190		341	-
Other	100	48	42	5
Total	**5,721**	**3,151**	**3,156**	**1,616**

Nota 7 Income tax

	PLN ths			
	1H19	1H18	2Q19	2Q18
Current income tax				
Corporate income tax	**3,842**	**3,822**	**5,403**	**3,515**
Income tax in in other countries	-	-	-	-
Deferred income tax (note 17)	- 1,368	641	794	851
Current year	5,210	3,181	4,609	2,664

Reconciliation of the tax base and pre-tax profit shown in the profit or loss statement	PLN ths			
	1H19	1H18	2Q19	2Q18
Profit before tax	25,312	18,040	29,281	17,622
According to the statutory rate 19% (2018: 19%)	4,809	3,428	5,563	3,348
Non-taxable income	- 6,348	- 1,171	- 5,072	- 1,001
Costs not constituting tax deductible costs	1,255	3,247	4,230	1,878
Usage of tax loss not recognised earlier	-	-	-	-
Tax loss carryforward	-	-	-	-
Tax base	20,219	20,116	28,439	18,499
Income tax charge	3,842	3,822	5,403	3,515
Effective tax rate	15.18%	21.19%	18.45%	19.95%

The difference between the effective tax rate (15.18%) and the nominal tax rate (19%) in 1H19 results mainly from temporary differences in amortisation and depreciation, created and released write-offs and provisions as well as stock option program costs.

The difference between the effective tax rate (21%) and the nominal tax rate (19%) in 1H18 is mainly due to temporary differences in amortisation and depreciation, created and released write-offs and provisions as well as stock option program costs.

Note 8 Earnings per share

Continuing operations	PLN ths			
	1H19	1H18	2Q19	2Q18
Net profit attributable to the shareholders of the dominating entity	21,470	14,218	14,107	14,107
Profits from continuing operations for the purpose of calculating earnings per share after excluding discontinued operations	21,470	14,218	14,107	14,107
Weighted average number of ordinary shares	234,455,840	180,089,992	234,455,840	180,975,184
Diluted weighted average number of ordinary shares	241,505,840	180,089,992	241,505,840	180,975,184
Earnings per share				
– basic	0.09	0.08	0.10	0.08
– diluted	0.09	0,08	0.10	0.08

Calculation of the weighted average number of shares	PLN ths	
	1H19	1H18
Number of shares as at 01.01.2019	234,455,840	179,194,964
Change during the semi-year (issuance)		2,000,000
Number of shares as at 30.06.2019	234,455,840	181,194,964
Number of days with increased equity	-	81
Ratio (number of days with increased equity / number of days in the period)	-	0.45
Weighted average number of shares	234,455,840	180,089,992
Scale of potential dilution (ordinary shares)	0	0
Diluted weighted average number of ordinary shares	234,455,840	180,089,992

Explanatory information regarding potential dilution in ordinary shares is included in the note 21.

Note 9 Goodwill

	PLN ths
PURCHASE PRICE OR FAIR VALUE	
Balance at January 1, 2018	242,590
Adjustment: disclosure at the time of acquisition	-
Derecognition at the moment of disposal	-
Balance at June 30, 2018	242,590
Balance at January 1, 2018	242,590
Adjustment: disclosure at the moment of purchase/ merger V&W	81,443
Derecognition at the moment of disposal	

	PLN ths
Balance at December 31, 2018	324,033
Balance a January 1, 2019	324,033
Adjustment: disclosure at the time of acquisition	-
Derecognition at the moment of disposal	-
Balance at June 30, 2019, including:	324,033
Generated from acquisition of Wólczanka S.A.	60,697
Generated from acquisition of W. KRUK S.A.	181,893
Generated from acquisition of Bytom S.A.	81,443
ACCUMULATED DEPRECIATION AND IMPAIRMENT	
Balance at January 1, 2018	-
Losses due to impairment in the current year	-
Derecognition at the moment of disposal	-
Balance at June 30, 2018	-
Balance at January 1, 2018	-
Losses due to impairment in the current year	-
Derecognition at the moment of disposal	-
Balance at December 31, 2018	-
Balance a January 1, 2019	-
Losses due to impairment in the current year	-
Derecognition at the moment of disposal	-
Balance at June 30, 2019	-
BOOK VALUE	
At June 30, 2018	242,590
At December 31, 2018	324,033
At June 30, 2019	324,033

As at June 30, 2019, based on the assessment of the premises indicating the possibility of impairment in relation to intangible assets with an indefinite useful life, there was no need for an impairment test of intangible assets with an indefinite useful life, including goodwill. In the period for which the interim financial statements were prepared, no write-offs updating intangible assets, including goodwill, were created.

The last test for the loss of intangible assets with an indefinite period of use was on December 31, 2018. The test did not show the need to make revaluation write-offs.

Nota 10 Other intangible assets

	PLN ths			
	Costs of development works	Trademarks	Patents and licenses	Total
GROSS VALUE				
Balance at January 1, 2018	1,219	114,467	20,643	136,329

	PLN ths			
	Costs of development works	Trademarks	Patents and licenses	Total
Consolidation adjustment				-
Additions			1,261	1,261
Decreases			- 5	- 5
Balance at June 30, 2018	1,219	114,467	21,899	137,585
Balance at January 1, 2018	1,219	114,467	20,643	136,329
Consolidation adjustment		145	66,841	66,986
Additions			1,899	1,899
Decreases			- 13	- 13
Balance at December 31, 2018	1,219	114,612	89,370	205,201
Balance at January 1, 2019	1,219	114,612	89,370	205,201
Consolidation adjustment				-
Additions			620	620
Decreases				-
Balance at June 30, 2019	1,219	114,612	89,990	205,821
AMORTISATION				
Balance at January 1, 2018	1,219	23	15,732	16,974
Consolidation adjustment				-
Additions			355	355
Decreases			- 5	- 5
Balance at June 30, 2018	1,219	23	16,082	17,324
Balance at January 1, 2018	1,219	23	15,732	16,974
Consolidation adjustment			1,095	1,095
Depreciation for the period			778	778
Decreases			- 13	- 13
Balance at December 31, 2018	1,219	23	17,592	18,834
Balance at January 1, 2019	1,219	23	17,592	18,834
Consolidation adjustment				-
Depreciation for the period			752	752
Decreases				-
Balance at June 30, 2019	1,219	23	18,344	19,586
IMPAIRMENT				
Balance at January 1, 2018	-	-	3,147	3,147
Consolidation adjustment				-
Additions				-
Decreases				-
Balance at June 30, 2018	-	-	3,147	3,147

	PLN ths			
	Costs of development works	Trademarks	Patents and licenses	Total
Balance at January 1, 2018	-	-	3,147	3,147
Consolidation adjustment				-
Additions				-
Decreases				-
Balance at December 31, 2018	-	-	3,147	3,147
Balance at January 1, 2019	-	-	3,147	3,147
Consolidation adjustment				-
Additions				-
Decreases				-
Balance at June 30, 2019	-	-	3,147	3,147
BOOK VALUE				
At June 30, 2018	-	114,444	2,670	117,114
At December 31, 2018	-	114,589	68,631	183,220
At June 30, 2019	-	114,589	68,499	183,088

Patents and licenses are amortised over their useful life, which is 5 years on average, trademarks are not subject to amortisation because they have an indefinite useful life, with the exception of the Bytom trademark acquired under finance lease for a period of use of 60 years.

The write-offs created were charged to other operating costs, while write-offs reversals were recognized in other operating revenues.

Amortization of intangible assets was charged respectively to selling costs, general administrative expenses or the cost of sales in the statement of comprehensive income.

Trademarks Wólczanka, W. KRUK and Intermoda for the total value of PLN 114,444 thousand are the subject of collateral under loan agreements shown in note 15.

As at June 30, 2019, based on the assessment of the indications for the possibility of loss of value in relation to intangible assets with an indefinite useful life, there was no need to test for the loss of intangible assets with an indefinite useful life, including trademarks. In the period for which the interim financial statements were prepared, no write-downs on intangible assets, including trademarks, were created.
The last impairment test for intangible assets with an indefinite period of use was on December 31, 2018. The test did not show the need to make revaluation write-offs.

As at June 30, 2019, there were no contractual obligations regarding the purchase of intangible assets.

Note 11 Fixed assets

	PLN ths			
	Property and plant	Fixed assets under construction	Equipment and other fixed assets	Total
PURCHASE PRICE OR FAIR VALUE				
Balance at January 1, 2018	90,768	1,844	87,054	179,666
Consolidation adjustment				-

	PLN ths			
	Property and plant	Fixed assets under construction	Equipment and other fixed assets	Total
Additions	1,402	7,165	3,555	12,122
Disposals	- 642	- 6,349	- 360	- 7,351
Balance at June 30, 2018	**91,528**	**2,660**	**90,249**	**184,437**
Balance at January 1, 2018	90,768	1,844	87,054	179,666
Consolidation adjustment	25,610	1,704	15,713	43,027
Additions	4,689	20,805	12,287	37,781
Disposals	- 1,086	- 18,261	- 1,900	- 21,247
Balance at December 31, 2018	**119,981**	**6,092**	**113,154**	**239,227**
Balance at January 1, 2019	**119,981**	**6,092**	**113,154**	**239,227**
Consolidation adjustment				-
Additions	3,888	11,666	9,187	24,741
Disposals	- 4,490	-13,717	-777	-18,984
Balance at June 30, 2019, including:	**119,379**	**4,041**	**121,564**	**244,984**
– at purchase price/production cost	**119,379**	**4,041**	**121,564**	**244,984**
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
Balance at January 1, 2018	59,524	-	59,917	119,441
Consolidation adjustment				-
Depreciation for the period	3,451		4,741	8,192
Disposal	- 453		- 360	- 813
Balance at June 30, 2018	**62,522**	**-**	**64,298**	**126,820**
Balance at January 1, 2018	59,524	-	59,917	119,441
Consolidation adjustment – purchase and divestment of a subsidiary	15,347	-	9,789	25,136
Depreciation for the period	6,484		10,087	16,571
Disposal	- 611		- 1,187	- 1,798
Balance at December 31, 2018	**80,744**	**-**	**78,606**	**159,350**
Balance at January 1, 2019	80,744	-	78,606	159,350
Consolidation adjustment				-
Depreciation for the period	4,505		6,487	10,992
Disposal	- 2,017		- 685	- 2,702
Balance at June 30, 2019	**83,232**	**-**	**84,408**	**167,640**
IMPAIRMENT				
Balance at January 1, 2018	-	650	195	845
Additions				-
Disposals				-
Balance at June 30, 2018	**-**	**650**	**195**	**845**
Balance at January 1, 2018	-	650	195	845

	PLN ths			
	Property and plant	Fixed assets under construction	Equipment and other fixed assets	Total
Consolidation adjustment – purchase and divestment of a subsidiary		986		986
Additions				-
Disposals				-
Balance at December 31, 2018	**-**	**1,636**	**195**	**1,831**
Balance at January 1, 2019	**-**	**1,636**	**195**	**1,831**
Additions	1,755			1,755
Disposals				-
Balance at June 30, 2019	**1,755**	**1,636**	**195**	**3,586**
BOOK VALUE				
At June 30, 2018	29,006	2,010	25,756	56,772
At December 31, 2018	39,237	4,456	34,353	78,046
At June 30, 2019	34,392	2,405	36,961	73,758

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

The carrying amount of the Group's fixed assets under finance lease is PLN 4,874 thousand.

The write-offs created were charged to other operating costs, and write-offs reversals were recognized in other operating revenues.

Land and buildings that are the subject of collateral under loan agreements shown in note 15.

As at 30 June 2019, there were no contractual obligations regarding the purchase of fixed assets.

Note 12 Inventory

	PLN ths		
	1H19	2018	1H18
Materials (at purchase price)	36,605	37,419	32,197
Work in progress (at production cost)	7,977	7,139	7,768
Finished products (at production cost)	55,672	44,813	39,853
Trade goods (at purchase price)	415,452	379,769	237,314
Total inventory, at the lower of two values: purchase price (production cost) and net realizable value	515,706	469,140	317,132
Inventory write-offs	-8,137	-8,359	- 3,286
Total	**507,569**	**460,781**	**313,846**

Write-offs created in the amount of PLN 299 thousand were charged to other operating costs, whereas reversed write-offs in the amount of PLN 0 thousand were recognized as a decrease in costs of sales and PLN 521 thousand in other operating costs as lowering the costs of liquidation of current assets. The reversal of inventories write-offs is related to sale of inventories that had been written-off earlier or their liquidation.

Inventory was covered by a floating charge as collateral under loan agreements shown in note 15.

The value of inventory recognized as an expense during the period was PLN 168,980 thousand.

Note 13 Trade and other receivables

Trade and other receivables	PLN ths		
	1H19	2018	1H18
Trade receivables from third parties (gross)	21,539	23,850	16,808
minus: write-off of trade receivables from third parties	-8,033	-8,070	- 8,256
Trade receivables from third parties (net)	13,506	15,780	8,552
Trade receivables from related parties (gross)	2,030	2,030	1,983
minus: write-off of trade receivables from related parties	-2,030	-2,030	- 1,983
Trade receivables from related parties (net)	-	-	-
Receivables from taxes, subsidies, customs, social security and other benefits	4,581	402	2,232
Including corporate income tax liabilities	-	-	*184*
Other receivables from third parties (gross)	55,069	49,373	66,498
minus: write-off of other trade receivables from third parties	- 42,527	- 41,648	- 41,393
Other receivables from third parties (net)	12,542	7,725	25,105
Other receivables from related parties (gross)	4,300	4,300	4,300
minus: write-off of other trade receivables from related parties	- 4,300	-4,300	- 4,300
Other receivables from related parties (net)			-
Total of short-term receivables (gross)	**87,519**	**79,955**	**91,821**
minus: write-offs for total receivables	- 56,890	- 56,048	- 55,932
Total short-term receivables (net)	**30,629**	**23,907**	**35,889**

Payment terms for receivables range from 7-120 days. After the payment deadline expires, 8% interest is charged.

Change in short-term receivables write-offs	PLN ths		
	1H19	2018	1H18
Balance at the beginning of period	56,048	55,517	55,517
a) increases (due to)	1,083	1,782	560
– consolidation adjustment – deconsolidation of a subsidiary		869	-
– write-offs creation	1,083	618	243
– foreign exchange rate differences		295	317
b) decreases (due to)	241	1,251	145
– receipt of payment	166	256	145
– receivables write-off			-
– cessation of the reason behind the write-off		995	-
– foreign exchange rate differences	75		-
Stan odpisów aktualizujących wartość należności krótkoterminowych na koniec okresu	**56,890**	**56,048**	**55,932**

Amounts of receivables write-offs (created and reversed) of are recognised in the selling costs. The value of the write-off was estimated based on the Group's past experiences.

Short-term receivables gross (currency structure)	PLN ths		
	1H19	2018	1H18
a) PLN	67,685	66,061	44,430
b) in foreign currencies (by currency and after conversion into PLN)	19,834	13,894	47,391
b1. in EURO thousands	2,062	1,693	2,387
PLN thousands	8,773	7,067	25,295
b2. in USD thousands	2,819	1,628	5,797
PLN thousands	10,523	6,121	21,703
b3. in CHF thousands	37	120	5
PLN thousands	143	458	18
Other currencies in PLN thousands	395	248	375
Total short-term receivables (gross)	**87,519**	**79,955**	**91,821**

The Group has receivables from loans granted for PLN 2,178 thousand (including PLN 227 thousand granted to subsidiaries). Receivables from loans granted were fully covered by write-offs.

The claims have been pledged as collateral under loan agreements shown in note 15.

Note 14 Cash and cash equivalents

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

	PLN ths		
	1H19	2018	1H18
cash and bank accounts	21,116	33,205	17,455
short-term deposits	1,922	318	240
Total	**23,038**	**33,523**	**17,695**

Note 15 Bank loans and borrowings

	PLN ths		
	1H19	2018	1H18
Overdrafts	64,923	6,627	33,577
Bank loans	79,426	90,012	90,659
Loans	-	-	-
Bank loans due:			
on demand and up to 1 year	76,033	25,881	44,412
after 12 months	68,316	70,758	79,824
Borrowings due:			
on demand and up to 1 year	-	-	-
after 12 months	-	-	-

Loans currency structure	Ths			
	Total translated into PLN	PLN	€	$
June 30, 2019	**144,349**	**144,349**	-	-
Overdrafts	64,923	64,923	-	-

Loans currency structure	Ths			
	Total translated into PLN	PLN	€	$
Bank loans	79,426	79,426	-	-
Loans			-	-
December 31, 2018	**96,639**	**96,639**	-	-
Overdrafts	6,627	6,627	-	-
Bank loans	90,012	90,012	-	-
Loans	-	-	-	-
June 30, 2018	**124,236**	**124,236**	-	-
Overdrafts	33,577	33,577	-	-
Bank loans	90,659	90,659	-	-
Loans	-	-	-	-

The Management calculates the fair value of loans taken in the following way:

	PLN ths		
	1H19	2018	1H18
Overdrafts	64,923	6,627	33,577
Bank loans	79,426	90,012	90,659
Total	**144,349**	**96,639**	**124,236**

Bank loans liabilities:

Name of the entity	Headquarters	Value of bank loan / according to the contract		The loan amount to be repaid at face value		The loan amount measured at amortized cost	Nature of the liability	Maturity	Collateral
		PLN	currency	PLN	currency	PLN			
Bank PKO BP S.A.	Warsaw	70,000,000	PLN	13,086,834	PLN	13,086,834	Limit enabling the use of the overdraft facility and the execution of guarantees and letters of credit	July 5, 2020	1. Blank promissory note with declaration 2. Declaration of submission to enforcement 3. Contractual right to deduct receivables 4. Floating charge on inventories PLN 160.000.000. 5. Fixed charge on "Vistula" and "Wólczanka" trademarks 6. Registered pledge on shares of W.Kruk SA and DCG SA 7. Fixed charge on shares of Wólczanka Shirts Manufacturing Sp. z o.o. and VG Property Sp. z o.o. 8. Trilateral agreement on card transactions payments 9. Transfer of rights from insurance policy
		47,600,000	PLN	30,600,000	PLN	30,382,747	Investment loan	December 31, 2024	
mBank S.A	Warsaw	14,000,000	PLN	-	PLN	-	Limit enabling the use of the overdraft	April 18, 2022	1.Assignment of receivables, 2. Receipts to a bank account,

							facility and the execution of guarantees and letters of credit		3.Floating charge on inventory PLN 20,800,109
ING Bank Śląski S.A.	Katowice	40,000,000	PLN	3,456,573	PLN	3,456,573	Limit enabling the use of the overdraft facility and the execution of guarantees and letters of credit	April 29, 2021	1. Assignment of receivables, 2. Receipts to a bank account, 3. Fixed charge on Intermoda and BYTOM trademark 4. Floating charge on inventory, guarantee from Bank BGK, promissory note secured by a subsidiary BTM 2 Sp. z o.o. 5. A declaration of submission to enforcement
Santander Bank	Warsaw	7,835	PLN	7,835		7,835	Overdraft on the auxiliary account due to fees charged		
Bank PKO BP S.A.	Warszawa	75,000,000	PLN	36,644,483	PLN	36,644,483	Limit enabling the use of the overdraft facility and the execution of guarantees and letters of credit	July 9, 2020	1. Blank promissory note, along with a promissory note declaration 2. Fixed charge on "W.KRUK" trademark 3. Floating charge on Company's inventory of PLN 170,000,000. 4. Guarantee of VRG S.A. 5. Trilateral agreement on credit card payments 6. Assignment of rights from the insurance policy 7. A declaration of submission to enforcement
		71,400,000	PLN	46,400,000	PLN	46,070,254	Investment loan	December 31, 2024	
		4,799,940	PLN	4,799,940	PLN	4,799,940	Revolving overdraft	January 6, 2020	
Bank PKO BP S.A.	Warsaw	11,500,000	PLN	6,927,137	PLN	6,927,137	Limit enabling the use of the overdraft facility	June 25, 2020	1. Guarantee granted by VRG S.A 2. Floating charge on inventory 3. Mortgage 4. Transfer of rights from insurance policy
		2,000,000	PLN	660,000	PLN	660,000	Overdraft	March 7, 2020	
Bank PKO BP S.A.	Warsaw	4,021,500	PLN	2,312,363	PLN	2,312,363	Investment loan	March 31, 2023	1. Guarantee granted by VRG S.A 2. Contractual right to deduct receivables 3. Mortgage 4. Assignment of rights under the insurance policy and lease agreements for real estate and equipment lease

The Group has the following bank loans:

- a multi-purpose credit line in the amount of PLN 70,000 thousand authorizing the use of an overdraft facility up to the amount of PLN 22,000 thousand and enforcement of bank guarantees up to PLN 20,000 thousand and letters of credit up to PLN 30,000 thousand. The multi-purpose agreement was signed on 09.03.2015. The contract expires on 05.07.2020. The contract is secured with a blank promissory note together with a declaration of submission to enforcement, a contractual right of deduction of receivables, a floating charge on inventories, a fixed charge on "Vistula" and "Wólczanka" trademarks, a fixed charge on shares of W.KRUK S.A. and DCG S.A., a fixed charge on shares of Wólczanka Shirts Manufacturing Sp. z o.o. and VG Property Sp. z o.o., a declaration of submission to enforcement, assignment of receivables from the contract and transfer of rights under the insurance policy.

- investment loan in the amount of PLN 47,600. The contract was signed on 09.03.2015. Expiration will take place on 31.12.2024. The contract is secured with a blank promissory note together with a declaration, a declaration of submission to enforcement, a contractual right of deduction of receivables, a floating charge on inventories, a fixed charge on a fixed charge on shares of W.KRUK S.A. and DCG S.A., a fixed charge on shares of Wólczanka Shirts Manufacturing Sp. z o.o. and VG Property Sp. z o.o., declaration to submission on enforcement, assignment of contract receivables and the transfer of rights under the insurance policy.
- guarantee line up to PLN 2,750,000, within the limit granted at BGŻ PNB Paribas S.A.
- a multi-purpose credit line in the amount of PLN 40,000 thousand, as part of the Multi-Product Agreement at ING Bank Śląski S.A. the Company may use the following products: overdraft up to PLN 13,000,000, lines for letters of credit up to PLN 17,000,000, lines for bank guarantees up to PLN 9,000,000, discount transactions in the form of buy-back of receivables in the amount of 4,250,000, the total amount of indebtedness resulting from the use of the limit in the form of the aforementioned loan products may not exceed the limit amount, i.e. PLN 40,000,000. Under the agreement the credit line is secured by: assignment of receivables, receipts to the bank account, fixed charge on Intermoda trademark, floating charge on inventory (in the amount of PLN 27,199,733.64), guarantee provided by Bank BGK
- multi-purpose credit line at mBank S.A. authorizing to use the overdraft facility, execute orders related to bank guarantees and letters of credit, while the total amount of debt resulting from the use of the limit in the form of the above-mentioned credit products may not exceed PLN 14,000,000.00. The multipurpose agreement was signed for the period from 23/04/2019 to 18/04/2022. The agreement is secured by a blank promissory note, floating charge on inventory (collection value 20,800,109.00), assignment of receivables and assignment of rights from insurance policy.
- a multi-purpose credit line in the amount of PLN 75,000 thousand entitling to use the overdraft facility up to PLN 35,000 thousand and execution of bank guarantees up to PLN 22,000 thousand and letters of credit up to PLN 8,000 thousand. The multi-purpose agreement was signed on 09.07.2015. The contract expires on July 9, 2020. The agreement is secured with a blank promissory note along with a promissory note declaration, a fixed charge on "W.KRUK" trademark and floating charge on company's inventory, a guarantee granted by Vistula Group S.A., trilateral agreement on credit card payments, assignment of rights under the insurance policy, declaration on submission to enforcement.
- investment loan in the amount of PLN 71,400 thousand. The contract was signed on 09.03.2015. The contract expires on December 31, 2024. The agreement is secured with a blank promissory note along with a promissory note declaration, a fixed charge on "W.KRUK" trademark and floating charge on company's inventory, a guarantee granted by Vistula Group S.A., trilateral agreement on credit card payments, assignment of rights under the insurance policy, declaration on submission to enforcement.
- a credit line in the amount of PLN 11,500 thousand entitling to use the overdraft facility up to PLN 9,000 thousand and execution of guarantees and letters of credit up to PLN 2,500 thousand. The repayment will take place on 25.06.2019. The loan was secured with a VRG guarantee, a mortgage, a floating charge on inventory, and assignment of rights under the insurance policy.
- investment loan in the amount of PLN 2,000 thousand. The contract was signed on July 18, 2017. The contract expires on 07.03.2020. The loan was secured with a VRG guarantee, a mortgage, a floating charge on inventories and assignment of rights under the insurance policy.
- investment loan in the amount of PLN 4,022 thousand. The contract was signed on 30.06.2016. The contract expires on March 31, 2023. The loan was secured with a VRG guarantee, a mortgage, a contractual right to collect debts and assignment of rights under the insurance policy and lease contracts for real estate and equipment lease.

As at 30.06.2019, the Capital Group conducted all due loan repayments and interest payments.

Note 16 Other financial assets and liabilities

The fair value of financial assets and financial liabilities is determined as follows:
- the fair value of financial assets and financial liabilities with standard terms that are traded on active, liquid markets is determined by reference to stock prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted valuation models based on discounted cash flow analysis, using prices from observable current market transactions and traders' quotes for similar instruments;
- the fair value of derivative instruments is calculated using stock prices. In case of lack of access to these prices, the analysis of discounted cash flows using the appropriate yield curve for the duration of the instrument for non-optional instruments and option pricing models for optional instruments are applied.

In the period from January 1, 2019 to June 30, 2019, there was no transfer between the levels in the hierarchy of fair value used in the fair value measurement, and there was no change in the classification of financial assets due to a change in the purpose or use of these assets.

Currency derivatives

The Group uses currency derivatives to hedge future cash flows against currency risk. The Group has forward contracts as hedging transactions for the purchase of currency. Derivative instruments are denominated in USD and EUR. As at 30.06.2019, the balance in nominal value is USD 4,720 thousand, EUR 950 thousand and PLN 21,828 thousand once translated at the exchange rate of the transaction. As at the balance sheet date, the Group measures its transactions at fair value, the difference from the valuation is included in financial income or costs. The valuation of derivative instruments is included in the level two hierarchy, i.e. the valuation is based on market assumptions.

Note 16a Financial instruments by type

Balance sheet items	PLN ths					
	1H19		2018		1H18	
	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost
Loans granted	-		-		-	
Trade and other receivables	31,126		24,493		36,408	
Cash and cash equivalents	23,038		33,523		17,695	
Long-term loan and lease liabilities		275,239		74,561		81,626
Short-term loan and lease liabilities		160,581		27,620		44,961
Trade and other liabilities		167,472		192,820		99,188
Total	**54,164**	**603,292**	**58,016**	**295,001**	**54,103**	**225,775**

The Group carried out the analysis which concluded that the value of financial instruments shown in the statement of financial position does not significantly differ from their fair value due to the fact that the majority of these instruments have floating rates.

Note 16b Financial instruments - revenues and costs, gains and losses from change in value

Balance sheet items	PLN ths				
	1H19				
	Interest income	Interest expense	Write-offs	Reversed write-offs	Gains and losses from FX
Loans granted					
Trade and other receivables	16		1,083	153	124
Cash and cash equivalents	3				27
Loan and lease liabilities		4,407			0
Trade and other liabilities		83			3,529
Total	**19**	**4,490**	**1,083**	**153**	**3,680**

Balance sheet items	PLN ths				
	1H18				
	Interest income	Interest expense	Write-offs	Reversed write-offs	Gains and losses from FX
Loans granted	-	-	-	-	-
Trade and other receivables	75	-	560	145	- 19
Cash and cash equivalents	9	-	-	-	- 9
Loan and lease liabilities	-	2,395	-	-	-
Trade and other liabilities	-	48	-	-	- 232
Total	**84**	**2,443**	**560**	**145**	**- 260**

Note 17 Deferred income tax

The following items are the main items of deferred tax assets and liabilities recognised by the Group and their changes in the current and previous reporting period:

	PLN ths				
	Balance sheet			Profit or loss statement	
	1H19	2018	1H18	1H19	1H18
Deferred tax liabilities	**939**	**1,320**	**743**	**- 381**	**- 40**
Balance sheet valuation - positive exchange rate differences	155	52	211	103	83
Interest accrued on receivables	7	7	7	-	-
Property valuation	-	295	301	- 295	- 6
Net advances paid	77	85	88	- 6	- 115
Valuation of loans at amortized cost	105	104	136	1	-
Valuation of Forward transactions	-	2	-	- 2	-
Accelerated tax depreciation	480	687	-	- 207	-

	PLN ths				
	Balance sheet			Profit or loss statement	
	1H19	2018	1H18	1H19	1H18
Fixed assets in lease	114	87	-	27	
Other	1	1	-	- 2	- 2
Allocated to financial result	**939**	**526**	**743**	**- 381**	**- 40**
Allocated to equity	**-**	**794**	**-**	**-**	**-**
Deferred tax assets	**7,416**	**6,429**	**5,150**	**987**	**- 681**
Accelerated balance sheet depreciation	1,442	1,440	1,488	2	64
Post-employment benefits (severance pay)	26	60	58	- 34	- 30
Write-offs	2,204	1,090	924	1,006	-332
Provisions, wages and social security	1,291	1,724	1,149	- 359	- 472
Balance sheet valuation - negative exchange differences	22	56	118	1	64
Losses carryforward	-	-	-	-	-
Receivables from unrelated parties	631	631	520	-	9
Write-off of receivables from customers	834	819	335	252	- 36
Accrued interest	104	-	54	- 134	52
Derivatives valuation	36	-	-	36	-
Valuation of the loyalty program	609	609	504	-	-
Provision for returns	217	-	-	217	-
Allocated to the financial result	**7,416**	**6,275**	**5,150**	**987**	**- 681**
Allocated directly to equity	**-**	**154**	**-**		**-**

The creation of deferred tax asset results from the assessment of the probability that future taxable profits and tax base will be achieved allowing deduction of negative temporary differences and tax losses, which justifies the creation of deferred tax assets as at June 30, 2019.

Note 18 Finance lease liabilities

Minimum lease payments	PLN ths		
	1H19	2018	1H18
Finance lease agreements (the period for which they were concluded):	291,310	5,366	2,240
Below 1 year			
From year 2 to year 5	4,759	5,366	2,240
IFRS16	286,551	-	-
Discounted value of finance lease liabilities	**291,310**	**5,366**	**2,240**
Minus: The amounts due for settlement within 12 months (shown as current liabilities)	1,624	1,739	549
IFRS16	82,924		
The value of payments after 12 months	3,135	3,627	1,691
IFRS16	203,627		

The fair value of the Group's lease liabilities corresponds to its book value.

Note 19 Trade and other liabilities

Trade and other liabilities arise mainly from commercial purchases and costs of ongoing business operations. The average payment period accepted for commercial purchases is 45 days.

Trade and other liabilities	PLN ths		
	1H19	2018	1H18
Trade liabilities	99,578	121,754	68,503
Trade liabilities to related parties (note 28)	-	-	-
Other liabilities to related parties (note 28)	-	-	-
Tax, subsidies, customs, social security and other benefits liabilities	16,710	26,262	11,230
of which income tax liabilities	*2,183*	*4,897*	-
Financial liabilities (reverse factoring)	23,768	20,868	-
Deferred income liabilities	10,007	8,107	6,651
Other	17,409	15,829	12,804
Total short-term liabilities	**167,472**	**192,820**	**99,188**

Short-term liabilities (currency structure)	PLN ths		
	1H19	2018	1H18
a) PLN	125,174	141,622	65,513
b) in foreign currencies (by currency and after conversion into PLN)	42,298	51,198	33,675
b1. in EURO thousands	5,170	5,577	4,578
PLN thousands	21,999	23,980	19,941
b2. in USD thousands	4,783	5,355	2,687
PLN thousands	17,859	20,130	10,062
b3. in CHF thousands	570	1682	928
PLN thousands	2,185	6,419	3,500
Other currencies in PLN thousands	255	669	172
Total short-term liabilities	**167,472**	**192,820**	**99,188**

Deferred income liabilities include the loyalty program valuation. The value of deferred income is determined taking into account the conversion factor of the points awarded and the probability of the reward realization. The amount of future deferred income related to the loyalty program presented in the statement of financial position amounts to PLN 3,206 thousand as at June 30, 2019 (as at December 31, 2018, PLN 3,206 thousand and PLN 2,654 thousand as of 30.06.2018).

The time required to meet the obligations arising from the supply of raw materials, materials and goods is 30-150 days, and 10-21 days for the delivery of services.

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

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

Note 20 Provisions

	Provision for employment costs	Provision for future liabilities	Provision for work in progress	Returns from customers	Other	Total
Balance as at January 1, 2018	**5,982**	**951**	**1,298**		**-**	**8,231**
– consolidation adjustment	-	-	-		-	-
– provisions created during the financial year	15	4	-		-	19
– release / use of provisions	- 2,541	- 63	- 100			- 2,704
Balance as at June 30, 2018	**3,456**	**892**	**1,198**			**5,546**
– allocated to short-term liabilities	2,920	892	1,198			5,010
– allocated to long-term liabilities	536					536
Balance at January 1, 2018	**5,982**	**951**	**1,298**		**-**	**8,231**
– consolidation adjustment	141	3,308	-	516	-	3,965
– provisions created during the financial year	2,936	8	7	-	7	2,958
– release / use of provisions	- 2,953	- 244	- 24			- 3,221
Balance at December 31, 2018	**6,106**	**4,023**	**1,281**	**516**	**7**	**11,933**
– allocated to short-term liabilities	5,199	4,023	1,281	516	7	11,026
– allocated to long-term liabilities	907	-	-	-	-	907
Balance at January 1, 2019	**6,106**	**4,023**	**1,281**	**516**	**7**	**11,933**
– consolidation adjustment	-	-	-	-	-	-
– provisions created during the financial year	31	-	-	-	-	31
– release / use of provisions	- 2,477	- 168	- 4	-	-	- 2 649
Balance as at June 30, 2019	**3,660**	**3,855**	**1,277**	**516**	**7**	**9,315**
– allocated to short-term liabilities	2,753	3,855	1,277	516	7	8,408
– allocated to long-term liabilities	907	-	-	-	-	907

Provisions created were charged respectively to general administrative expenses, selling costs or other operating costs, and provisions released were allocated respectively as a reduction in general administrative expenses and selling costs or to other operating revenues.

The balance of provisions as at 30.06.2019 consists of:

PLN 907 ths long-term provision for retirement benefits	**PLN 122 ths** short-term provision for retirement benefits	**PLN 2,631 ths** short-term provision for unused holidays		**PLN 9,315 ths TOTAL**
PLN 1,277 ths short-term provision for sewing services	**PLN 3,855 ths** provision for future liabilities	**PLN 516 ths** provision for returns from customers	**PLN 7 ths** other provisions	

Provisions for retirement benefits are calculated by an independent actuary. The main actuarial assumptions that were used for calculations were: the discount rate of 2.9%, the long-term annual growth rate of remuneration 3.0%, the probability of departing employees on the basis of historical data on employment turnover in the Capital Group.

Sensitivity analysis prepared by the actuary did not show significant deviations of the value of the provision between each of the considered scenarios. The value of the provision will be updated based on the calculation of an independent actuary as at December 31, 2019.

Note 21 Share capital

Series / issue	PLN ths							
	Type of share	Type of share preference	Type of share rights restriction	Number of shares	Issue value by nominal value	The method of capital payment	Registration date	The right to dividends (from date)
Issue "A"	common	ordinary bearer		1,000,000			1991-04-30	
Share split (1 : 5)	common	ordinary bearer		5,000,000			1994-01-28	
Issue "B"	common	ordinary bearer		1,000,000			1995-01-05	
Share redemption		ordinary bearer		-1,115,470				
Issue „D”	common	ordinary bearer		2,281,125			2006-08-31	
Issue „F”	common	ordinary bearer		716,564			2006-11-30	
Issue „C”	common	ordinary bearer		140,000			2007-01-22	
Share split (1 : 10)	common	ordinary bearer		80,222,190			2007-09-06	
Issue „G”	common	ordinary bearer		8,021,810			2008-10-06	
Issue „H”	common	ordinary bearer		15,059,932			2008-12-31	
Issue „I”	common	ordinary bearer		8,247,423			2009-12-17	
Issue „K”	common	ordinary bearer		22,310,270			2012-09-12	
Issue „M”	common	ordinary bearer		40,000,000			2013-09-16	
Issue „L”	common	ordinary bearer		859,366			2015-06-19	
Issue „L”	common	ordinary bearer		473,973			2016-05-31	
Issue „N”	common	ordinary bearer		1,980,000			2016-05-31	
Issue „N”	common	ordinary bearer		2,020,000			2017-07-07	
Issue „N”	common	ordinary bearer		2,000,000			2018-06-29	
Issue „O”	common	ordinary bearer		53,260,879			2018-12-28	
Total number of shares				234,455,840				
Total issued capital					49,122,108.00			
The nominal value of one share (PLN) = 0.20.								

The Parent Company has one type of ordinary shares without the right to permanent income.

As at June 30, 2019, all shares issued were fully paid up.

Share capital	PLN ths		
	1H19	2018	1H18
Registered: 234,455,840 common shares PLN 0.20 each (year 2018: 234,455,840 common shares PLN 0.20 each; 1H18 181,194,964 common shares PLN 0.20 each)	49,122	49,122	38,470
Issued:	49,122	49,122	38,470

234,455,840 common shares PLN 0.20 each (year 2018: 234,455,840 common shares PLN 0.20 each; 1H18 181,194,964 common shares PLN 0.20 each)			

In accordance with the requirements of the Code of Commercial Companies, the dominating entity is obliged to create capital reserves to cover losses. At least 8% of the profit for a given financial year reported in the separate financial statements of the dominating entity is transferred to this capital category until this capital reaches at least one third of the dominating entity's share capital. The General Shareholder Meeting decides on the use of reserve capital and other capital reserves, however, part of the capital reserves in the amount of one third of the share capital may be used only to cover the loss disclosed in the dominating entity's separate financial statements and is not subject to any other purposes. Capital requirements were met in 1H19.

Note 22 Reserve capital

	PLN ths
Balance as at January 1, 2018	13,729
Increase due to stock option programme valuation	179
Decreases	
As at June 30, 2018	**13,908**
Balance as at January 1, 2018	13,729
Increase due to stock option programme valuation	239
Decreases	
As at December 31, 2018	**13,968**
Balance as at January 1, 2019	13,968
Increase due to stock option programme valuation	426
Decreases	
As at June 30, 2019	**14,394**

Reserve capital results from the stock option programme and is created proportionally to its timing.

Note 23 Retained earnings

	PLN ths
Balance at January1, 2018	490,692
Consolidation adjustment	
Agio	3,598
Profit distribution/ dividend payment	- 142
Net profit for the period	14,218
As at June 30, 2018	**508,366**
Balance at January1, 2018	490,692
Merger between VRG S.A. and Bytom S.A	2,547
Agio	195,337
Net profit for the period	53,572
Profit distribution/ dividend payment	- 141
As at December 31, 2018	**742,007**
Balance at January1, 2019	742,007

	PLN ths
Consolidation adjustment	1
Agio	
Profit distribution/ dividend payment	
Net profit for the period	21,470
As at June 30, 2019	**763,478**

This item presents the net financial result of previous financial years, as well as adjustments to the financial result related to previous years and resulting from errors of previous years or changes in accounting policies.
Retained earnings include all supplementary capital, undistributed results from previous years of the parent entity and subsidiaries.

Note 24 Conditional receivables and liabilities

OFF-BALANCE SHEET	PLN ths		
	1H19	2018	1H18
– issued bank guarantees for rents for renting store premises	46,015	37,462	31,192
– open letters of credit	43,354	36,819	12,333
– promissory notes as collateral for lease liabilities	685	634	665
Total off balance sheet	**90,054**	**74,915**	**44,190**

There are no conditional receivables within the Group.

Note 25 Share-based payments

On June 27, 2018, the Company's Annual General Shareholder Meeting adopted Resolution No. 17/06/2018 regarding the adoption of the terms of the incentive program for members of the Company's Management Board, key managers or other persons of significant importance to the Company (and companies from its capital group), issuance of subscription warrants with the exclusion of pre-emptive rights, conditional increase of the Company's share capital by issuing new shares excluding pre-emptive rights, amendment of the Company's Articles of Association, authorization of the Company's Management Board to conclude a contract for registration of new issue shares at the National Depository for Securities and authorizing the Company's Management Board to take all appropriate actions to admit new issuance shares to trading on the regulated market ("Resolution"). On the basis of the resolution, a new incentive program for 2018-2020 was introduced in the Company. The Company's General Shareholder Meeting agreed to issue a total of 7,050,000 F-series subscription warrants in three tranches settled independently for 2018, 2019 and 2020 based on the criteria specified in the Resolution regarding the average annual change in the Company's share price, as well as consolidated net profit and consolidated EBITDA, convertible into P-series bearer shares of Vistula Group SA with a nominal value of PLN 0.10 each. All P-series shares will be acquired in exchange for cash contributions. The issuance price of P-series shares will be equal to the average closing prices of the Company's shares on the Warsaw Stock Exchange for the last month preceding the day of adopting the Resolution minus 5% for one P series share. Each F-series subscription warrant entitles the person named by name in the content of the warrant to subscribe for one ordinary share on P-series Vistula Group SA.Management Board Members, the key managerial personnel and persons of significant importance for VRG S.A. and companies from its capital group, regardless of the form and legal basis for performing their duties in the above positions are entitled to subscribe for F-series subscription warrants provided they remin within the group as of the day of the offering.

The nominal value of the conditional increase of the share capital in the amount of PLN 5,565,400.00 was registered on August 6, 2018.

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

F-series subscription warrants were allocated to program participants in 2019. Valuation expenses will be incurred in subsequent years.

Data needed for the stock option programme valuation.

	1H19	2018	1H18
share price as at the grant date	4.48	-	-
strike price	4.22	-	-
expected volatility	25%	-	-
option time expectancy (in months)	36	-	-
risk free rate	1.7%	-	-
expected dividend yield	0.00%	-	-

In the first half of 2019, the amount of PLN 426 ths was charged to overheads due to the valuation of the incentive program (in 2018: PLN 239 ths; in the first half of 2018: PLN 179 ths).

PLN 827.0m
of equity

Note 26 Significant events of 1H19

01.2019

Notification regarding a significant block of shares.

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

03.2019

Notification regarding a significant block of shares.

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

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

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

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

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

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

In the current report No. 8/2019, the Company announced that on March 27, 2019, the merger plan of VRG S.A. was agreed and signed (hereinafter also: the "Acquiring Company") and its subsidiary, i.e. BTM 2 Sp. z o.o. (hereinafter also "Acquired Company"). BTM 2 Sp. z o.o. has previously been part of the VRG S.A. capital group as a result of the merger of BYTOM S.A. with the Company.

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

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

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

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

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

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

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

04.2019

Notification regarding a significant block of shares.

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

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

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

05.2019

Notification regarding a significant block of shares

In current report No. 28/2019, the Company announced that on May 28, 2019 it received from IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw ("Fund"), information sent pursuant to art. 69 clause 1 point 2 and art. 87 paragraph 1 point 2 of the Act of 29 July 2005 on public offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies (the "Act") that, as a result of the sale by the IPOPEMA 2 FIZ Non-Public Assets fund managed by the Fund, of the Company's shares in a transaction carried out on a regulated market on May 21, 2019, settled on May 23, 2019, the share of funds managed by the Fund in the total number of votes in the Company fell below the 10% threshold in the total number of votes in the Company.

Prior to the above-mentioned event, all funds managed by the Fund held a total of 23,459,945 shares of the Company, which constituted 10.01% of the share capital of the Company and gave 23,459,945 votes, which constituted 10.01% in the total number of votes at the Company's General Shareholder Meeting.

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

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

06.2019

Notification regarding a significant block of shares

In current report No. 30/2019, the Company announced that it had received from IPOPEMA Investment Company S.A. with its registered office in Warsaw ("the Fund"), information of June 3, 2019 sent on the basis of 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 companies (the "Act") that, as a result of the acquisition by the IPOPEMA 2 FIZ Non-Public Assets fund managed by the Fund, of the Company's shares in a transaction carried out on the regulated market on May 27, 2019, settled on May 28, 2019, the share of funds managed by the Fund in the total number of votes in the Company increased above the 10% threshold in the total number of votes in the Company.

Before the above-mentioned event, all funds managed by the Fund held a total of 23,159,945 shares of the Company, which constituted 9.88% of the Company's share capital and gave 23,159,945 votes, which constituted 9.88% of the total number of votes at the Company's General Shareholder Meeting.

After the aforementioned event, all funds managed by the Fund have a total of 26,159,945 shares of the Company, which constitutes 11.16% of the share capital of the Company and gives 26.159.945 votes and constitutes 11.16% in the total number of votes at the Company's General Shareholder Meeting of the Company .

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

Appointment of the Nomination and Remuneration Committee within the Company's Supervisory Board

In current report no. 34/2019, the Company announced that on June 14, 2019, it received information about the appointment by the Supervisory Board of the Company of an internal Nomination and Remuneration Committee ("Committee"), the number of which was set at three persons. The following members of the Supervisory Board were appointed to the Committee: Mr. Jerzy Mazgaj - Chairman of the Committee, Mrs. Grażyna Sudzińska-Amroziewicz - Member of the Committee, Mr. Jan Pilch - Member of the Committee.

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

In current report no. 35/2019, the Company announced the content of resolutions adopted by the Company's Ordinary General Shareholder Meeting on June 17, 2019 ("General Meeting"), including content of Resolution No. 25/06/2019 of the Annual General Meeting of the VRG S.A. of June 17, 2019 on the merger of VRG S.A. with the subsidiary BTM 2 Sp. z o.o. ("Resolution").
Pursuant to the resolution, the Company's General Shareholder Meeting under the name VRG S.A. with its registered office in Cracow (the "Company") acting pursuant to art. 492 § 1 point 1) and art. 506 of the Code of Commercial Companies decided to:
1. to adopt a resolution on merger of the Company with the company BTM 2 Spółka z o.o. with its registered office in Cracow (31-462), Pilotów 10 St., entered in the Register of Entrepreneurs of the National Court Register by the District Court for Cracow – Cracow Śródmieście, 11th Commercial Department of the National Court Register under the number KRS 0000605215, NIP 9442250477, REGON 363895872 (hereinafter referred to as the "Acquired Company") pursuant to art. 492 § 1 point 1 of the Code of Commercial Companies, i.e. by transferring all the assets of the Acquired Company to the Company - on the terms set out in the merger plan agreed between the Company and the Acquired Company on March 27, 2019 (hereinafter referred to as the "Merger Plan"), which in accordance with art. 500 § 21 of the Code of Commercial Companies, has been made available in the Company's current report No. 8/2019 of March 27, 2019, as well as on the website www.vrg.pl and on the website www.btm2.pl; The Merger Plan constitutes an attachment to this resolution;
2. agree to the Merger Plan;
3. authorize the Company's Management Board to perform all necessary factual and legal actions related to the procedure of merging the Company with the Acquired Company.
The resolution came into force on the day of its adoption. The merger of the Company with the Acquired Company will take place as soon as the merger is entered in the Register of Entrepreneurs by the competent registry court.

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

In current report no. 35/2019, the Company informed about the content of resolutions adopted by the Ordinary General Meeting of the Company on June 17, 2019 ("General Meeting"), including content of resolutions regarding changes in the composition of the Company's Supervisory Board of the current term:
a) pursuant to Resolution No. 20/06/2019 of the General Meeting regarding the dismissal of a member of the Company's Supervisory Board, Mr. Maciej Matusiak was dismissed from the Company's Supervisory Board of the current joint term of office.
b) pursuant to Resolution No. 21/06/2019 of the General Meeting regarding the appointment of a member to the Company's Supervisory Board, Mr. Piotr Kaczmarek was appointed to the Company's Supervisory Board for the current joint term of office.
c) on the basis of Resolution No. 22/06/2019 of the General Meeting regarding the appointment of a new member of the Company's Supervisory Board, Mr. Paweł Tymczyszyn was appointed to the Company's Supervisory Board for the current joint term of office.

Note 27 Events after the balance sheet date

07.2019

Notification regarding a significant block of shares.

In current report no. 37/2019, the Company announced that it received from IPOPEMA Investment Company S.A. with its registered office in Warsaw ("Fund"), information of July 1, 2019 sent pursuant to art. 69 clause 1 point 1, art. 69 clause 2 point 1 lit. a and art. 87 paragraph 1 point 2 of the Act of July 29, 2005 on public offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies (the "Act") that as a result of the acquisition by IPOPEMA 21 FIZ of Non-Public Assets managed by the Company ("Fund") of the Company's shares in a transaction carried out on a regulated market on June 25, 2019, settled on June 26, 2019, the stake managed by the Fund in the total number of votes in the Company increased by more than 2%, as well as above the 15% threshold in the total number of votes in the Company.
Before the abovementioned event, the Fund held 4,200,000 shares of the Company constituting 1.79% of the share capital of the Company, giving 4,200,000 votes, which constituted 1.79% in the total number of votes at the Company’s General Shareholder Meeting.
After the abovementioned event, the Fund holds a total of 13,800,226 shares of the Company, which constitutes 5.89% of the share capital of the Company and give 13,800,226 votes, constituting 5.89% in the total number of votes at the Company’s General Shareholder Meeting.
Prior to the above-mentioned event, all funds managed by the Fund held a total of 26,155,825 shares of the Company, which constituted 11.16% of the share capital of the Company and gave 26,158,825 votes, which constituted 11.16% in the total number of votes at the Company’s General Shareholder Meeting.
After the above-mentioned event, all funds managed by the Fund hold a total of 35,759,051 shares of the Company, which constitutes 15.25% of the share capital of the Company and gives 35,759,051 votes and constitute 15.25% in the total number of votes at the Company’s General Shareholder Meeting.
At the same time, the Fund announced that the funds managed by the Company do not have financial instruments referred to in art. 69 b paragraph 1 of the Act.

Merger between the Parent Company and subsidiary

In current report No. 38/2019, the Company (hereinafter referred to as the "Issuer") announced that on July 2, 2019 it received information about the fact that on July 1, 2019 it was made by the District Court for Cracow – Cracow Śródmieście, 11th Commercial Department - Of the National Court Register, entry in the Register of Entrepreneurs of the National Court Register, merger of the Issuer _ "Acquiring Company" _ with a subsidiary BTM 2 Sp. z o.o. based in Cracow, entered into the Register of Entrepreneurs of the National Court Register under KRS number 0000605215 _ "Company Acquired '_, which had previously become part of the Issuer's capital group as a result of the merger of BYTOM SA with the Issuer. In accordance with art. 493 § 2 of the Code of Commercial Companies, the merger of companies takes place on the date of entering the merger into the appropriate register according to the seat of the Acquiring Company, i.e. on July 1, 2019. This entry results in the deletion from the register of the Acquired Company, i.e. BTM 2 Sp. z o.o.
Pursuant to art. 494 Code of Commercial Companies the Company is the legal successor of BTM 2 Sp. z o.o., i.e. on the day of the merger, it entered into all the rights and obligations of BTM 2 Sp. z o.o. as the Merged Company.

The merger took place on the basis of art. 492 § 1 item 1) of the Code of Commercial Companies by transferring all assets of the Acquired Company to the Acquiring Company.
Due to the fact that the Company as the Acquiring Company was the sole shareholder of the Merged Company and had 100% shares in the share capital of the Merged Company, the merger took place in a simplified manner and pursuant to art. 515 § 1 of the Code of Commercial Companies, the merger was carried out without increasing the Issuer's share capital as the acquiring company and without taking up any shares in the share capital of the Acquiring Company by the shareholders of the Acquired Company.
Due to the lack of increase of the Company's share capital and the fact that the merger does not cause new circumstances requiring disclosure in the Company's Articles of Association, no changes have been made to the Company's Articles of Association in connection with the merger.
Merger of VRG S.A. companies and BTM 2 Sp. z o.o. will be included in the financial statements including the economic combination of entities (creation of control). This means that the book values of VRG S.A.'s assets and liabilities will be added to the book value of the respective assets and liabilities of the acquired company BTM 2 Sp. z o.o., after making appropriate adjustments (including reciprocal adjustments, valuation adjustments related to the acquisition of control, adjustments for intragroup transactions). Settlement of merger transactions of VRG S.A. and BTM 2 Sp. z o.o. will be included in the separate and consolidated financial statements for the third quarter of 2019.

Note 28 Related party transactions

During the financial year the Company concluded the following transactions with related entities:

	PLN ths											
	Sale of products, goods, materials and services			Purchase of products, goods, materials and services			Amounts due from related parties			Amounts due to related parties		
	1H19	2018	1H18	1H19	2018	1H18	As at 30.06.2019	As at 31.12.2018	As at 30.06.2018	As at 30.06.2019	As at 31.12.2018	As at 30.06.2018
Vistula Market Sp. z o.o.	-		-	-		-	1,983	1,983	1,983	-		-
DCG SA	4	16	9	-		-	1		-	-		-
VG Property Sp. z o.o.	1	4	4	80	143	75	-	-	1	3	33	12
W.KRUK S.A.	3,369	7,270	3,574	9	19	6	1,179	718	1,413	-	-	-
Wólczanka Shirts Manufacturing Sp. z o.o.	64	656	374	1,861	5,103	2,587	842	773	702	98	159	214
BTM 2 Sp. z o. o	7	-	-	561	-	-	-	17	-	1,179	998	-
Total	**3,445**	**7,946**	**3,961**	**2,511**	**5,265**	**2,668**	**4,005**	**3,491**	**4,099**	**1,280**	**1,190**	**226**
Balance of write-offs							- 1,983	- 1,983	- 1,983			
Amounts due from related parties net							**2,022**	**1,508**	**2,116**			

Costs of sold products, goods and services amounted to PLN 683 ths (2018: PLN 1,546 ths; 1H18: PLN 772 ths).

Financial income amounted to 0 ths (2018: PLN 2 ths; 1H18: PLN 1 ths), and financial costs amounted to PLN 568 ths (2018; PLN 102 ths; 1H18: PLN 0 ths).

Other operating income amounted to 0 ths (2018 PLN 0 ths; 1H18 PLN 1 ths), and other operating costs amounted to PLN 0 ths (2018 PLN 0 ths; 1H18 PLN 0 ths).

Sales of goods to related parties were made at prices resulting from the Company's price list. Purchases were made at discounted market prices to reflect the quantity of goods purchased and relationships between the parties.

Receivables from loans granted to related parties as at 30.06.2019 amount to PLN 258 ths (as at 31.12.2018: PLN 262 ths, as at 30.06.2018 PLN 270 ths), these receivables were written-off as at June 30, 2019 in the amount of PLN 227 ths (as at 31.12.2018: PLN 227 thousand, as at 30.06.2018 PLN 227 ths).

Other receivables from related parties as at June 30, 2019 amount to PLN 4,300 ths (as at 31.12.2018: PLN 4,400 ths, as at 30.06.2018 PLN 4,300 ths), these receivables were covered by write-off as at 30.06.2019 in the amount of PLN 4,300 ths (as at 31.12.2018: PLN 4,300 ths, as at 30.06.2018 PLN 4,300 ths).

Receivables are not secured and their repayment is to be made in cash. As at 30.06.2019, write-offs for receivables from related parties amounted to PLN 6,510 ths (31.12.2018: PLN 6,510 ths, as at 30.06.2018 PLN 6,510 ths). In 1H19, write-offs were created for the amount of PLN 0 ths, and released in the amount of PLN 0 ths.

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

In 1H19, the Parent Company did not grant any additional guarantees to its subsidiaries.

As at 30.06.2019, the balance of guarantees granted in previous periods by the Parent Company to subsidiaries W.KRUK S.A., DCG S.A. and VG Property Sp. z o.o. for the liabilities of W.KRUK S.A., DCG S.A. and VG Property Sp. z o.o. towards Bank PKO BP S.A. resulting from loan agreements is the following:

a) A term loan agreement (Loan B) up to the amount of PLN 71,400,000.00 concluded by the Company on March 9, 2015, transferred to W.KRUK S.A. after taking over the organized business unit of the Company by W.KRUK S.A. as a result of which the borrower changed in the Loan Agreement B, i.e. the Company was replaced by W.KRUK S.A. as the borrower in full of the rights and obligations of the borrower, therefore the debt was taken over by W.KRUK S.A. After the transfer of the borrower's rights and obligations to W.KRUK S.A., the Company is responsible for the repayment of Loan B under a guarantee up to a maximum amount not exceeding PLN 107,100,000, with the possibility of its release after 3 years.

b) Multi-purpose credit limit agreement up to the amount of PLN 11,500,000.00 entered into by a subsidiary company DCG S.A. on 25.06.2015. One of the collateral for repayment of liabilities of DCG S.A. to the bank under this agreement is a guarantee by the Company up to a maximum amount of PLN 17,250,000, the guarantee is valid until December 31, 2021.

c) Investment loan agreement up to the amount of PLN 4,021,500.00 concluded by a subsidiary company VG Property Sp. z o.o. on 30.06.2016. One of the collateral for repayment of liabilities of VG Property Sp. z o.o. to the bank under this agreement is a guarantee by the Company up to a maximum amount of PLN 6,032,250, the guarantee is valid until the full repayment of the loan.

Note 29 Accounting policy

The presented financial statements have been prepared in accordance with IFRS.
The rules for preparing the financial statements have been described in the general information to this report.

5. ISSUANCE, REDEMPTION AND REPAYMENT OF DEBT AND CAPITAL SECURITIES

During the six months ended June 30, 2019, the parent company did not issue any shares.

6. PAID AND DECLARED DIVIDENDS

In 1H19, 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 PROCEEDINGS

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

8. CREDIT OR LOAN GUARANTEES GRANTED

As at 30.06.2019, there were no other sureties or guarantees other than those granted to related entities, which are described in note 28.

9. REMUNERATION OF THE MANAGEMENT AND SUPERVISORY BOARD IN 1H19

Management Board	Grzegorz Pilch	President of the Management Board	PLN 1,611 ths	PLN 3,334 ths
	Mateusz Żmijewski	Vice-President of the Management Board	PLN 947 ths	
	Michał Wójcik	Vice-President of the Management Board	PLN 538 ths	
	Erwin Bakalarz	Management Board Member	PLN 238 ths	

Supervisory Board	Jerzy Mazgaj	Chairman of the Supervisory Board	PLN 127 ths	PLN 507 ths
	Artur Małek	Supervisory Board Member	PLN 63 ths	
	Katarzyna Basiak- Gała	Supervisory Board Member	PLN 58 ths	
	Grażyna Sudzińska-Amroziewicz	Supervisory Board Member	PLN 64 ths	
	Andrzej Szumański	Supervisory Board Member	PLN 63 ths	
	Maciej Matusiak	Supervisory Board Member	PLN 58 ths	
	Jan Pilch	Supervisory Board Member	PLN 64 ths	
	Piotr Kaczmarek	Supervisory Board Member	PLN 5 ths	
	Paweł Tymczyszyn	Supervisory Board Member	PLN 5 ths	

The managing and supervising persons received remuneration for performing functions in the bodies of subsidiaries.

Total remuneration for the first half of 2019 amounted to PLN ths, including:

Jerzy Mazgaj	PLN 186 ths	PLN 343 ths
Grzegorz Pilch	PLN 37 ths	
Mateusz Żmijewski	PLN 37 ths	
Jan Pilch	PLN 77 ths	

Michał Wójcik	PLN 6 ths.

The Group has an incentive program based on the Company's share options, for detailed information on the program and its terms, see Note 25 to the consolidated financial statements. Managers are entitled to benefits specified in employment contracts.

Apart from the benefits listed above, there were no other benefits for the management and supervisory staff, including for post-employment benefits, termination benefits, and other long-term benefits.

10. SIGNIFICANT RISK FACTORS

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

Economic risk related to the macroeconomic situation	The level of the Group's revenues depends on the economic situation, including: dynamics of economic growth, level of unemployment, level of household income and indebtedness, individual consumption, consumer optimism indicators, level of the euro against the Polish zloty exchange rate, interest rates and the state fiscal policy. There is a risk that if the economic situation weakens or deteriorates again, there will be fluctuations in the demand for products offered by the Group, which will adversely affect the results and financial position.
Risk related to the instability of the Polish legal system, including tax system	The potential risk for the Group's operations, just as for all entities with commercial activity, may be the volatility of the law and its interpretation. Changes in commercial law, tax regulations, labour and social security law and other regulations governing the operations of enterprises, in particular in the Group's industry, entail serious risk of running a business and may hinder or prevent the implementation of planned operational activities and financial forecasts. Subsequently, changes in law may lead to a deterioration in the Group’s condition and financial results. New legal regulations may potentially raise certain risks related to interpretation problems, lack of case-law practice, unfavourable interpretations adopted by courts or public administration bodies, etc. Tax law is characterised by a lack of stability. Tax law provisions are often changed, many times to the disadvantage of taxpayers. Changes in corporate taxation in the area of corporate income tax, tax on goods and services or other taxes may have a negative impact on the Company’s activity and earnings levels. Interpretations of tax authorities are also subject to changes, are replaced by others or are contradictory. This results in uncertainty as to the manner in which tax authorities apply law in various, often complex, practical examples occurring in the course of business. The Company is also exposed to risk related to the possibility of changes in interpretation of tax law provisions issued by tax authorities. The factors described above may have a material adverse effect on the Group's growth outlook, results and financial position.
Risk associated with introduction of a trade ban on Sundays	In March 2018, regulations that introduced a trade ban on Sunday entered into force. Introduction of such a prohibition may mean for the Company a significant drop in revenues realized in brick-and-mortar stores. Before partial Sunday trade ban introduction, Sunday was the fourth most important trading day in the week, and its percentage share in sales in 2017 was 14% and fluctuated depending on the individual brands in the Company from 11 - 17 %. Between March – December 2018 the share of sales on Sundays amounted to 9%. We do not assume a proportional translation of the restrictions introduced into the drop in sales and operating result. The Company has taken all the necessary steps, including cost reduction, to minimize the impact of restrictions introduced, however, loss of some of the revenues realized by the Company on Sundays should be reckoned with. Sales data after the gradual expansion of the Sunday trade ban in 2018-19 show that the consumer demand partly shifts to Saturdays and Mondays

	and migrates to the Internet, however, this effect is not neutral. The increase in sales in e-commerce channel as well as the declining profitability of the traditional stores is noticeable. The impact of this risk on the Group's financial results may grow in the face of current regulations, which assume further restriction of trade on Sundays.
Risk of retail sales tax introduction	In connection with the possibility of introducing a tax on retail sales, and in particular the provisions of the currently passed and suspended Act, there is a risk of encumbering part of the Issuer's Capital Group's revenues with this tax. The impact on the Company's financial result would be visible from 2020 (after the whole legislative procedure of the EU).
Risk associated with adopting the wrong strategy	There is a risk that the adopted development strategy of the Group, whose basic assumptions are presented in point "Planned development activities" of the Management's Commentary to financial information presented in the condensed interim consolidated report for 1H19, proves to be inadequate to the changing expectations of customers or market conditions. There is a risk that implementation of the strategy will be delayed or some elements will not be implemented or will not give the expected results. There is, among others, a risk that the Group will not be able to obtain the planned new floorspace, the launch will be delayed or new locations will not achieve the assumed sales results.
Risk related to intensification of competition	VRG S.A. operates in a highly competitive segment of men's fashion. This segment is characterized by fragmentation: on one hand, we possess established Polish brands such as Vistula, Bytom, Wólczanka, W.KRUK but on the other hand there are global brands that aggressively enter the Polish market. This market is characterized by quite low entry barriers. We are also dealing with the emergence of competition from newly established brands. The VRG Group may be forced to look for new supply markets to keep its offer competitive. In addition, it may be necessary to increase marketing and promotion expenditures to reach the target customers. In order to reduce this risk, the Management Board monitors the competitors' activities on an ongoing basis in terms of floorspace development, products offered and the level of prices.
Risk of changing the tastes and behaviours of buyers	An important factor in the success of an apparel company is the sense of changes in fashion trends and current consumer preferences. There is a risk that individual collections or part of the Company's offer, despite the efforts made, will differ from the expectations of customers in a given season, which may cause problems with sales, the need to reduce sales prices or to write off the value of part of the inventory. To reduce this risk, the design department analyses the changing trends and needs of customers so that we still offer the desired products at a good price-to-quality ratio. In addition, an analysis of the sales of individual assortments is carried out in order to select appropriate products in subsequent collections of brands owned by the Company. Over the recent years, as a result of development of new communication technologies, a change in the behaviour of the modern customer is noticeable, i.e. the use of the Internet and mobile devices in the process of purchasing clothes. Thanks to the use of Internet in the purchasing process, the consumer has access to a wide range of brands, often on a global scale. The consumer has the ability to quickly compare products offered in terms of quality and price. He/she pays attention to the delivery time as well as the manufacturing process and country of origin of the product. Knowledge about behaviour of today's consumers and the way of thinking about the purchase of clothing is an important factor affecting the success of apparel companies. VRG S.A. is aware of the changes taking place and undertakes a number of activities aimed at meeting the requirements of today's customers of the clothing market. These activities include: developing an on-line sales channel, customizing the websites of on-line stores to the expectations of the customers (paying attention to whether the website is friendly and easy to use) and mobile devices, shortening the time of the delivery.
Risk related to lease agreements	The operations of the Company are based in a predominant part on retail sale of goods through its own network of stores. One cannot exclude the risk of losing one or several locations, for example in connection with the intention to modernize the entire shopping mall or change in the pricing policy of the landlord. A risk of termination of the lease agreement cannot be excluded if the Company breaches the terms of the rental agreement or due to lack of renewal of the lease agreement in locations characterized by the highest profitability for the Company or bringing satisfactory financial results. There is a risk that the lease terms proposed to the Company for the next period may unfavourably deviate from the previous conditions in a given location.

	Loss of existing locations may cause that it will be necessary to temporarily limit operations in a given area or finding attractive locations will involve increased costs.
Risk related to inventory management	The management of finished products and trade goods is one of material factors affecting the sales results in the Company's industry. On one hand, the level of inventory should make it easier to make a purchasing decision when offering a given seasonal collection, which leads to an increase in inventory at each point of sale. On the other hand - a higher level of inventories generates additional need for working capital and may lead to accumulation of difficult to sell inventory (seasonal products, "fashion", unsuccessful collections). Inappropriate inventory management constitutes a risk for prices, margins and the necessary level of working capital, which may adversely affect the development prospects, results and financial position of the Company.
FX risk	The Group generates revenues primarily in PLN, while it incurs significant costs in EUR and USD, which results in exposure of the financial result to exchange rate risk. In periods of PLN depreciation in relation to the main settlement currencies, the Company incurs higher costs due to accounting for foreign exchange rate differences. In currencies other than PLN, the Company bears the costs of (a) purchasing materials for production (fabrics, accessories, jewellery materials), jewellery, watches and supplementary items in the apparel segment (shoes, knitwear, leather and other accessories) and (b) resulting from lease contracts of commercial space. In case of significant and long-term depreciation of the Polish currency against the euro and the dollar, there is a risk of a significant deterioration in the financial results achieved by the Group. Based on the sensitivity analysis (without taking into account IFRS 16): – average annual increase of the USD / PLN exchange rate by 1% will cause a decrease in the net result by 3%, - average annual increase of the EUR / PLN exchange rate by 1% will reduce the net result by 4%. IFRS 16 has a significant impact on the net result of the Group. A 1% change in the EUR / PLN exchange rate may reduce the result by several percent.
Risk related to hedging policy	In recent years, the Company has undertaken measures to limit the impact of the exchange rate increase on the level of the achieved in- take margin mainly in terms of the USD / PLN exchange rate. The above mentioned changes encompass implementation of the hedging policy, which is to significantly reduce the risk of possible strengthening of the USD, which could have a material adverse effect on the margin realized by the Company. Forward contracts are related to particular deliveries of goods, especially in the fashion segment, and they do not concern the neutralization of possible risk related to increase in rental payments due to a change in the EUR / PLN exchange rate. However, it should be emphasized that while the hedging policy is intended to protect the Parent Company against the risk of significant depreciation of the Polish zloty, especially against the USD, at the same time, in case of the trend reversal and a significant strengthening of the Polish currency it may have a negative impact on the financial results. This impact will be visible in the valuation of currency liabilities related to forward contracts.
Risk of higher prices of raw materials and production costs of suppliers	The Company purchases imported materials for production, especially high-quality fabrics and sewing accessories as well as gold, silver, diamonds and other gems. The cost of the above materials is an important factor affecting the cost of manufacturing of individual products in the Company's offer. In addition, the Company purchases clothing accessories as well as jewellery and luxury watches. The Company, with regard to the required quality, actively seeks the optimal service providers and suppliers. There is a significant risk that with further increase in prices of raw materials or production costs of suppliers / service providers, with little room to alter prices, it will not be possible to maintain margins appropriate to a given type of assortment.

Risk of cost of external services	External services have a significant share in operating costs. These services consist primarily of rents and other fees for lease of commercial space, costs related to sewing services and costs related to transportation and logistics. The Company also purchases a number of standard services (e.g. advertising, telecommunications, legal, consulting, etc.). One cannot exclude the risk of worsening the commercial conditions of one or more external services purchased by the Company, in particular rental costs.
Interest rate risk	As at 30.06.2019, the Company held loan liabilities measured at amortized cost in the amount of PLN 144,349 ths. Therefore, the Company is exposed to interest rate risk due to a change in the debt valuation based on a variable interest rate. An increase in the level of interest rates may increase the cost of financing and, consequently, reduce the Group's profitability. Based on the sensitivity analysis, the average annual increase in the base interest rate by 1% will reduce the net result by 0.04%.
Risk of termination of loan agreement	The Company concluded on March 9, 2015 loan agreements regarding investment financing with PKO BP S.A. bank i.e. a term loan agreement (Loan A) up to PLN 47.6 million and a term loan agreement (Loan B) up to PLN 71.4 million taken on March 31, 2015 by a subsidiary of the Company, i.e. W.KRUK S.A. while maintaining a guarantee from the Company. The above Loan Agreements have been concluded in accordance with the Loan Market Association standards and include a number of covenants to be fulfilled by the Company and W.KRUK S.A. In case of a deterioration of economic situation and a weakening of consumer demand, meeting of covenants may be threatened and thus the risk of terminating contracts by the financing bank arises. Due to the large value of financing, the Parent Company will not be able to refinance it at a short notice. Along with the merger with Bytom S.A., the Company took over multi-product agreements regarding current financing by banks: ING Bank Śląski S.A. (the amount of the Agreement is PLN 40 million) and BGŻ BNP Paribas S.A. (for the amount of PLN 9 million and a factoring agreement in the amount of EUR 3 million). These agreements contain covenants, which Bytom was required to meet, and at the time of the merger, VRG S.A. is responsible for these. In case of a deterioration of economic situation, weakening of the demand for the Company's products, meeting of these covenants may be at risk, which results in the risk of termination of contracts by the financing banks.
Risk of losing financial liquidity	The Group has loan liabilities. As a result, collaterals covering a significant part of the assets were established. The servicing of the above liabilities is carried out primarily using current cash flows from operations. In the extreme case of a rapid, simultaneous drop in demand and increase in costs (especially in a situation of steep zloty depreciation), the Company may experience difficulties in maintaining liquidity.
Risk of collateral and loss of collateral assets	In relation with bank loan and other agreements concluded with many entities, the Company has established numerous collaterals on its entire assets - on real estate and movables, inventory and trademarks. The sum of collaterals exceeds the carrying amount of the Company's assets. There is a risk of failure to meet deadlines or other contractual terms. Delays in the realisation of the above-mentioned obligations may result in immediate termination of all or part of the financing and resultant taking over the assets of the Company by creditor in order to satisfy the subject of the collateral. Loss of significant assets may lead to substantial difficulties in running the business of the Company or even completely block the possibility of conducting business, achieving revenues and profits.
Risk of transactions with related parties	The Company concludes and will conclude transactions with related parties, especially with the production company, the company responsible for the women apparel segment and a company responsible for the jewellery segment. Transactions with related parties may be subject to examination by tax authorities to determine whether they were concluded on an arm's length basis and whether the entity correctly determined tax liabilities. In the opinion of the Management Board of the Company, transactions with

	related parties are concluded and will be conducted on market terms. There is a risk that the tax authorities will question the marketability of the terms of selected transactions with a related parties, which could result in the necessity to pay additional tax with interest for overdue payments.
Risk related to the shareholder structure	The Company is characterised by a fragmented shareholding structure, where the largest shareholder does not exceed 20% of votes at the General Shareholder Meeting, and five significant shareholders hold a total of 58.52% of votes at the General Shareholder Meeting. Most of these shareholders have owned shares of the Parent Company for several years, they participate in shaping the Company's activities through representatives in the Supervisory Board. However, one cannot rule out the risk that one or more of major shareholders will reduce their shareholding or will cease investing in the Company's shares. It cannot be excluded that decisions regarding the strategy and operational activities relevant to the Company will be delayed or even blocked. It cannot be ruled out that despite the current cooperation, the interests of significant shareholders will be divergent / contradictory. The factors listed above may have a material adverse effect on the Company's development prospects, results and financial position.
Risks related to transfer of an organized jewellery business unit of the Company (W.KRUK Unit) in the form of an in-kind contribution to W.KRUK S.A. subsidiary based in Cracow	Since August 1, 2014, in the organizational structure of the Company, a business unit of W.KRUK was separated. This is a part of the Company's operations related to jewellery industry conducted under the W.KRUK brand, which constitutes an organizationally and financially separate unit of tangible and intangible assets in the Company, including commitments intended to perform specific economic tasks in the jewellery segment of the Company ("W.KRUK Unit"). On March 31, 2015, the W.KRUK Unit was sold as an organized business unit of the Company in the form of an organizationally separated set of tangible and intangible assets, by contributing the organized business unit of the Company in-kind to the Subsidiary. The Company acted on the basis of an interpretation received from the Tax Office, however, it cannot be ruled out that the transaction may involve risk of different interpretations of its effects by tax administration in the light of the applicable PCC, CIT and VAT regulations, which may mean additional financial consequences for the Company.
Risk related to guarantees granted to subsidiaries	In relation with the separation of the organized business unit in the form of jewellery assets and transferring them to the subsidiary W.KRUK SA, the Company carried out a simultaneous financial restructuring. As part of this process, W.KRUK S.A. obtained new financing from PKO BP Bank and the Company guarantied for the debts of the subsidiary. In the second quarter of 2015, the subsidiary DCG S.A. received refinancing from the PKO BP Bank, and during the third quarter of 2016, the subsidiary VG Property Sp. z o.o. obtained an investment loan from PKO BP Bank. The above liabilities of subsidiaries of DCG S.A. and VG Property Sp. z o.o. have been guaranteed by the Company. In the event of a sharp deterioration of economic situation and cessation of debt servicing by W.KRUK S.A. or DCG S.A. and VG Property Sp. z o.o. on the basis of the guarantee granted, the Company may be obliged to settle outstanding liabilities of subsidiaries which could result in loss of financial liquidity of the Company.
The risk related to disruptions in the functioning of information systems	The Company uses a number of IT systems, software and programs to provide the appropriate level of communication within the organizational structures of the companies comprising the Group, registering and processing information on economic events in all areas of its operations. The risk of IT disruptions cannot be ruled out in the following areas: (i) Infrastructure (e.g. failures of servers, workstations, network devices, lack of connection to external networks), (ii) software (e.g. malfunction, unauthorized removal, impact of computer viruses), (iii) data resources (loss or destruction of data, unauthorized access to data, unauthorized reproduction of data, unauthorized modification of data, possibility of a targeted cyberattack). As part of the procedures and IT tools used, the Company strives to minimize the possibility of occurrence of the above-described events, but it is not possible to completely exclude the probability of their occurrence, and consequently their negative impact on security and credibility of information and database resources and on security and continuity of service provision.
Risk related to the EU GDPR Directive	Since May 25, 2018, the Regulation of the European Parliament and the EU Council 2016/67 of April 27, 2016 on the protection of individuals with regard to the processing of personal data and on free movement of such data and the repeal of Directive 95/46/WE became applicable in the Polish legal order (GDPR), which applies to all entities processing personal data in their business activities. The GDPR introduces a

	number of changes and extends the responsibilities of administrators and data processors. An important issue is the determination of the maximum level of penalties for infringements of the provisions of the GDPR Directive. The maximum levels were set at EUR 20,000,000 or 4% of the total annual turnover of the enterprise from the pre-infringement financial year. In connection with the above, the Company carried out works aimed at: ▪ adapting its activities to the requirements of GDPR, which include: organizing training for employees, whose activities the provisions of the GDP will affect, primarily employees of the marketing, sales and HR departments, loyalty programs service department, ▪ development of a new Information Security Policy; ▪ developing a new Instruction for managing information systems used for data processing; ▪ preparing and implementing changes in solutions of organizational and technical nature; ▪ development of threats and risk analysis in the processing of personal data. However, the risk of occurrence of incidents related to breaching of GDPR provisions may not be completely excluded, which could cause additional negative financial consequences for the Company.
Risks related to co-operation with an external logistics operator	Smoothness and punctuality of deliveries of goods to the network of traditional stores and deliveries of goods purchased by customers of on-line stores of VRG S.A. is based on outsourcing of logistics services to an external operator. There is a risk that disruptions in the organization of the external work of the logistic operator related, for example, to the problems of staffing and the availability of appropriate storage areas may cause disruption of the following logistics processes: ▪ disruptions in the flow of warehouse processes (admission / release); ▪ delays and errors in deliveries to traditional stores in the period of increased needs - change in collections; ▪ delays and errors in shipments to customers of on-line stores in the period of increased needs - intense sell-offs. Actions taken by VRG S.A. aimed at limiting the above risks relate respectively to: a) introduction of a procedure for regular audits of logistics structures and systems made available for the needs of VRG S.A. by th external operator; b) improvement of the admission and release plan from the external operator's warehouse and precise pre-selection of the necessary storage space; c) introduction of a system of planning releases of goods in weekly cycles and a system of transferring information to the logistics operator on the quantity and dates of planned releases of goods; d) introduction of planning the number of e-commerce orders on a monthly basis - based on analytical data from on-line stores; e) negotiations on increasing the available storage space at an external operator, regarding guaranteeing the possibility of implementing daily minimum goods releases for traditional stores and daily minimum deliveries to customers of on-line stores. However, it is not possible to completely exclude the risk of incidents related to disruption of the aforementioned logistics processes, which could cause the Company additional negative consequences related to fall in sales as a result of late replenishment of a network of traditional stores or loss of some on-line store customers as a result of delays in paid deliveries. One cannot completely rule out the negative effects of deterioration of the image of the Company's brands as a result of the appearance on the Internet and social media of critical comments from customers of on-line stores who do not receive the purchased goods within the required period.
Risk related to the quality of customer 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, Wólczanka and W.KRUK. The company implements a training system for employees, develops customer service standards and a system of control of introduced standards. There is a risk that if the customer service system is not implemented correctly, the level of services provided in individual stores may be equally good. This may translate into a loss of clients' trust in the brands owned by the Company and deterioration of the Company's image, and it may consequently result in a decrease in the results achieved in individual stores and by the Company in general.

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

11. OTHER INFORMATION RELEVANT TO ASSESSMENT OF GROUP'S SITUATION

In 1H19, there were no circumstances that could significantly and negatively affect the staff, property and financial position and financial results of the Group or that could jeopardize its ability to meet its obligations.

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

Signature of the person entrusted with bookkeeping

Alicja Weber

....
Chief Accountant

Cracow, August 27, 2019

VRG Spółka Akcyjna
Pilotów 10 St.
31-462 Cracow

DENI CLER MILANO

W.KRUK 1840

BYTOM SZTUKA KRAWIECTWA OD 1945

WÓLCZANKA

VISTULA

www.vrg.pl

VRG
VISTULA RETAIL GROUP

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

VRG
VISTULA RETAIL GROUP

www.vrg.pl

REPORT ON OPERATIONS

of VRG S.A. Capital Group
for 6 months ending June 30, 2019

Cracow, August 27, 2019

1. GENERAL INFORMATION

1.1. Name, registered office, business activity

VRG Spółka Akcyjna (also as "Parent Company" or "Issuer"") based in Cracow, Pilotów 10 St., post code: 31-462. The company was registered in the Cracow Śródmieście District Court, XI Commercial Division of the National Court Register (KRS) under number KRS 0000047082.
The predominant activity of the Company according to the Polish Classification of Activities (PKD) is the retail sale of clothing in specialized stores (PKD 47.71.Z).

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

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

The Company's key corporate milestones

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

The lifespan of the Issuer is indefinite.

As at the end of 1H19 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.

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

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

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

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

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

The consolidated financial statements for 1H19 include data of the Parent Company and subsidiaries: W.KRUK S.A., DCG S.A., Wólczanka Shirts Manufacturing Sp. z o.o., VG Property Sp. z o.o., BTM 2 Sp. z o.o.

<u>Changes in Capital Group structure in 1H19.</u>

In 1H19 there were no changes within VRG S.A. Capital Group structure.

1.2. Composition of the Management and Supervisory Board of the Parent Company

Management Board

As at June 30, 2019 the composition of the Management Board of VRG S.A. was as the following:

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

In the period from June 30, 2019 to the date of approval of these financial statements, the composition of the Management Board has not changed.

Supervisory Board

As at June 30, 2019 the composition of the Supervisory Board of VRG S.A. was the following:

Supervisory Board				
	Jerzy Mazgaj Chairman of the Supervisory Board	**Piotr Kaczmarek** Member of the Supervisory Board	**Artur Małek** Member of the Supervisory Board	
	Jan Pilch Member of the Supervisory Board	**Grażyna Sudzińska-Amroziewicz** Member of the Supervisory Board	**Andrzej Szumański** Member of the Supervisory Board	**Paweł Tymczyszyn** Member of the Supervisory Board

In 1H19 the following changes took place within the Supervisory Board.

On April 9, 2019, the Company received a statement from Ms. Katarzyna Basiak-Gała about resignation from the position of a member of the Company's Supervisory Board as of the day of the next General Shareholder Meeting. The statement of Ms. Basiak-Gała, referred to above, was made on the basis of art. 26 of the Act of August 21, 1997 on limitation of conducting business activity by persons performing public functions (Official Journal of Laws of 2017, item 1393, as amended). Pursuant to the above statement, Ms. Katarzyna Basiak-Gała's resignation from the function of a member of the Company's Supervisory Board took place on the day of the Annual General Meeting of the Company on June 17, 2019 ("General Meeting").

In addition, the General Meeting 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. 20/06/2019 of the General Meeting regarding the dismissal of a member of the Company's Supervisory Board, Mr. Maciej Matusiak was dismissed from the Company's Supervisory Board of the current joint term of office.

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

c) pursuant to Resolution No. 22/06/2019 of the General Meeting regarding the appointment of a new member of the Company's Supervisory Board, Paweł Tymczyszyn.

In the period from June 30, 2019 to the date of approval of these financial statements, the composition of the Supervisory Board has not changed.

1.3. Approval of financial statements

These consolidated financial statements have been approved for publication and signed by the Management Board of the Parent Company on August 27, 2019.

1.4. Going concern

Consolidated financial statements of the VRG S.A. Capital Group (hereinafter also referred to as the "Capital Group" or "VRG Group"), have been prepared assuming a going concern of companies forming the Capital Group in an unchanged form and scope for at least 12 months from the date of the financial statements, i.e. June 30, 2019. In the opinion of the Management Board of the Parent Company as at the date of approval of these consolidated financial statements, there are no indications or circumstances indicating going concern threats to companies of the Group in the foreseeable future.

2. PRINCIPLES OF FINANCIAL STATEMENTS PREPARATION

The basis for preparation of these consolidated financial statements is the Ordinance of Minister of Finance from March 29, 2018 regarding current and periodic information submitted by issuers of securities and conditions for recognizing information required by law of a non-member country as equivalent (Official Journal of Laws of 2018, item 757).

These separate and consolidated interim condensed financial statements of VRG S.A. for 1H19 have been prepared in accordance with the principles of International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and to the extent not regulated by the above standards in accordance with the requirements of the Accounting Act of September 29, 1994 (Official Journal of Laws from 2019, item 351, as amended) and executive regulations issued based on it, and presents the financial position of the VRG S.A. Capital Group as of June 30, 2019, January 1, 2019 (IFRS16 application) and December 31, 2018 and June 30, 2018, the results of its operations for 6 and 3 months ended June 30, 2019 and June 30, 2018 and cash flows for 6 months ended June 30, 2019 and June 30, 2018.

The separate and consolidated condensed interim financial statements do not include all information and disclosures required in the annual financial statements, therefore they should be read together with the separate and consolidated financial statements of VRG S.A. for the financial year ended December 31, 2018. In order to fully understand the financial situation and results of operations of VRG S.A., as the parent company in the Capital Group, these separate condensed interim financial statements should be read together with the consolidated interim financial statements for the period ended June 30, 2019.

These separate and 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 accounting principles used to prepare the separate and consolidated condensed interim financial statements are consistent with those used in the preparation of the annual financial statements of the Company and the Group for the financial year ended December 31, 2018.

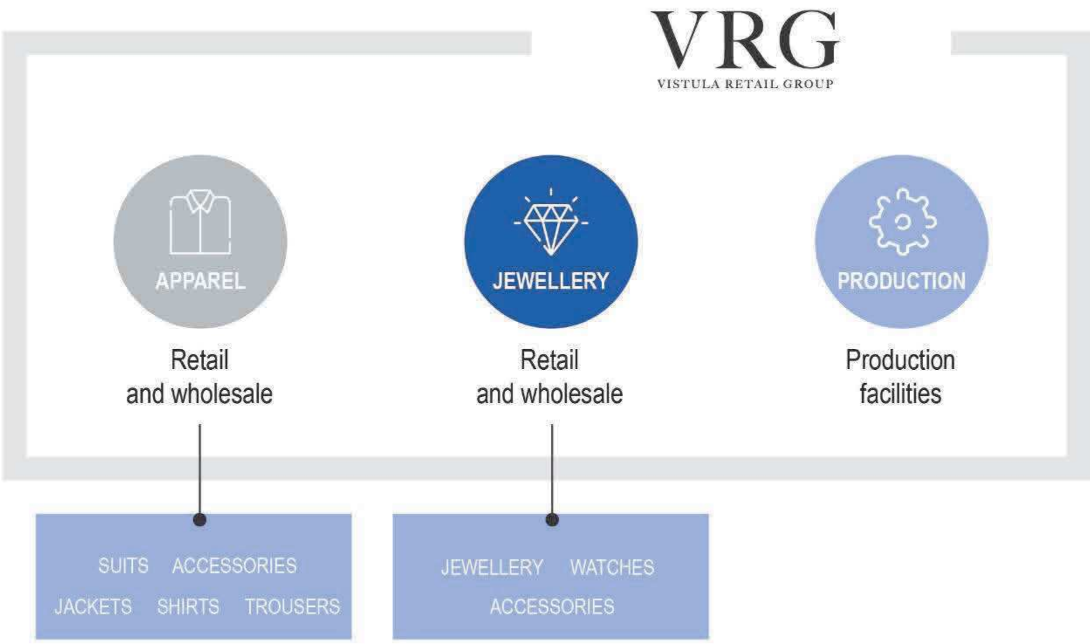
In the period from January 1, 2019 to June 30, 2019, the Company and the Group did not change the adopted accounting principles and methods of preparing the financial statements (except for changes resulting from the entry into force of IFRS 16, which are described in the consolidated interim condensed financial statements) . The accounting principles adopted by the Company and the Group were used consistently in relation to all periods presented in the financial statements.

Amendments to published Standards and Interpretations have been presented in point 2 Interim consolidated financial statements.

Operating segments

VRG Group specialises in design and retail sales of branded clothing for men and women in the medium-price segment and up-market as well as luxury jewellery and watches. Currently, the Group's revenues come from the sales of the following brands: Vistula, Lantier, Vistula Red, Vesari, Bytom, Intermoda, Wólczanka, Lambert, W.KRUK (via a subsidiary) and Deni Cler (via a subsidiary). The Group has been in possession of those brands since their inception (excluding the Deni Cler brand). Since 2Q15 the jewellery business is conducted by a W.KRUK S.A. subsidiary with headquarters in Cracow following the sale of an organised part of the enterprise associated with the W.KRUK brand.

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



Leading brands of the Vistula business line:

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

		addressed at younger customers looking for bolder and more casual outfits.
	VESARI	The brand was introduced in 2002. Vesari is a traditional men formalwear brand whose products are inspired by Italian style and elegance. As part of the brand's offering, collections of suits and complementary products are sold. Vesari brand is addressed to wholesalers who sell clothing from various manufacturers in their stores. The brand's clothing is dedicated to customers searching for more affordable products, while maintaining quality parameters.

Leading brands of the BYTOM business line:

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

Leading brands of the Wólczanka business line:

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

Other own brands in the apparel segment:

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

Own brands in jewellery segment:

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

Manufacturing operations:

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

Seasonality and cyclicality of operations

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

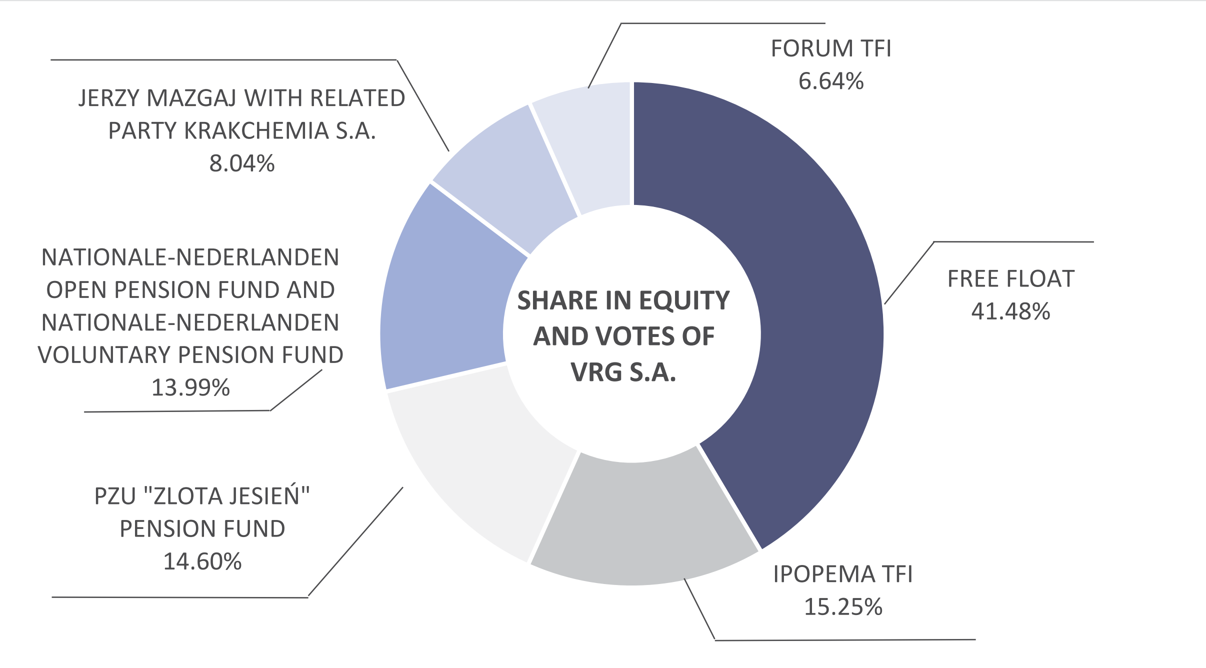
In the area of geographical segments, all of the Capital Group's operations are carried out in the Republic of Poland.

3. SHARE CAPITAL AND SHAREHOLDERS

Shareholders owning directly or indirectly 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 semi-annual report and indication of changes in the ownership structure of significant stakes in VRG S.A. in the period from the date of submitting the previous consolidated interim report.

1) Ownership structure of the share capital, in accordance with the information possessed by the Company as at the date of preparation of the consolidated report for 1H19

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



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

No.	Shareholders	Number of shares held	Share in equity (in %)	Number of votes at the AGM	Share in the total number of votes at the AGM (in %)
1	IPOPEMA TFI[1]	35,759,051	15.25	35,759,051	15.25
2	PZU „Złota Jesień" Open Pension Fund[2]	34,230,000	14.60	34,230,000	14.60
3	Nationale-Nederlanden Open Pension Fund and Voluntary Pension Fund[3]	32,802,252	13.99	32,802,252	13.99
4	Jerzy Mazgaj with related party Krakchemia S.A [4]	18,844,333	8.04	18,844,333	8.04
5	Forum TFI S.A.[5]	15,580,800	6.64	15,580,800	6.64

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

[2] information provided on the basis of the number of shares registered by the PZU "Złota Jesień" Open Pension Fund at the Ordinary General Meeting of the Company on June 17, 2019.

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

[4] Information on the number of shares provided in accordance with the notifications received by the Company pursuant to art. 69 of the Act of 29 July 2005 on public 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 17,844,333 shares of the Company, which constitutes 7.61% of the share capital of the Company and is entitled to 17 844 333 votes at the General Meeting of the Company, which represents 7.61% of the total number of votes at the General Meeting Company Meeting.

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

2) Changes in the ownership structure of significant blocks of shares from the date of publication of the last periodical report, i.e. 1Q19 report (21.05.2019).

To the best of the Company's knowledge in the period from the date of publication of the report for the first quarter (21.05.2019), the following changes occurred in the ownership structure of significant blocks of shares in the Company:

A	IPOPEMA TFI S.A.	Number of shares held	Share in equity (in %)	Number of votes at the AGM	Share in the total number of votes at the AGM (in %)
	As at 21.05.2019	25,455,558	10.86	25,455,558	10.86
	As at 27.08.2019	35,759,051	15.25	35,759,051	15.25

B	PZU „Złota Jesień” Open Pension Fund	Number of shares held	Share in equity (in %)	Number of votes at the AGM	Share in the total number of votes at the AGM (in %)
	As at 21.05.2019	34,093,568	14.54	34,093,568	14.54
	As at 27.08.2019	34,230,000	14.60	34,230,000	14.60

C	Nationale-Nederlanden Open Pension Fund and Nationale-Nederlanden Voluntary Pension Fund	Number of shares held	Share in equity (in %)	Number of votes at the AGM	Share in the total number of votes at the AGM (in %)
	As at 21.05.2019	28,777,370	12.27	28,777,370	12.27
	As at 27.08.2019	32,802,252	13.99	32,802,252	13.99

D	Jerzy Mazgaj with related party Krakchemia S.A.	Number of shares held	Share in equity (in %)	Number of votes at the AGM	Share in the total number of votes at the AGM (in %)
	As at 21.05.2019	21,544,333	9.19	21,544,333	9.19
	As at 27.08.2019	18,844,333	8.04	18,844,333	8.04

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

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

Management Board	Number of shares held at the time of signing 1H19 report	Number of shares held at the date of publishing 1Q19 report
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 holdings of key personnel of the first tranche of F-series subscription warrants entitling to subscribe for new P-series shares, issued in connection with the implementation of the stock option program in 2018 on the basis of resolution No. 17/06/2018 of the Company's Ordinary General Shareholder Meeting on June 27, 2018 regarding the adoption of the stock option program for members of the Company's Management Board, key managers or other persons of significant importance to the Company (and companies from its capital group), issuance of subscription warrants excluding pre-emptive rights, conditional share capital increase by issuing new shares with the exclusion of the pre-emptive right, changing the Company's Articles of Association, authorizing the Management Board of the Company to conclude an agreement on the registration of newly issued shares in the National Depository of Securities S.A. (KDPW S.A.) and authorizing the Management Board of the Company to take all appropriate actions to allow newly issued shares to be traded on a regulated market (the "Resolution")

Management Board	**Number of F-series subscription warrants held at the time of signing 1H19 report**	**Number of F-series subscription warrants held at the date of signing 1Q19 report**
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 shares held at the time of signing 1H19 report**	**Number of shares held at the date of signing 1Q19 report**
Jerzy Mazgaj – Chairman of the Supervisory Board	17,844,333	17,544,333

4. REMUNERATION OF THE MANAGEMENT AND SUPERVISORY BOARD IN 1H19

Management Board	Grzegorz Pilch	President of the Management Board	PLN 1,611 ths	**PLN 3,334 ths**
	Mateusz Żmijewski	Vice-President of the Management Board	PLN 947 ths	
	Michał Wójcik	Vice-President of the Management Board	PLN 538 ths	
	Erwin Bakalarz	Management Board Member	PLN 238 ths	

Supervisory Board	Jerzy Mazgaj	Chairman of the Supervisory Board	PLN 127 ths	**PLN 507 ths**
	Artur Małek	Supervisory Board Member	PLN 63 ths	
	Katarzyna Basiak- Gała	Supervisory Board Member	PLN 58 ths	

Grażyna Sudzińska-Amroziewicz	Supervisory Board Member	PLN 64 ths
Andrzej Szumański	Supervisory Board Member	PLN 63 ths
Maciej Matusiak	Supervisory Board Member	PLN 58 ths
Jan Pilch	Supervisory Board Member	PLN 64 ths
Piotr Kaczmarek	Supervisory Board Member	PLN 5 ths
Paweł Tymczyszyn	Supervisory Board Member	PLN 5 ths

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

The total above mentioned remuneration for 1H19 amounted to PLN 343 thousand, including:

Jerzy Mazgaj	PLN 186 ths	PLN 343 ths
Grzegorz Pilch	PLN 37 ths	
Mateusz Żmijewski	PLN 37 ths	
Jan Pilch	PLN 77 ths	
Michał Wójcik	PLN 6 ths	

The Group has a stock option program based on options for shares of the Company, detailed information about the program and its terms can be found in note 25 of the financial statements. The managing persons are entitled to the benefits specified in the employment contracts.

5. SIGNIFICANT EVENTS OF 1H19 AND AFTER THE REPORTING PERIOD

01.2019

Notification regarding a significant block of shares

On January 4, 2019, the Company received from IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A. based in Warsaw ("Fund"), information sent pursuant to Art. 69 par. 1 point 1, art. 69a paragraph 1 point 1 and art. 87 par. 1 point 2 of the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to organized trading system and on public companies (the "Act") that as a result of IPOPEMA 21 FIZAN a purchase of shares in VRG S.A. ("Company") (formerly under the business name: VISTULA GROUP S.A.) based in Cracow, in a transaction conducted on the regulated market on December 28, 2018, settled on December 28, 2018 and the result of the assimilation of the shares of BYTOM S.A. based in Cracow with the shares of the Company, carried out on December 28, 2018, the stake of funds managed by the Company in the total number of votes in the Company increased above the 10% threshold. The funds managed by the Fund held a total of 21,177,000 shares of the Company, which constituted 9.02% of the share capital of the Company and entitled to 21,137,000 votes, which constituted 9.02% of the total number of votes at the General Shareholder Meeting of the Company. After the above-mentioned events, all funds managed by IPOPEMA have a total of 25,455,558 shares of the Company, which constitute 10.86% of the Company's share capital and entitle to 25,455,558 votes and constitute 10.86% of the total number of votes at the General Shareholder Meeting of the Company. At the same time, the Company informs that funds managed by the Fund do not have financial instruments referred to in Article 69 b par. 1.

03.2019

Notification regarding a significant block of shares

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

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

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

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

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

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

On March 27, 2019, the Company announced a merger plan of VRG S.A. was agreed and signed (hereinafter also: the "Acquiring Company") and its subsidiary, i.e. BTM 2 Sp. z o.o. (hereinafter also "Acquired Company"). BTM 2 Sp. z o.o. has previously been part of the VRG S.A. capital group as a result of the merger of BYTOM S.A. with the Company.
The merger will be effected on the basis of art. 492 § 1 point 1) of the Code of Commercial Companies by transferring all assets of the Acquired Company to the Acquirer. As a result of the merger, the Acquired Company will be terminated and the Company, as the Acquiring Company, will enter into the entire rights and obligations of the Acquired Company as at the merger date.

	Due to the fact that the Company as the Acquiring Company is the sole shareholder of the Acquired Company and holds 100% of shares in the share capital of the Acquiree, the merger will take place in a simplified manner and in accordance with: a) art. 515 § 1 of the Code of Commercial Companies, the merger will be carried out without increasing the share capital of the Company as the acquiring company and without taking up any shares in the share capital of the Acquiring Company by the partners of the Acquired Company; b) art. 516 § 6 of the Code of Commercial Companies, in connection with art. 516 § 5 of the Code of Commercial Companies, the merger plan will be submitted to the registry court, however, it will not be subject to examination by an auditor referred to in art. 502 § 1 of the Code of Commercial Companies and the auditor opinion in this respect will not be prepared, and moreover, the management boards of the merging companies will not prepare written reports justifying the merger referred to in art. 501 § 1 of the Code of Commercial Companies. Due to lack of share capital increase of the Company and the fact that the merger does not create new circumstances requiring disclosure in the Company's Articles of Association and no other changes to Article of Association are proposed, it is not envisaged to alter the Articles of Association in connection with the merger. The merger of the companies will depend on the adoption by the General Shareholder Meeting of the Company as the Acquiring Company and the General Shareholder Meeting of the Acquired Company of the resolutions containing the consent to the merger, including the Merger Plan. The first notification of shareholders about the intention to merge VRG S.A. with a subsidiary company BTM 2 Sp. z o.o. in accordance with art. 504 § 1 of the Code of Commercial Companies took place on April 2, 2019 (about which the Company informed in the current report No. 11/2019). The second notification of shareholders about the intention to merge VRG S.A. with a subsidiary company BTM 2 Sp. z o.o. in accordance with art. 504 § 1 of the Code of Commercial Companies took place on April 16, 2019 (current report No. 15/2019).
04.2019	**Notification regarding a significant block of shares** On April 24, 2019, the Company received from Forum TFI S.A. with its registered office in Cracow ("Fund"), acting in the name of funds managed by the Fund, i.e. Forum X Closed-end Investment Fund (hereinafter: "Fund 1") and Forum XXIII Closed-end Investment Fund (hereinafter: "Fund 2"), notification prepared on the basis of art. 69 par. 1 point 2) in conjunction with from art. 87 par. 1 point 2) lit. a) Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies (Official Journal of Laws of 2019, item 623, as amended). According to the content of the above Notifications as a result of the purchase of the Company's shares by Fund 2 (hereinafter: "Event") the total shares of funds managed by the Fund in the total number of votes in the Company exceeded the threshold of 5% of the total number of votes at the General Shareholder Meeting of the Company, including respectively: - the share of Fund 1 has not changed and remained at 3.59% of the total number of votes at the General Meeting - Fund 2's share increased from 0.43% to 3.05% of the total number of votes at the General Meeting. The change in the number of votes resulted from the purchase of the total amount of 6,143,040 shares of the Company by the Fund 2 in two block transactions, OTC deals on the regulated market of the Warsaw Stock Exchange in Warsaw carried out on 17/04/2019, which were settled on 18/04/2019. Prior to the change, the funds managed by the Fund had:

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

05.2019

Notification regarding a significant block of shares

In current report No. 28/2019, the Company announced that on May 28, 2019 it received from IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw ("Fund"), information sent pursuant to art. 69 clause 1 point 2 and art. 87 paragraph 1 point 2 of the Act of 29 July 2005 on public offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies (the "Act") that, as a result of the sale by the IPOPEMA 2 FIZ Non-Public Assets fund managed by the Fund, of the Company's shares in a transaction carried out on a regulated market on May 21, 2019, settled on May 23, 2019, the share of funds managed by the Fund in the total number of votes in the Company fell below the 10% threshold in the total number of votes in the Company.

Prior to the above-mentioned event, all funds managed by the Fund held a total of 23,459,945 shares of the Company, which constituted 10.01% of the share capital of the Company and gave 23,459,945 votes, which constituted 10.01% in the total number of votes at the Company’s General Shareholder Meeting.

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

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

06.2019

Notification regarding a significant block of shares

In current report No. 30/2019, the Company announced that it had received from IPOPEMA Investment Company S.A. with its registered office in Warsaw ("the Fund"), information of June 3, 2019 sent on the basis of 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 companies (the "Act") that, as a result of the acquisition by the IPOPEMA 2 FIZ Non-Public Assets fund managed by the Fund, of the Company's shares in a transaction carried out on the regulated market on May 27, 2019, settled on May 28, 2019, the share of funds managed by the Fund in the total number of votes in the Company increased above the 10% threshold in the total number of votes in the Company.

Before the above-mentioned event, all funds managed by the Fund held a total of 23,159,945 shares of the Company, which constituted 9.88% of the Company's share capital and gave 23,159,945 votes, which constituted 9.88% of the total number of votes at the Company's General Shareholder Meeting.

After the aforementioned event, all funds managed by the Fund have a total of 26,159,945 shares of the Company, which constitutes 11.16% of the share capital of the Company and gives 26.159.945 votes and constitutes 11.16% in the total number of votes at the Company's General Shareholder Meeting of the Company .

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

Appointment of the Nomination and Remuneration Committee within the Company's Supervisory Board

On June 14, 2019, the Company received information about the appointment by the Supervisory Board of the Company of an internal Nomination and Remuneration Committee ("Committee"), the number of which was set at three persons. The following members of the Supervisory Board were appointed to the Committee: Mr. Jerzy Mazgaj - Chairman of the Committee, Mrs. Grażyna Sudzińska-Amroziewicz - Member of the Committee, Mr. Jan Pilch - Member of the Committee.

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

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

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

1. to adopt a resolution on merger of the Company with the company BTM 2 Spółka z o.o. with its registered office in Cracow (31-462), Pilotów 10 St., entered in the Register of Entrepreneurs of the National Court Register by the District Court for Cracow – Cracow Śródmieście, 11th Commercial Department of the National Court Register under the number KRS 0000605215, NIP 9442250477, REGON 363895872 (hereinafter referred to as the "Acquired Company") pursuant to art. 492 § 1 point 1 of the Code of Commercial Companies, i.e. by transferring all the assets of the Acquired Company to the Company - on the terms set out in the merger plan agreed between the Company and the Acquired Company on March 27, 2019 (hereinafter referred to as the "Merger Plan"), which in accordance with

art. 500 § 21 of the Code of Commercial Companies, has been made available in the Company's current report No. 8/2019 of March 27, 2019, as well as on the website www.vrg.pl and on the website www.btm2.pl; The Merger Plan constitutes an attachment to this resolution;
2. agree to the Merger Plan;
3. authorize the Company's Management Board to perform all necessary factual and legal actions related to the procedure of merging the Company with the Acquired Company. The resolution came into force on the day of its adoption. The merger of the Company with the Acquired Company will take place as soon as the merger is entered in the Register of Entrepreneurs by the competent registry court.

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

In current report no. 35/2019, the Company informed about the content of resolutions adopted by the Ordinary General Meeting of the Company on June 17, 2019 ("General Meeting"), including content of resolutions regarding changes in the composition of the Company's Supervisory Board of the current term:
a) pursuant to Resolution No. 20/06/2019 of the General Meeting regarding the dismissal of a member of the Company's Supervisory Board, Mr. Maciej Matusiak was dismissed from the Company's Supervisory Board of the current joint term of office.
b) pursuant to Resolution No. 21/06/2019 of the General Meeting regarding the appointment of a member to the Company's Supervisory Board, Mr. Piotr Kaczmarek was appointed to the Company's Supervisory Board for the current joint term of office.

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

Notification regarding a significant block of shares

07.2019

In current report no. 37/2019, the Company announced that it received from IPOPEMA Investment Company S.A. with its registered office in Warsaw ("Fund"), information of July 1, 2019 sent pursuant to art. 69 clause 1 point 1, art. 69 clause 2 point 1 lit. a and art. 87 paragraph 1 point 2 of the Act of July 29, 2005 on public offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies (the "Act") that as a result of the acquisition by IPOPEMA 21 FIZ of Non-Public Assets managed by the Company ("Fund") of the Company's shares in a transaction carried out on a regulated market on June 25, 2019, settled on June 26, 2019, the stake managed by the Fund in the total number of votes in the Company increased by more than 2%, as well as above the 15% threshold in the total number of votes in the Company.
Before the abovementioned event, the Fund held 4,200,000 shares of the Company constituting 1.79% of the share capital of the Company, giving 4,200,000 votes, which constituted 1.79% in the total number of votes at the Company's General Shareholder Meeting.
After the abovementioned event, the Fund holds a total of 13,800,226 shares of the Company, which constitutes 5.89% of the share capital of the Company and give 13,800,226 votes, constituting 5.89% in the total number of votes at the Company's General Shareholder Meeting.

Prior to the above-mentioned event, all funds managed by the Fund held a total of 26,158,825 shares of the Company, which constituted 11.16% of the share capital of the Company and gave 26,158,825 votes, which constituted 11.16% in the total number of votes at the Company's General Shareholder Meeting.
After the above-mentioned event, all funds managed by the Fund hold a total of 35,759,051 shares of the Company, which constitutes 15.25% of the share capital of the Company and gives 35,759,051 votes and constitute 15.25% in the total number of votes at the Company's General Shareholder Meeting.
At the same time, the Fund announced that the funds managed by the Company do not have financial instruments referred to in art. 69 b paragraph 1 of the Act.

Merger between the Parent Company and subsidiary

In current report No. 38/2019, the Company (hereinafter referred to as the "Issuer") announced that on July 2, 2019 it received information about the fact that on July 1, 2019 it was made by the District Court for Cracow – Cracow Śródmieście, 11th Commercial Department - Of the National Court Register, entry in the Register of Entrepreneurs of the National Court Register, merger of the Issuer _ "Acquiring Company" _ with a subsidiary BTM 2 Sp. z o.o. based in Cracow, entered into the Register of Entrepreneurs of the National Court Register under KRS number 0000605215 _ "Company Acquired '_, which had previously become part of the Issuer's capital group as a result of the merger of BYTOM SA with the Issuer. In accordance with art. 493 § 2 of the Code of Commercial Companies, the merger of companies takes place on the date of entering the merger into the appropriate register according to the seat of the Acquiring Company, i.e. on July 1, 2019. This entry results in the deletion from the register of the Acquired Company, i.e. BTM 2 Sp. z o.o.
Pursuant to art. 494 Code of Commercial Companies the Company is the legal successor of BTM 2 Sp. z o.o., i.e. on the day of the merger, it entered into all the rights and obligations of BTM 2 Sp. z o.o. as the Merged Company.
The merger took place on the basis of art. 492 § 1 item 1) of the Code of Commercial Companies by transferring all assets of the Acquired Company to the Acquiring Company.
Due to the fact that the Company as the Acquiring Company was the sole shareholder of the Merged Company and had 100% shares in the share capital of the Merged Company, the merger took place in a simplified manner and pursuant to art. 515 § 1 of the Code of Commercial Companies, the merger was carried out without increasing the Issuer's share capital as the acquiring company and without taking up any shares in the share capital of the Acquiring Company by the shareholders of the Acquired Company.
Due to the lack of increase of the Company's share capital and the fact that the merger does not cause new circumstances requiring disclosure in the Company's Articles of Association, no changes have been made to the Company's Articles of Association in connection with the merger.


586 stores all
over Poland

6. VRG GROUP FINANCIAL RESULTS FOR 1H19

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

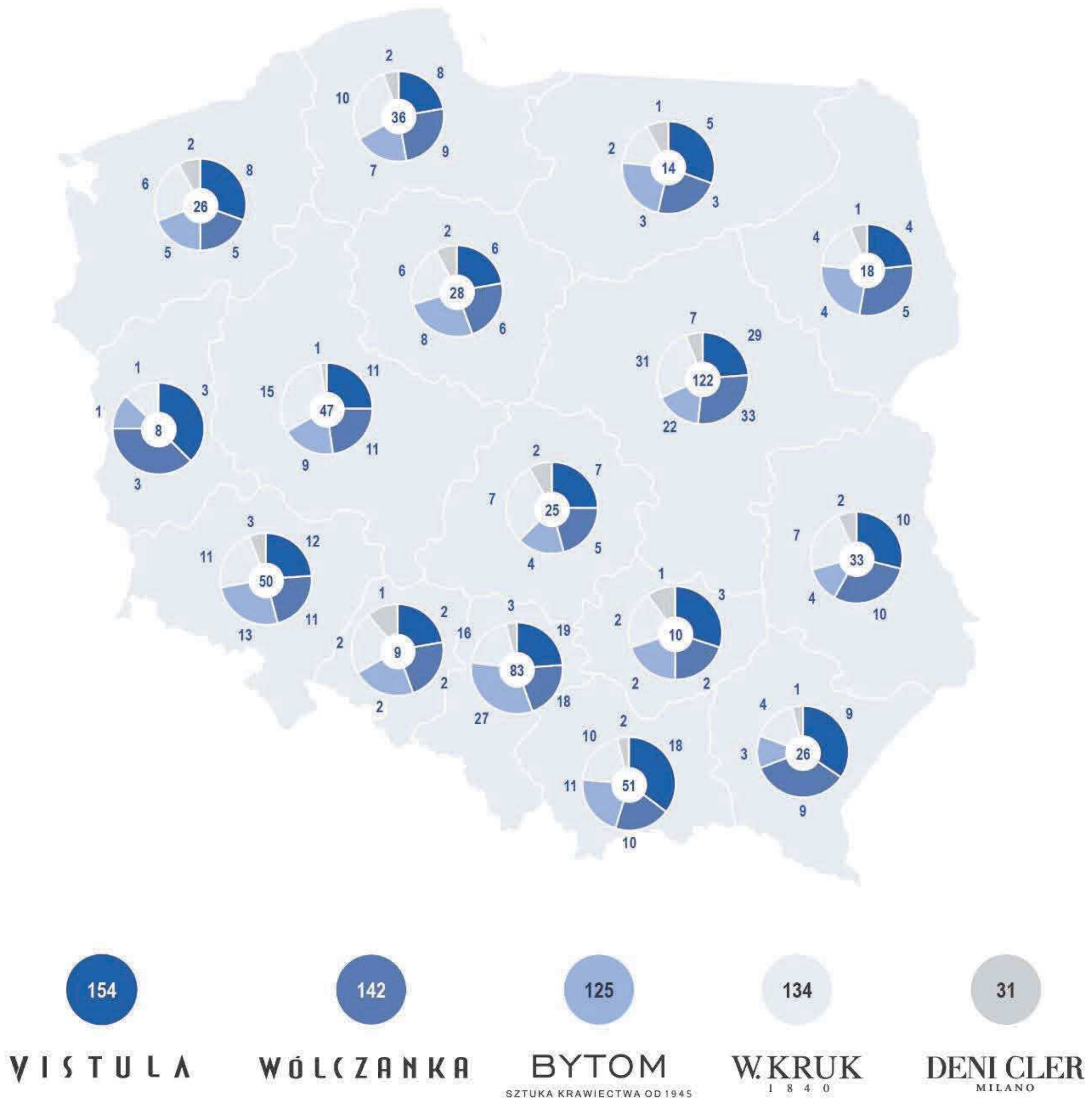
At the end of 1H19, as compared to the corresponding period in 2018, the group's retail floorspace increased to 53.4 ths m2 or 58% YoY. Floorspace of the apparel segment increased by 74% (without the Bytom brand + 9%), while in the jewellery segment floorspace increased by some 13%.

Retail floorspace (end of period):

	ths m2	
	30.06.2019	30.06.2018
Apparel segment	43.2	24.9
Jewellery segment	10.2	9.0
Total floorspace	**53.4**	**33.9**

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 1H19, the Capital Group retail network encompasses 586 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 1H19 by individual brands.



Selected financial data of VRG Group

Item	PLN ths			
	1H19	IFRS16 impact	1H19 excluding IFRS16	1H18
Revenues	484,649	0	484,649	353,446
EBITDA	81,461	42,063	39,398	29,654
EBIT	27,334	-320	27,654	21,107
Net profit	**21,470**	**672**	**20,798**	**14,218**

Item	PLN ths			
	2Q19	IFRS16 impact	2Q19 excluding IFRS16	2Q18
Revenues	270,224	0	270,224	192,888
EBITDA	56,675	21,851	34,824	23,568
EBIT	28,575	-149	28,724	19,176
Net profit	**23,878**	**1,874**	**22,004**	**14,107**

Revenues

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

In 1H19, revenues of the Capital Group amounted to PLN 484.6 million and were PLN 131.2 million (37%) higher than revenues in the same period of the previous year. The Group recorded higher revenues in both core business segments.

APPAREL SEGMENT

Apparel segment	PLN ths			
	2Q19	2Q18	1H19	1H18
Revenues	**183,552**	**119,067**	**325,131**	**217,751**
Cost of sales	84,849	56,122	158,947	108,618
Gross profit on sales	98,703	62,945	166,184	109,133
Other operating income	143	94	320	278
Gain on sale of non-financial non-current assets	803	13	827	22

Apparel segment	PLN ths			
	2Q19	2Q18	1H19	1H18
Selling costs	66,384	41,915	125,727	79,120
Administrative expenses	13,216	9,476	26,512	19,301
Other operating costs	1,413	714	1,614	1,295
Loss on sale of non-financial non-current assets	-34	-	-34	-
Profit from operations	**18,670**	**10,947**	**13,512**	**9,717**
Financial income / costs	511	-18	-791	-736
Pre-tax profit (loss)	19,181	10,929	12,721	8,981
Income tax	3,467	2,162	1,345	1,930
Net profit for the period	**15,714**	**8,767**	**11,376**	**7,051**

Apparel segment	PLN ths			
	1H19	IFRS16 impact	1H19 excluding IFRS16	1H18
Revenues	**325,131**	**0**	**325,131**	**217,751**
Cost of sales	158,947	0	158,947	108,618
Gross profit on sales	166,184	0	166,184	109,133
Other operating income	320	48	272	278
Gain on sale of non-financial non-current assets	827	0	827	22
Selling costs	125,727	189	125,538	79,120
Administrative expenses	26,512	-32	26,544	19,301
Other operating costs	1,614	0	1,614	1,295
Loss on sale of non-financial non-current assets	-34	0	-34	-
Profit from operations	**13,512**	**-109**	**13,621**	**9,717**
Financial income / costs	-791	622	-1,413	-736
Pre-tax profit (loss)	12,721	513	12,208	8,981
Income tax	1,345	0	1,345	1,930
Net profit for the period	**11,376**	**513**	**10,863**	**7,051**

Apparel segment	PLN ths			
	2Q19	IFRS16 impact	2Q19 excluding IFRS16	2Q18
Revenues	**183,552**	**0**	**183,552**	**119,067**
Cost of sales	84,849	0	84,849	56,122
Gross profit on sales	98,703	0	98,703	62,945
Other operating income	143	48	95	94
Gain on sale of non-financial non-current assets	803	0	803	13
Selling costs	66,384	68	66,316	41,915
Administrative expenses	13,216	-15	13,231	9,476
Other operating costs	1,413	0	1,413	714
Loss on sale of non-financial non-current assets	-34	0	-34	-
Profit from operations	**18,670**	**-5**	**18,675**	**10,947**
Financial income / costs	511	1,282	-771	18
Pre-tax profit (loss)	19,181	1,277	17,904	10,929
Income tax	3,467	0	3,467	2,162
Net profit for the period	**15,714**	**1,277**	**14,437**	**8,767**

Increase in retail sales

Revenues from the apparel segment sales amounted to PLN 325.1 million in 1H19 and were PLN 107.3 million (i.e. 49%) higher than revenues in 1H18. In 2Q19 revenues from this segment amounted to PLN 183.6m which represents a 54% YoY growth versus the comparable period.

Apparel segment	PLN m			
	2Q19	2Q18	1H19	1H18
Revenues	**183.6**	**119.1**	**325.1**	**217.8**
Retail sales	174.2	111.0	306.4	202.0
Processing	6.1	5.4	11.2	10.9
B2B	3.3	2.7	7.5	4.9

In 1H19, the Group recorded the following results in the following retail channels:

VISTULA increase by PLN 7.6m (+ 6%)	WÓLCZANKA increase by PLN 4.4m (+ 8%)	BYTOM consolidation of 1H19 results (PLN 92.1m)	DENI CLER MILANO increase by PLN 0.3m (+1%)

Increase in retail sales is related to consolidation of Bytom brand, network development and dynamic growth in on-line sales.

Gross profit on sales

Gross profit on sales in 1H19 reached PLN 166.2m and was 52% YoY higher than in comparable period. Gross profit on sales margin reached 51.1% and was 0.9 p.p. higher compared to 1H18.

VISTULA	WÓLCZANKA	BYTOM	DENI CLER MILANO
gross profit margin up 0.8 p.p. due to first margin synergies	gross profit margin up 1.0 p.p. due to higher in-take margin	gross profit margin 52.7%	gross profit margin up 1.6 p.p. due to higher in-take margin

Gross profit on sales in 2Q19 reached PLN 98.7m and was 57% YoY higher than in comparable period. Gross profit on sales margin reached 53.8% (2Q 2018: 52.9%).

Selling costs

Selling costs amounted to PLN 125.7 million in 1H19 and were PLN 46.6 million higher (up 59%) than costs in the comparable period. Consolidation of Bytom's results in 1H19 had a sizeable impact (in 1H18 Bytom was not consolidated). Selling costs amounted to PLN 66.4 million in 2Q19 and were PLN 24.5 million higher (up 58%) than costs in the comparable period. The share of selling costs in revenues in 1H19 was 38.7% compared to 36.3% in 1H18. Growth in selling costs as percentage of revenues is related to growing HR costs (store employees) and higher distribution and logistics costs of e-commerce operations (+57% YoY growth in e-commerce revenues in the apparel segment in 6 months).

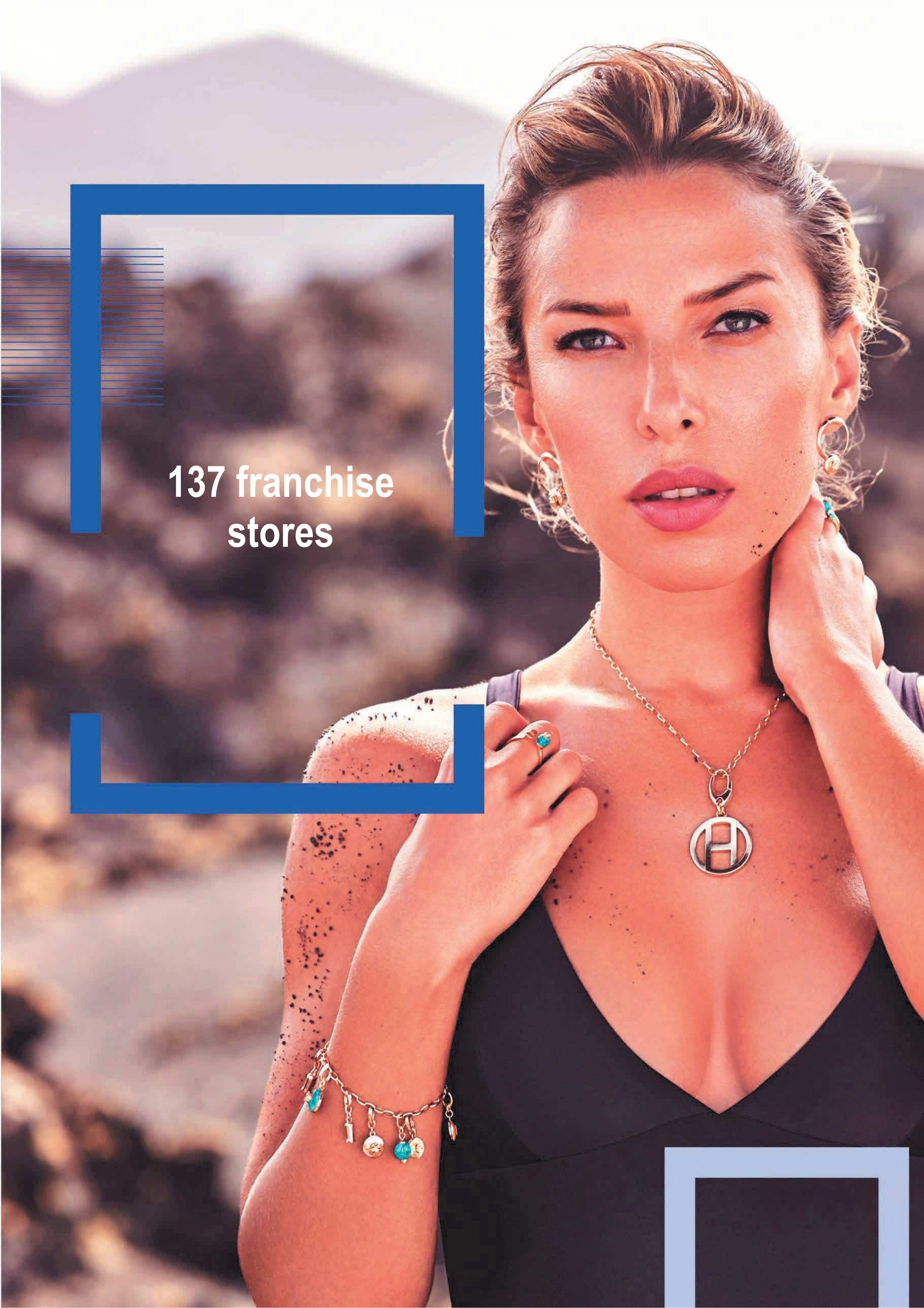
Administrative expenses

General administrative expenses amounted to PLN 26.5 million in 1H19 versus PLN 19.3 million in 1H18 (the result of Bytom consolidation). At the same time, the share of general administrative expenses in revenues fell to 8.2% compared to 8.9% in comparable period of 2018. W 2Q19 these costs came in at PLN 13.2m versus PLN 9.5m (up 39%), while their share in revenues reached 7.2% in 2Q19 compared to 8% 2Q18.

Operating result in the apparel segment

In 1H19, the apparel segment recorded EBIT of PLN 13.5 million, which means that the result of this segment was higher by PLN 3.8 million than the operating result in 1H18. Operating profitability reached 4.2% in 1H19 versus to 4.5% in comparable period. Higher fall in sales/ m2 (9 trading days fewer YoY) than fall in selling costs/ m2 resulted in lower profitability of own network.

Operating profit in this segment in 2Q19 reached PLN 18.7m, which means growth versus 2Q18 by PLN 7.7m. Operating profitability in 2Q19 reached 10.2% versus 9.2% in comparable period.


137 franchise stores

Financial income and costs

In 1H19, the net financial result in the apparel segment amounted to PLN -0.8 million in comparison to PLN -0.7 million in 1H18. Introduction of IFRS16 in 1H19 had a favourable impact on the net financial line and lower the net financial costs by PLN 0.6m.

Apparel segment	PLN ths			
	2Q19	2Q18	1H19	1H18
net financial costs	- 1,291	- 530	- 2,071	- 1,231
net FX gains (excl. IFRS16)	520	512	658	495
IFRS16 impact	1,282	0	622	0
'- including FX gains	*1,990*	*0*	*1,919*	*0*
'- including interest	*-708*	*0*	*-1,297*	*0*
Financial income/ costs	**511**	**-18**	**-791**	**-736**

Net profit in the apparel segment

In the apparel segment, VRG Group achieved a net income of PLN 11.4 million in 1H19 compared to PLN 7.1 million in 1H18. The Group recorded 2Q19 net income of PLN 15.7m versus PLN 8.8m in 2Q18. Higher net result is a consequence of growing revenues following merger with Bytom. Introduction of IFRS16 increased financial income in 1H19 by PLN 0.5m and PLN 1.3m in 2Q19.

JEWELLERY SEGMENT

Jewellery segment	PLN ths			
	2Q19	2Q18	1H19	1H18
Revenues	**86,672**	**73,821**	**159,518**	**135,695**
Cost of sales	40,816	36,215	76,125	66,474
Gross profit on sales	45,856	37,606	83,393	69,221
Other operating income	358	120	469	471
Gain on sale of non-financial non-current assets	0	-	0	-
Selling costs	28,301	23,505	54,886	45,911
Administrative expenses	7,590	5,873	14,519	11,889
Other operating costs	384	114	601	497
Loss on sale of non-financial non-current assets	34	5	34	5
Profit from operations	9,905	8,229	13,822	11,390
Financial income / costs	195	-1,536	-1,231	-2,331
Pre-tax profit (loss)	10,100	6,693	12,591	9,059
Income tax	1,936	1,353	2,497	1,892

Jewellery segment	PLN ths			
	2Q19	2Q18	1H19	1H18
Net profit for the period	**8,164**	**5,340**	**10,094**	**7,167**

Jewellery segment	PLN ths			
	1H19	IFRS16 impact	1H19 excluding IFRS16	1H18
Revenues	**159,518**	**0**	**159,518**	**135,695**
Cost of sales	76,125	0	76,125	66,474
Gross profit on sales	83,393	0	83,393	69,221
Other operating income	469	7	462	471
Gain on sale of non-financial non-current assets	0	0	0	-
Selling costs	54,886	201	54,685	45,911
Administrative expenses	14,519	17	14,502	11,889
Other operating costs	601	0	601	497
Loss on sale of non-financial non-current assets	34	0	34	5
Profit from operations	13,822	-211	14,033	11,390
Financial income / costs	-1,231	369	-1,600	-2,331
Pre-tax profit (loss)	12,591	158	12,433	9,059
Income tax	2,497	0	2,497	1,892
Net profit for the period	**10,094**	**158**	**9,936**	**7,167**

Jewellery segment	PLN ths			
	2Q19	IFRS16 impact	2Q19 excluding IFRS16	2Q18
Revenues	**86,672**	**0**	**86,672**	**73,821**
Cost of sales	40,816	0	40,816	36,215
Gross profit on sales	45,856	0	45,856	37,606
Other operating income	358	7	351	120
Gain on sale of non-financial non-current assets	0	0	0	-
Selling costs	28,301	137	28,164	23,505
Administrative expenses	7,590	13	7,577	5,873
Other operating costs	384	0	384	114
Loss on sale of non-financial non-current assets	34	0	34	5

Jewellery segment	PLN ths			
	2Q19	IFRS16 impact	2Q19 excluding IFRS16	2Q18
Profit from operations	9,905	-143	10,048	8,229
Financial income / costs	195	740	-545	-1,536
Pre-tax profit (loss)	10,100	597	9,503	6,693
Income tax	1,936	0	1,936	1,353
Net profit for the period	**8,164**	**597**	**7,567**	**5,340**

Revenues

Revenues of the jewellery segment in VRG Capital Group amounted to PLN 159.5 million in 1H19 and were higher than the segment's results in 1H18 by PLN 23.8 million (18%). In 2Q19 revenues in this segment reached PLN 86.7 million and were PLN 12.9 million higher than in 2Q18 (17% YoY).
Increase in sales of the jewellery segment was achieved due to higher floorspace and improvements in store inventory management, which favourably affected sales/ m2.

Gross profit on sales margin

Gross profit from sales of the jewellery segment amounted to PLN 83.4 million in 1H19 and was 21% higher than the one generated in the corresponding period of the previous year. Gross profit margin grew by 1.3 p.p. and reached 52.3% in 1H19 versus 51.0% in 1H18. Gross profit margin reached 52.9% in 2Q19 and was 2 p.p. higher versus 2Q18. Growth in gross profit margin results from higher margin on on-line sales and lower shares of B2B revenues.

Selling costs

Selling costs in the jewellery segment increased from 33.8% of revenues in 1H18 to 34.4% in 1H19. Marketing outlays were higher by PLN 1.3 million (+46%) compared to 1H18. Selling costs in 2Q19 reached PLN 28.3 million which means a PLN 4.8 million (+20%) improvement versus 2Q18. Their share in revenues reached 32.7% in 2Q19 versus 31.8% in 2Q18.

Administrative expenses

In 1H19 general administrative expenses were higher by PLN 2.6 million (+22%) compared to 1H18. The share of general administrative expenses in jewellery segment revenues amounted to 9.1% and was higher by 0.3 p.p. compared to 1H18. In 2Q19 these costs reached PLN 7.6 million which means a 29.2% growth versus the comparable period. Their share in 2Q19 reached 8.8% compared to 8% in 2Q18.

Operating profit in the jewellery segment

VRG Group within the jewellery segment achieved an increase in operating profit to PLN 13.8 million (+ 21%) in 1H19. The operating profitability reached 8.7% in 1H19 and was 0.3 p.p. higher versus the comparable period. The increase in the operating result was a consequence of higher gross profit on sales (gross profit margin up 1.3 p.p.).

VRG Group within the jewellery segment achieved an increase in operating profit to PLN 9.9 million in 2Q19 versus PLN 8.2 million in 2Q18. The operating profitability grew from 11.1% in 2Q18 to 11.4% in 2Q19.

Financial income and costs

The net financial activity in the jewellery segment amounted to PLN -1.2 million in 1H19. Introduction of IFRS16 favourably affected the line in 1H19, as it lowered the interest expense by PLN 0.4 million.

Jewellery segment	PLN ths			
	2Q19	2Q18	1H19	1H18
net financial costs	-758	-774	-1,599	-1,595
net FX gains (excl. IFRS16)	213	-762	-1	-736
IFRS16 impact	740	0	369	0
‘- including FX gains	*1,164*	*0*	*1,125*	*0*
‘- including interest	*-424*	*0*	*-756*	*0*
Financial income/ costs	**195**	**-1,536**	**-1,231**	**-2,331**

Net profit growth in the jewellery segment by 41%

Net profit of the jewellery segment amounted to PLN 10.1 million in 1H19 compared to PLN 7.2 million in 1H18. YoY dynamics reached 41%. Introduction of IFRS16 favourably affected the bottom-line in 2019 by PLN 0.2 million. Net profit of the jewellery segment reached PLN 8.2 million in 2Q19 versus PLN 5.3 million in 2Q18. YoY net profit dynamics in 2Q19 reached 53%. Introduction of IFRS16 favourably affected the bottom-line in 2019 by PLN 0.6 million.

First margin synergies visible in results

Structure and characteristics of statement of financial position

CONSOLIDATED BALANCE SHEET	30.06.2019		30.06.2018	
	value (PLN ths)	share (%)	value (PLN ths)	share (%)
Non-current assets, including:	**876,952**	**60.9%**	**423,102**	**53.4%**
Intangible assets	*507,121*	*35.2%*	*359,704*	*45.4%*
Fixed assets	*73,758*	*5.1%*	*56,772*	*7.2%*
Right of use assets IFRS16	*287,222*	*19.9%*	*0*	*0.0%*
Current assets, including:	**563,588**	**39.1%**	**369,706**	**46.6%**
Inventory	*507,569*	*35.2%*	*313,846*	*39.6%*
Receivables	*30,629*	*2.1%*	*35,889*	*4.5%*
Cash	*23,038*	*1.6%*	*17,695*	*2.2%*
Total assets	**1,440,540**		**792,808**	
Equity attributable to dominating entity, including:	**826,994**	57.4%	**560,744**	*70.7%*
Share capital	*49,122*	*3.4%*	*38,470*	*4.9%*
Net profit (loss) for the current period	*21,470*	*1.5%*	*14,218*	*1.8%*
Long-term liabilities and provisions	**277,085**	**19.2%**	**82,905**	**10.5%**
Long-term loans and borrowings	*68,316*	*4.7%*	*79,824*	*10.1%*
Financial leases	*206,762*	*14.4%*	*1,691*	*0.2%*
'- including IFRS16	*203,626*	*14.1%*	*0*	*0.0%*
Short-term liabilities and provisions, including:	**336,461**	**23.4%**	**149,159**	**18.8%**
Trade liabilities	*167,472*	*11.6%*	*99,188*	*12.5%*
Short-term loans and borrowings	*76,033*	*5.3%*	*44,412*	*5.6%*
Financial leases	*84,548*	*5.9%*	*549*	*0.1%*
'- including IFRS16	*82,924*	*5.8%*	*0*	*0.0%*
Total equity and liabilities	**1,440,540**		**792,808**	

Assets

In 1H19, assets of VRG S.A. Group almost doubled compared to 1H18. That was the result of two factors: merger with Bytom S.A. in 4Q18 (there was no Bytom as at June 30, 2018) and recognition of right-of-use assets according to IFRS16, applied by the Group from January 1, 2019.

Increase in intangibles by PLN 147.4 million

A significant increase in intangible assets at June 30, 2019 as compared to June 30, 2018 resulted mainly from recognition of goodwill as a result of the acquisition of Bytom S.A.

Increase in fixed assets by PLN 17 million

Change in fixed assets was primarily the effect of acquisition of fixed assets owned by Bytom S.A. (net value of acquired fixed assets as at June 30, 2019 was approx. PLN 11 million). Other changes are the effect of completed investments (new store openings) in the reporting period.

Right of use assets IFRS16

The Group has decided to implement IFRS 16 from January 1, 2019. Application of this standard has a significant impact on the Group's financial statements, as the Group is a party to lease agreements for premises in which it conducts retail operations and leases offices. These contracts have so far been classified in accordance with IAS 17 as operating leases, therefore, expenses were treated as operating costs during the period of the lease in amounts resulting from invoices. In accordance with IFRS 16 Leases, the Group recognizes an asset component of the right to use with an appropriate leasing liability determined in the amount of discounted future payments during the lease term. From January 1, 2019, assets under the right of use are amortised on a straight-line basis, while liabilities under lease agreements are settled using the effective interest rate. The value of the right of use as at June 30, 2019 is PLN 287.2 million, which significantly increases the Group's balance sheet total.

Inventory

The value of inventories as at June 30, 2019 amounted to PLN 507.6 million, which means an increase compared to June 30, 2018 by 62%. In the apparel segment, the inventories increased by + 93% YoY (effect of Bytom inventories, which amounted to PLN 92.4 m), while in the jewellery segment by + 34%. The nominal increase in inventories results, apart from the effect of merger with Bytom, from floorspace development and preparation in the jewellery segment for a strong second half.

The Group's inventories in terms of m2 amounted to PLN 9,501, which means o 3% YoY growth.

INVENTORY / [PLN/m2]	1H19	1H18	YoY
VRG	9,501	9,255	3%
Apparel segment	6,617	5,967	11%
Jewellery segment	21,703	18,291	19%

Receivables

Fall in receivables results from lower prepayments for goods in connection with purchases on Asian markets due to changes in type and terms of payment (going away from prepayment to letter of credits with deferred payment).

Equity and liabilities

Equity

Changes in equity by PLN 266.3 million mainly resulted from issuance of shares due to merger with Bytom S.A. worth PLN 206.4 million (of which PLN 11.1m increased share capital, PLN 195.3 million the capital reserves) and increased retained earnings by PLN 53.6 million generated in 2018 and higher YoY net profit.

Long-term and short-term indebtedness

Indebtedness under long-term loans as at June 30, 2019 amounted to PLN 68.3 million compared to PLN 79.8 million, which means a PLN 11.5 million decrease compared to the end of June 2018. The amount of the leases increased due to the takeover of liabilities the Bytom S.A. in the amount of PLN 2.2 million and recognition of

liabilities due to the valuation of lease agreements in accordance with IFRS16. Total liabilities in this respect amount to PLN 286.5 million, of which PLN 203.6 million is a long-term part, and PLN 82.9 million short-term part.
In case of short-term debt, increase is due to:

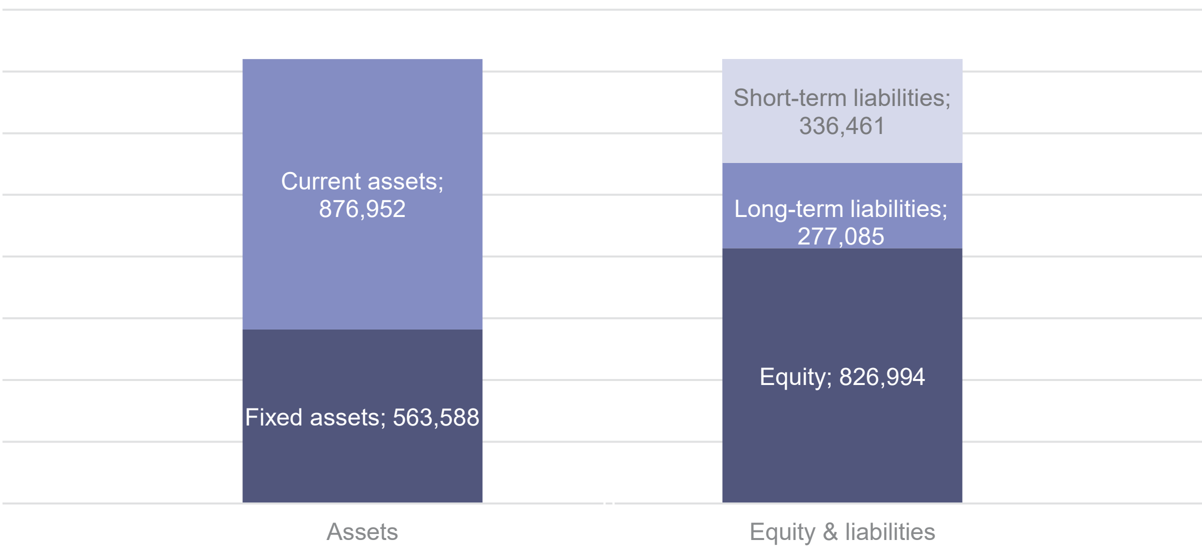
- lease obligations under the right of use described above (PLN 82.9 million),
- increase in overdraft facilities by PLN 31.3 million due to their higher use due to significant payments for goods for the new collection and the takeover of Bytom's debt;
- factoring liabilities in the amount of PLN 23.8 million, which were not present as at the end of June 2018, because this product was previously used only by the acquired company Bytom.

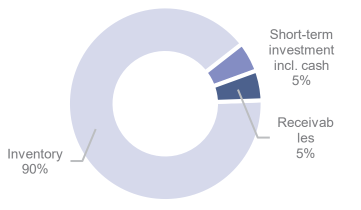
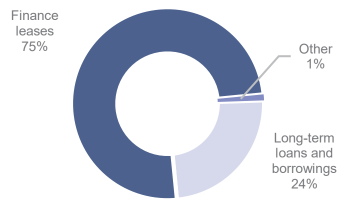
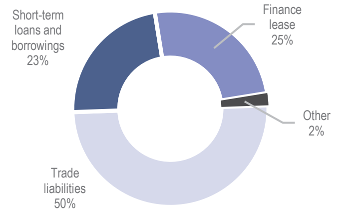
The table below presents development of financial liabilities as at 30 June 2019, 30 June 2018 and net debt. In addition, data on net debt was also presented without the impact of IFRS16, which significantly affects the scale of indebtedness.

Net debt [PLN ths]	30.06.2019	30.06.2019 (excl. IFRS16)	30.06.2018
Long-term debt	275,078	71,452	81,515
Long-term loans and borrowings	68,316	68,316	79,824
Finance lease liabilities	206,762	3,136	1,691
- including IFRS16	*203,626*	*0*	*0*
Short-term debt	184,349	101,425	44,961
Loans and borrowings	64,923	64,923	33,577
Short-term part of long-term loans	11,110	11,110	10,835
Reverse factoring	23,768	23,768	0
Finance lease liabilities	84,548	1,624	549
- including IFRS16	*82,924*	*0*	*0*
Cash	23,038	23,038	17,695
Net debt	**436,389**	**149,839**	**108,781**

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

Statement of financial position analysis as of the end of 2Q19



Current assets	Long-term liabilities	Short-term liabilities
		

Significant off-balance sheet items

Significant off-balance sheet items are indicated in note No. 24 to the consolidated financial statements.

Significant risk factors

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

Economic risk related to the macroeconomic situation	The level of the Group's revenues depends on the economic situation, including: dynamics of economic growth, level of unemployment, level of household income and indebtedness, individual consumption, consumer optimism indicators, level of the euro against the Polish zloty exchange rate, interest rates and the state fiscal policy. There is a risk that if the economic situation weakens or deteriorates again, there will be fluctuations in the demand for products offered by the Group, which will adversely affect the results and financial position.
Risk related to the instability of the Polish legal system, including tax system	The potential risk for the Group's operations, just as for all entities with commercial activity, may be the volatility of the law and its interpretation. Changes in commercial law, tax regulations, labour and social security law and other regulations governing the operations of enterprises, in particular in the Group's industry, entail serious risk of running a business and may hinder or prevent the implementation of planned operational activities and financial forecasts. Subsequently, changes in law may lead to a deterioration in the Group's condition and financial results. New legal regulations may potentially raise certain risks related to interpretation problems, lack of case-law practice, unfavourable interpretations adopted by courts or public administration bodies, etc. Tax law is characterised by a lack of stability. Tax law provisions are often changed, many times to the disadvantage of taxpayers. Changes in corporate taxation in the area of corporate income tax, tax on goods and services or other taxes may have a negative impact on the Company's activity and earnings levels. Interpretations of tax authorities are also subject to changes, are replaced by others or are contradictory. This results in uncertainty as to the manner in which tax authorities apply law in various, often complex, practical examples occurring in the course of business. The Company is also exposed to risk related to the possibility of changes in interpretation of tax law provisions issued by tax authorities. The factors described above may have a material adverse effect on the Group's growth outlook, results and financial position.
Risk associated with introduction of a trade ban on Sundays	In March 2018, regulations that introduced a trade ban on Sunday entered into force. Introduction of such a prohibition may mean for the Company a significant drop in revenues realized in brick-and-mortar stores. Before partial Sunday trade ban introduction, Sunday was the fourth most important trading day in the week, and its percentage share in sales in 2017 was 14% and fluctuated depending on the individual brands in the Company from 11 - 17 %. Between March – December 2018 the share of sales on Sundays amounted to 9%. We do not assume a proportional translation of the restrictions introduced into the drop in sales and operating result. The Company has taken all the necessary steps, including cost reduction, to minimize the impact of restrictions introduced, however, loss of some of the revenues realized by the Company on Sundays should be reckoned with. Sales data after the gradual expansion of the Sunday trade ban in 2018-19 show that the consumer demand partly shifts to Saturdays and Mondays

	and migrates to the Internet, however, this effect is not neutral. The increase in sales in e-commerce channel as well as the declining profitability of the traditional stores is noticeable. The impact of this risk on the Group's financial results may grow in the face of current regulations, which assume further restriction of trade on Sundays.
Risk of retail sales tax introduction	In connection with the possibility of introducing a tax on retail sales, and in particular the provisions of the currently passed and suspended Act, there is a risk of encumbering part of the Issuer's Capital Group's revenues with this tax. The impact on the Company's financial result would be visible from 2020 (after the whole legislative procedure of the EU).
Risk associated with adopting the wrong strategy	There is a risk that the adopted development strategy of the Group, whose basic assumptions are presented in point "Planned development activities" of the Management's Commentary to financial information presented in the condensed interim consolidated report for 1Q19, proves to be inadequate to the changing expectations of customers or market conditions. There is a risk that implementation of the strategy will be delayed or some elements will not be implemented or will not give the expected results. There is, among others, a risk that the Group will not be able to obtain the planned new floorspace, the launch will be delayed or new locations will not achieve the assumed sales results.
Risk related to intensification of competition	VRG S.A. operates in a highly competitive segment of men's fashion. This segment is characterized by fragmentation: on one hand, we possess established Polish brands such as Vistula, Bytom, Wólczanka, W.KRUK but on the other hand there are global brands that aggressively enter the Polish market. This market is characterized by quite low entry barriers. We are also dealing with the emergence of competition from newly established brands. The VRG Group may be forced to look for new supply markets to keep its offer competitive. In addition, it may be necessary to increase marketing and promotion expenditures to reach the target customers. In order to reduce this risk, the Management Board monitors the competitors' activities on an ongoing basis in terms of floorspace development, products offered and the level of prices.
Risk of changing the tastes and behaviours of buyers	An important factor in the success of an apparel company is the sense of changes in fashion trends and current consumer preferences. There is a risk that individual collections or part of the Company's offer, despite the efforts made, will differ from the expectations of customers in a given season, which may cause problems with sales, the need to reduce sales prices or to write off the value of part of the inventory. To reduce this risk, the design department analyses the changing trends and needs of customers so that we still offer the desired products at a good price-to-quality ratio. In addition, an analysis of the sales of individual assortments is carried out in order to select appropriate products in subsequent collections of brands owned by the Company. Over the recent years, as a result of development of new communication technologies, a change in the behaviour of the modern customer is noticeable, i.e. the use of the Internet and mobile devices in the process of purchasing clothes. Thanks to the use of Internet in the purchasing process, the consumer has access to a wide range of brands, often on a global scale. The consumer has the ability to quickly compare products offered in terms of quality and price. He/she pays attention to the delivery time as well as the manufacturing process and country of origin of the product. Knowledge about behaviour of today's consumers and the way of thinking about the purchase of clothing is an important factor affecting the success of apparel companies. VRG S.A. is aware of the changes taking place and undertakes a number of activities aimed at meeting the requirements of today's customers of the clothing market. These activities include: developing an on-line sales channel, customizing the websites of on-line stores to the expectations of the customers (paying attention to whether the website is friendly and easy to use) and mobile devices, shortening the time of the delivery.
Risk related to lease agreements	The operations of the Company are based in a predominant part on retail sale of goods through its own network of stores. One cannot exclude the risk of losing one or several locations, for example in connection with the intention to modernize the entire shopping mall or change in the pricing policy of the landlord. A risk of termination of the lease agreement cannot be excluded if the Company breaches the terms of the rental agreement or due to lack of renewal of the lease agreement in locations characterized by the highest profitability for the Company or bringing satisfactory financial results. There is a risk that the lease terms proposed to the Company for the next period may unfavourably deviate from the previous conditions in a given location. Loss of existing locations may cause that it will be necessary to temporarily limit operations in a given area or finding attractive locations will involve increased costs.
Risk related to inventory management	The management of finished products and trade goods is one of material factors affecting the sales results in the Company's industry. On one hand, the level of inventory should make it easier to make a

	purchasing decision when offering a given seasonal collection, which leads to an increase in inventory at each point of sale. On the other hand - a higher level of inventories generates additional need for working capital and may lead to accumulation of difficult to sell inventory (seasonal products, "fashion", unsuccessful collections). Inappropriate inventory management constitutes a risk for prices, margins and the necessary level of working capital, which may adversely affect the development prospects, results and financial position of the Company.
FX risk	The Group generates revenues primarily in PLN, while it incurs significant costs in EUR and USD, which results in exposure of the financial result to exchange rate risk. In periods of PLN depreciation in relation to the main settlement currencies, the Company incurs higher costs due to accounting for foreign exchange rate differences. In currencies other than PLN, the Company bears the costs of (a) purchasing materials for production (fabrics, accessories, jewellery materials), jewellery, watches and supplementary items in the apparel segment (shoes, knitwear, leather and other accessories) and (b) resulting from lease contracts of commercial space. In case of significant and long-term depreciation of the Polish currency against the euro and the dollar, there is a risk of a significant deterioration in the financial results achieved by the Group. Based on the sensitivity analysis (without taking into account IFRS 16): - average annual increase of the USD / PLN exchange rate by 1% will cause a decrease in the net result by 3%, - average annual increase of the EUR / PLN exchange rate by 1% will reduce the net result by 4%. IFRS 16 has a significant impact on the net result of the Group. A 1% change in the EUR / PLN exchange rate may reduce the result by several percent.
Risk related to hedging policy	In recent years, the Company has undertaken measures to limit the impact of the exchange rate increase on the level of the achieved in- take margin mainly in terms of the USD / PLN exchange rate. The above mentioned changes encompass implementation of the hedging policy, which is to significantly reduce the risk of possible strengthening of the USD, which could have a material adverse effect on the margin realized by the Company. Forward contracts are related to particular deliveries of goods, especially in the fashion segment, and they do not concern the neutralization of possible risk related to increase in rental payments due to a change in the EUR / PLN exchange rate. However, it should be emphasized that while the hedging policy is intended to protect the Parent Company against the risk of significant depreciation of the Polish zloty, especially against the USD, at the same time, in case of the trend reversal and a significant strengthening of the Polish currency it may have a negative impact on the financial results. This impact will be visible in the valuation of currency liabilities related to forward contracts.
Risk of higher prices of raw materials and production costs of suppliers	The Company purchases imported materials for production, especially high-quality fabrics and sewing accessories as well as gold, silver, diamonds and other gems. The cost of the above materials is an important factor affecting the cost of manufacturing of individual products in the Company's offer. In addition, the Company purchases clothing accessories as well as jewellery and luxury watches. The Company, with regard to the required quality, actively seeks the optimal service providers and suppliers. There is a significant risk that with further increase in prices of raw materials or production costs of suppliers / service providers, with little room to alter prices, it will not be possible to maintain margins appropriate to a given type of assortment.
Risk of cost of external services	External services have a significant share in operating costs. These services consist primarily of rents and other fees for lease of commercial space, costs related to sewing services and costs related to transportation and logistics. The Company also purchases a number of standard services (e.g. advertising, telecommunications, legal, consulting, etc.). One cannot exclude the risk of worsening the commercial conditions of one or more external services purchased by the Company, in particular rental costs.

Interest rate risk	As at 30.06.2019, the Company held loan liabilities measured at amortized cost in the amount of PLN 144,349 ths. Therefore, the Company is exposed to interest rate risk due to a change in the debt valuation based on a variable interest rate. An increase in the level of interest rates may increase the cost of financing and, consequently, reduce the Group's profitability. Based on the sensitivity analysis, the average annual increase in the base interest rate by 1% will reduce the net result by 0.04%.
Risk of termination of loan agreement	The Company concluded on March 9, 2015 loan agreements regarding investment financing with PKO BP S.A. bank i.e. a term loan agreement (Loan A) up to PLN 47.6 million and a term loan agreement (Loan B) up to PLN 71.4 million taken on March 31, 2015 by a subsidiary of the Company, i.e. W.KRUK S.A. while maintaining a guarantee from the Company. The above Loan Agreements have been concluded in accordance with the Loan Market Association standards and include a number of covenants to be fulfilled by the Company and W.KRUK S.A. In case of a deterioration of economic situation and a weakening of consumer demand, meeting of covenants may be threatened and thus the risk of terminating contracts by the financing bank arises. Due to the large value of financing, the Parent Company will not be able to refinance it at a short notice. Along with the merger with Bytom S.A., the Company took over multi-product agreements regarding current financing by banks: ING Bank Śląski S.A. (the amount of the Agreement is PLN 40 million) and BGŻ BNP Paribas S.A. (for the amount of PLN 9 million and a factoring agreement in the amount of EUR 3 million). These agreements contain covenants, which Bytom was required to meet, and at the time of the merger, VRG S.A. is responsible for these. In case of a deterioration of economic situation, weakening of the demand for the Company's products, meeting of these covenants may be at risk, which results in the risk of termination of contracts by the financing banks.
Risk of losing financial liquidity	The Group has loan liabilities. As a result, collaterals covering a significant part of the assets were established. The servicing of the above liabilities is carried out primarily using current cash flows from operations. In the extreme case of a rapid, simultaneous drop in demand and increase in costs (especially in a situation of steep zloty depreciation), the Company may experience difficulties in maintaining liquidity.
Risk of collateral and loss of collateral assets	In relation with bank loan and other agreements concluded with many entities, the Company has established numerous collaterals on its entire assets - on real estate and movables, inventory and trademarks. The sum of collaterals exceeds the carrying amount of the Company's assets. There is a risk of failure to meet deadlines or other contractual terms. Delays in the realisation of the above-mentioned obligations may result in immediate termination of all or part of the financing and resultant taking over the assets of the Company by creditor in order to satisfy the subject of the collateral. Loss of significant assets may lead to substantial difficulties in running the business of the Company or even completely block the possibility of conducting business, achieving revenues and profits.
Risk of transactions with related parties	The Company concludes and will conclude transactions with related parties, especially with the production company, the company responsible for the women apparel segment and a company responsible for the jewellery segment. Transactions with related parties may be subject to examination by tax authorities to determine whether they were concluded on an arm's length basis and whether the entity correctly determined tax liabilities. In the opinion of the Management Board of the Company, transactions with related parties are concluded and will be conducted on market terms. There is a risk that the tax authorities will question the marketability of the terms of selected transactions with a related parties, which could result in the necessity to pay additional tax with interest for overdue payments.
Risk related to the shareholder structure	The Company is characterised by a fragmented shareholding structure, where the largest shareholder does not exceed 20% of votes at the General Shareholder Meeting, and five significant shareholders hold a total of 58.52% of votes at the General Shareholder Meeting. Most of these shareholders have owned shares of the Parent Company for several years, they participate in shaping the Company's activities through representatives in the Supervisory Board. However, one cannot rule out the risk that one or more of major shareholders will reduce their shareholding or will cease investing in the Company's shares. It cannot be excluded that decisions regarding the strategy and operational activities relevant to the Company will be delayed or even blocked. It cannot be ruled out that despite the current cooperation, the interests of significant shareholders will be divergent /

	contradictory. The factors listed above may have a material adverse effect on the Company's development prospects, results and financial position.
Risks related to transfer of an organized jewellery business unit of the Company (W.KRUK Unit) in the form of an in-kind contribution to W.KRUK S.A. subsidiary based in Cracow	Since August 1, 2014, in the organizational structure of the Company, a business unit of W.KRUK was separated. This is a part of the Company's operations related to jewellery industry conducted under the W.KRUK brand, which constitutes an organizationally and financially separate unit of tangible and intangible assets in the Company, including commitments intended to perform specific economic tasks in the jewellery segment of the Company ("W.KRUK Unit"). On March 31, 2015, the W.KRUK Unit was sold as an organized business unit of the Company in the form of an organizationally separated set of tangible and intangible assets, by contributing the organized business unit of the Company in-kind to the Subsidiary. The Company acted on the basis of an interpretation received from the Tax Office, however, it cannot be ruled out that the transaction may involve risk of different interpretations of its effects by tax administration in the light of the applicable PCC, CIT and VAT regulations, which may mean additional financial consequences for the Company.
Risk related to guarantees granted to subsidiaries	In relation with the separation of the organized business unit in the form of jewellery assets and transferring them to the subsidiary W.KRUK SA, the Company carried out a simultaneous financial restructuring. As part of this process, W.KRUK S.A. obtained new financing from PKO BP Bank and the Company guarantied for the debts of the subsidiary. In the second quarter of 2015, the subsidiary DCG S.A. received refinancing from the PKO BP Bank, and during the third quarter of 2016, the subsidiary VG Property Sp. z o.o. obtained an investment loan from PKO BP Bank. The above liabilities of subsidiaries of DCG S.A. and VG Property Sp. z o.o. have been guaranteed by the Company. In the event of a sharp deterioration of economic situation and cessation of debt servicing by W.KRUK S.A. or DCG S.A. and VG Property Sp. z o.o. on the basis of the guarantee granted, the Company may be obliged to settle outstanding liabilities of subsidiaries which could result in loss of financial liquidity of the Company.
The risk related to disruptions in the functioning of information systems	The Company uses a number of IT systems, software and programs to provide the appropriate level of communication within the organizational structures of the companies comprising the Group, registering and processing information on economic events in all areas of its operations. The risk of IT disruptions cannot be ruled out in the following areas: (i) Infrastructure (e.g. failures of servers, workstations, network devices, lack of connection to external networks), (ii) software (e.g. malfunction, unauthorized removal, impact of computer viruses), (iii) data resources (loss or destruction of data, unauthorized access to data, unauthorized reproduction of data, unauthorized modification of data, possibility of a targeted cyberattack). As part of the procedures and IT tools used, the Company strives to minimize the possibility of occurrence of the above-described events, but it is not possible to completely exclude the probability of their occurrence, and consequently their negative impact on security and credibility of information and database resources and on security and continuity of service provision.
Risk related to the EU GDPR Directive	Since May 25, 2018, the Regulation of the European Parliament and the EU Council 2016/67 of April 27, 2016 on the protection of individuals with regard to the processing of personal data and on free movement of such data and the repeal of Directive 95/46/WE became applicable in the Polish legal order (GDPR), which applies to all entities processing personal data in their business activities. The GDPR introduces a number of changes and extends the responsibilities of administrators and data processors. An important issue is the determination of the maximum level of penalties for infringements of the provisions of the GDPR Directive. The maximum levels were set at EUR 20,000,000 or 4% of the total annual turnover of the enterprise from the pre-infringement financial year. In connection with the above, the Company carried out works aimed at: ▪ adapting its activities to the requirements of GDPR, which include: organizing training for employees, whose activities the provisions of the GDP will affect, primarily employees of the marketing, sales and HR departments, loyalty programs service department, ▪ development of a new Information Security Policy; ▪ developing a new Instruction for managing information systems used for data processing; ▪ preparing and implementing changes in solutions of organizational and technical nature; ▪ development of threats and risk analysis in the processing of personal data. However, the risk of occurrence of incidents related to breaching of GDPR provisions may not be completely excluded, which could cause additional negative financial consequences for the Company.

Risks related to 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: a) introduction of a procedure for regular audits of logistics structures and systems made available for the needs of VRG S.A. by th external operator; b) improvement of the admission and release plan from the external operator's warehouse and precise pre-selection of the necessary storage space; c) introduction of a system of planning releases of goods in weekly cycles and a system of transferring information to the logistics operator on the quantity and dates of planned releases of goods; d) introduction of planning the number of e-commerce orders on a monthly basis - based on analytical data from on-line stores; e) negotiations on increasing the available storage space at an external operator, regarding guaranteeing the possibility of implementing daily minimum goods releases for traditional stores and daily minimum deliveries to customers of on-line stores. However, it is not possible to completely exclude the risk of incidents related to disruption of the aforementioned logistics processes, which could cause the Company additional negative consequences related to fall in sales as a result of late replenishment of a network of traditional stores or loss of some online 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, Wólczanka and W.KRUK. The company implements a training system for employees, develops customer service standards and a system of control of introduced standards. There is a risk that if the customer service system is not implemented correctly, the level of services provided in individual stores may be equally good. This may translate into a loss of clients' trust in the brands owned by the Company and deterioration of the Company's image, and it may consequently result in a decrease in the results achieved in individual stores and by the Company in general.
Risk related to merger of the Company with Bytom S.A.	The Company's Management Board sees a number of synergies related to the merger with Bytom S.A. Thanks to a leap in the scale of operations of the Capital Group, its negotiating position with suppliers of both fabrics and accessories will increase, whereas unification of purchasing policy will enable reduction of delivery costs, and coordination and consolidation of purchases. The Capital Group will also be a significant tenant of retail space and a significant advertiser. It will be possible to reduce the network operational management costs and logistics costs resulting from identical locations in shopping malls of individual brand stores. Also, the combination of departments serving both companies and not directly linked to revenues (e.g. accounting, IT) and more effective human resources management should enable the lowering of costs. However, there is a risk that the expectations of the Company's Management Board as to synergies achieved as a result of the merger will not be met in full or be lower than assumed. Additionally, it cannot be excluded that there will be a cannibalization of brands or the resignation of some customers from the offer of the Capital Group. In connection with the principle of general succession resulting from art. 494 of the Code of Commercial Companies, as at the date of the merger, the Company has assumed all the rights and obligations of

	Bytom S.A. Therefore, there is a risk of transferring responsibility to the Company for liabilities of Bytom S.A.

Markets

The Capital Group offers its products mainly to retail customers through a network of company stores. The domestic market is the dominating market for companies from the VRG Capital Group.

Supply sources

In the first half of 2019, the Company mainly used raw materials of foreign origin for production on the domestic market. Domestic sources of supply of raw materials used for the production of products constituted a minority. The sources of supply for textiles, jewellery and accessories were diversified - none of the suppliers exceeded the threshold of 10% share in total supplies.

Organizational or capital connections

Organizational or capital connections are presented in item 1.2 information and explanations to the consolidated financial statement.

Related party transactions

Transactions with related entities are presented in Note 28 to the consolidated financial statements.

Loans taken

Information on loans taken is included in Note 15 to the consolidated financial statements.

Loans granted

No changes as compared to December 31, 2018 and March 31, 2019.

Proceedings pending before a court or a public administration body

Information about proceedings pending before a court or a public administration body has been included in item 7 of the information and explanations to the consolidated financial statement.

Guarantees for credit or loans and guarantees granted

Information on loan or credit sureties granted and guarantees granted has been included in item 8 of the information and explanations to the consolidated financial statements.

Financial resources management

As a result of budgetary management of financial resources, the Capital Group has the ability to meet its obligations. In the opinion of the Parent Company's Management Board, there are no threats in the area of service and repayment of liabilities.

Financial forecasts attainment

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

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5 diversified brands within VRG Group

7. PLANNED DEVELOPMENT ACTIVITIES

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

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

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

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

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

The Vistula brand offer for Autumn / Winter 2019/20 season includes a wide selection of both formal and casual items. Suits will remain the main part of the formal collection. The novelty will be a lightweight suit adapted for washing in a washing machine. In addition to suits, the offer will also encompass jackets - plain or checked, shirts, trousers, coats, multi-colored jackets and a wide selection of accessories. The *Vistula with Passion* project will also be continued in the current half-year.
The faces of the latest Bytom collection are Jan Frycz and Kamil Nożyński, who promote the brand as well as culture and art. The new Heritage collection is kept in a vintage climate reminiscent of the 1980s. From the second half of August, the Bytom brand released the Bauhaus capsule collection, presenting a unique series of suits for the 100th anniversary of the Bauhaus school.
The faces of Wólczanka brand in Autumn / Winter 2019/20 season are Professionals, i.e. people who are accompanied by Wólczanka shirts both at work and in everyday life. The new men's collection is a wide selection of business shirts in shades of blue. Customers in the collection will also find a wide range of white shirts and multicolored casual shirts. The shirts collection is complemented by sweaters - including turtlenecks, from wool and cashmere blend as well as top-quality accessories: silk ties, pocket square and flies, shirt clips, leather straps. In the women's part of the collection, next to purely business shirts (cotton and viscose), there are also models from stylish silk and decorated with unique patterns. The collection of shirts is complemented by women's sweaters - including turtlenecks and a wide selection of elegant scarves made of fabric.

The Autumn / Winter 2019/20 collection from Deni Cler combines tradition with modernity, contains seven capsule collections, both with office and daytime as well as evening and casual fashion (an increasingly visible trend in the brand's collections). In the second quarter, the W.KRUK brand continued to sell the OLEHO ambassador collection designed together with Ewa Chodakowska and is preparing a new Christmas collection that will appear in showrooms at the end of the year.

After completing the merger with Bytom, the priority of the Management Board is to achieve synergies, both revenue and cost. Revenue synergies should be visible by improving the gross margin as a result of combined purchasing policy mainly on foreign markets. The Management Board estimates that improvement of gross margin of the Vistula, Wólczanka and Bytom brands should translate into PLN 8-10 million of margin synergy per year. Cost synergies should be achieved in the areas of selling and general administrative expenses and should amount to some PLN 2 million annually, supporting the Group in achieving the planned cost discipline. The Management Board expects that all synergies will be realized in 2020, but the first effects are already visible in 2019, i.e. the first margin synergies are realised in 2Q19 (consequence of changes in pricing offer and higher in-take margin) as well as lowering the Group's interest costs due to changes in financing structure.

At the same time, the Management Board will continue its activities related to the strategic goal of building a House of Brands through acquisition and consolidation activities on the Polish market and foreign markets in close proximity. The first practical example of such activities is the subsidiary W.KRUK S.A. which signed a letter of intent to purchase a company from the jewellery sector operating in the Czech Republic. The project is at the due diligence stage and its completion should take place in 1Q20.

8. STATEMENT OF THE MANAGEMENT BOARD

The Management Board declares that, to the best of its knowledge, the financial statements and comparative data have been prepared in accordance with the applicable accounting principles and that they reflect in a true, fair 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.

The Management Board declares that the entity authorized to audit financial statements that reviewed the financial statements was selected in accordance with legal regulations and that this entity and the statutory auditors performing the review met the conditions for expressing an impartial and independent review in accordance with applicable regulations and professional standards.

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, August 27, 2019

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VISTULA

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