

VISTULA

WÓLCZANKA

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SZTUKA KRAWIECTWA OD 1945

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DENI CLER
MILANO



VRG
VISTULA RETAIL GROUP

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INTERIM CONDENSED


FINANCIAL REPORT

of VRG S.A. Capital Group for 3Q19
prepared in accordance with IFRS

Cracow, November 12, 2019

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A man with a beard and mustache, wearing a dark blue checkered suit, white shirt, and dark tie, stands in front of a large, classical stone building. He is looking down and adjusting his jacket. The sky is blue with light clouds. The image is framed by a white border.

**PLN 735.8m
revenues,
+ 37.9% YoY
in 9M19**

INTERIM CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

FOR 9 MONTHS ENDING SEPTEMBER 30, 2019

SELECTED FINANCIAL DATA TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

	PLN ths		EUR ths	
	3 quarters / 2019 January 1, 2019 to 30 September, 2019	3 quarters / 2018 January 1, 2018 to 30 September, 2018	3 quarters / 2019 January 1, 2019 to 30 September, 2019	3 quarters / 2018 January 1, 2018 to 30 September, 2018
Revenues	735,804	533,533	170,776	123,830
Profit (loss) from operations	39,937	31,152	9,269	7,230
Pre-tax profit (loss)	25,493	26,872	5,917	6,237
Net profit (loss)	19,645	21,140	4,559	4,906
Net cash flows from operating activities	- 13,827	- 21,766	- 3,209	- 5,052
Net cash flows from investing activities	- 9,574	- 12,398	- 2,222	- 2,878
Net cash flows from financing activities	2,197	31,532	510	7,318
Total net cash flows	- 21,204	- 2,632	- 4,921	- 611
	30.09.2019	31.12.2018	30.09.2019	31.12.2018
Total assets	1,475,256	1,113,351	337,309	258,919
Liabilities and provisions	655,885	308,254	149,965	71,687
Long-term liabilities	266,347	74,561	60,899	17,340
Short-term liabilities	379,723	220,440	86,822	51,265
Total equity	819,371	805,097	187,345	187,232
Share capital	49,122	49,122	11,231	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)	0.08	0.29	0.02	0.07
Diluted earnings (loss) per share (in PLN/EUR)	0.08	0.28	0.02	0.07
Book value per share (in PLN/EUR)	3.49	3.43	0.80	0.80
Diluted book value per share (in PLN/EUR)	3.39	3.33	0.78	0.77
Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT SEPTEMBER 30, 2019

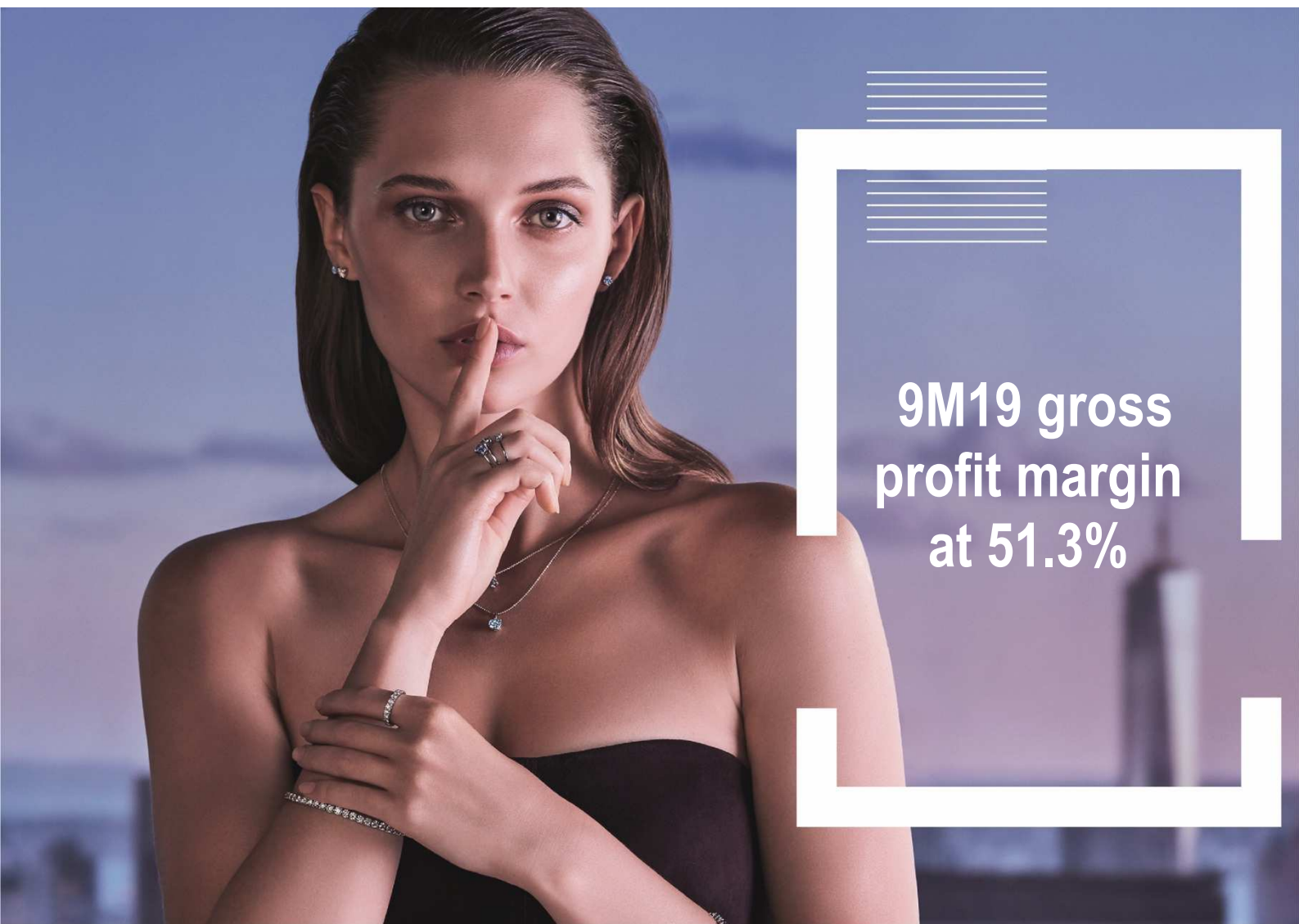
	PLN ths					
	3Q19 September 30, 2019	2Q19 June 30, 2019	January 1, 2019 after restatement	2018 December 31, 2018	3Q18 September 30, 2018	2Q18 June 30, 2018
Assets						
Non-current assets	858,987	876,952	892,829	593,249	425,173	423,102
Goodwill	302,748	324,033	324,033	324,033	242,590	242,590
Other intangible assets	196,908	183,088	183,220	183,220	116,970	117,114
Fixed assets	72,048	73,758	78,046	78,046	59,264	56,772
Investment property	874	874	874	874	874	874
Assets held for sale	-	-	-	-	-	-
Right of use assets	277,453	287,222	299,580	-	-	-
Long-term receivables	646	497	586	586	491	519
Shares and stakes	27	27	27	27	27	27
Other long-term investments	4	4	4	4	4	4
Deferred tax assets	8,223	7,416	6,429	6,429	4,901	5,150
Other non-current assets	56	33	30	30	52	52
Current assets	616,269	563,558	520,102	520,102	410,834	369,706
Inventory	563,578	507,569	460,781	460,781	360,159	313,846
Trade and other receivables	36,652	30,629	23,907	23,907	34,554	35,889
<i>of which corporate income tax re- ceivables</i>	-	-	-	-	1,085	185
Short-term loans	12,319	23,038	33,523	33,523	13,788	17,695
Cash and cash equivalents	531	-	8	8	28	-
Other short-term assets	3,189	2,352	1,883	1,883	2,305	2,276
Total assets	1,475,256	1,440,540	1,412,931	1,113,351	836,007	792,808
Equity & liabilities						
Dominating entity's equity	819,371	826,994	805,097	805,097	567,726	560,744
Share capital	49,122	49,122	49,122	49,122	38,470	38,470
Other reserves	14,766	14,394	13,968	13,968	13,968	13,908
Retained earnings	735,838	742,008	688,435	688,435	494,148	494,148
Net profit (loss) for the current pe- riod	19,645	21,470	53,572	53,572	21,140	14,218
Non-controlling interest	-	-	-	-	-	-
Total equity	819,371	826,994	805,097	805,097	567,726	560,744
Long-term liabilities	266,347	275,239	296,849	74,561	79,471	81,626
Liabilities due to purchase of fixed assets	261	161	176	176	141	111
Lease liabilities	201,923	206,762	225,915	3,627	1,657	1,691

Interim condensed financial report of VRG Capital Group

	PLN ths					
	3Q19 September 30, 2019	2Q19 June 30, 2019	January 1, 2019 after restatement	2018 December 31, 2018	3Q18 September 30, 2018	2Q18 June 30, 2018
<i>Including IFRS16</i>	199,332	203,626	222,288	-	-	-
Loans and borrowings	64,163	68,316	70,758	70,758	77,673	79,824
Deferred tax liabilities	453	939	1,320	1,320	611	743
Long-term provisions	907	907	907	907	536	536
Total long-term liabilities and provisions	267,707	277,085	299,076	76,788	80,618	82,905
Short-term liabilities	379,723	328,053	297,732	220,440	182,458	144,149
Lease liabilities	88,189	84,548	79,031	1,739	561	549
<i>Including IFRS16</i>	86,399	82,924	77,292	-	-	-
Trade and other liabilities	191,980	167,472	192,820	192,820	113,133	99,188
<i>of which corporate income tax liabilities</i>	1,770	2,183	4,897	4,897	-	-
Loans and borrowings	88,712	64,923	14,627	14,627	58,130	33,577
Short-term part of long-term loans and borrowings	10,842	11,110	11,254	11,254	10,634	10,835
Short-term provisions	8,455	8,408	11,026	11,026	5,205	5,010
Total short-term liabilities and provisions	388,178	336,461	308,758	231,466	187,663	149,159
Total liabilities and provisions	655,885	613,546	607,834	308,254	268,281	232,064
Total equity and liabilities	1,475,256	1,440,540	1,412,931	1,113,351	836,007	792,808
Book value of equity	819,371	826,994	805,097	805,097	567,726	560,744
Shares outstanding	234,455,840	234,455,840	234,455,840	234,455,840	181,194,964	181,194,964
Book value per share	3.49	3.53	3.43	3.43	3.13	3.09
Diluted number of shares	241,505,840	241,505,840	241,505,840	241,505,840	188,244,964	181,194,964
Diluted book value per share	3.39	3.42	3.33	3.33	3.02	3.09

**CONDENSED INTERIM CONSOLIDATED OFF-BALANCE SHEET ITEMS
AS OF SEPTEMBER 30, 2019**

	PLN ths				
	3Q19 September 30, 2019	2Q19 June 30, 2019	4Q18 December 31, 2019	3Q18 September 30, 2018	2Q18 June 30, 2018
bank guarantees issued for store rental expenses	46,024	46,015	37,462	31,187	31,192
open letters of credit	25,743	43,354	36,819	18,039	12,333
bills of exchange securing lease liabilities	703	685	634	671	665
Total off-balance sheet items	72,470	90,054	74,915	49,897	44,190



**9M19 gross
profit margin
at 51.3%**



CONDENSED INTERIM CONSOLIDATED

STATEMENT OF COMPREHENSIVE INCOME

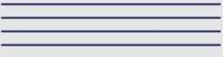
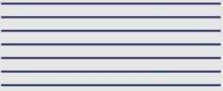
FOR 9 MONTHS ENDING SEPTEMBER 30, 2019

CONDENSED INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	PLN ths			
	3Q19 January 1, 2019 to 30 September, 2019	3 quarters / 2019 January 1, 2019 to 30 September, 2019	3Q18 January 1, 2018 to 30 September, 2018	3 quarters / 2018 January 1, 2018 to 30 September, 2018
Revenues	251,155	735,804	180,087	533,533
Cost of sales	123,152	358,224	89,987	265,079
Gross profit on sales	128,003	377,580	90,100	268,454
Other operating income	579	1,368	816	1,133
Gain from sale of non-financial non-current assets	-	727	-	-
Selling costs	94,468	275,081	64,931	189,962
Administrative expenses	21,004	62,035	15,546	46,736
Other operating costs	407	2,622	349	1,709
Loss from sale of non-financial non-current assets	100	-	45	28
Profit (loss) from operations	12,603	39,937	10,045	31,152
Financial income	748	596	604	688
Gain from sale of subsidiaries	-	-	-	-
Financial costs	13,170	15,040	1,817	4,968
<i>incl. IFRS16 financial costs</i>	9,135	8,143	-	-
Loss from sale of subsidiaries	-	-	-	-
Pre-tax profit (loss)	181	25,493	8,832	26,872
Income tax	2,007	5,848	1,910	5,732
Net profit (loss) for the period	- 1,826	19,645	6,922	21,140
Attributed to dominating entity	- 1,826	19,645	6,922	21,140
Attributed to non-controlling interest	-	-	-	-
Weighted average number of ordinary shares	234,455,840	234,455,840	181,194,964	180,462,363
Diluted weighted average number of ordinary shares	241,505,840	241,505,840	188,244,964	187,512,363
EPS				
- basic	- 0.01	0.08	0.04	0.12
- diluted	- 0.01	0.08	0.04	0.11

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	PLN ths			
	3Q19 January 1, 2019 to 30 September, 2019	3 quarters / 2019 January 1, 2019 to 30 September, 2019	3Q18 January 1, 2018 to 30 September, 2018	3 quarters / 2018 January 1, 2018 to 30 September, 2018
Net profit for the period	- 1,826	19,645	6,922	21,140
Other comprehensive income, including:	-	-	-	-
Revaluation of financial assets available for sale	-	-	-	-
Income tax related to other comprehensive income	-	-	-	-
Total comprehensive income	- 1,826	19,645	6,922	21,140



PLN 122.4m
EBITDA
in 9M19



CONDENSED INTERIM CONSOLIDATED

STATEMENT OF CHANGES IN EQUITY

FOR 9 MONTHS ENDING SEPTEMBER 30, 2019

	PLN ths					Total equity
	Share capital	Capital reserves	Retained earnings	Dominating entity's equity	NCI	
3 quarter /2018, from July 1, 2018 to September 30, 2018						
Balance at 01.07.2018	38,470	13,908	508,366	560,744	-	560,744
Net profit (loss) for the period	-	-	6,922	6,922	-	6,922
Stock option programme valuation	-	60	-	60	-	60
Share issuance	-	-	-	-	-	-
Balance at 30.09.2018	38,470	13,968	515,288	567,726	-	567,726
3 quarters/2018, January 1, 2018 to September 30, 2018						
Balance at 01.01.2018	38,070	13,729	490,692	542,491	-	542,491
Net profit distribution	-	-	- 142	- 142	-	- 142
Net profit (loss) for the period	-	-	21,140	21,140	-	21,140
Stock option programme valuation	-	239	-	239	-	239
Share issuance	400	-	3,598	3,998	-	3,998
Balance at 30.09.2018	38,470	13,968	515,288	567,726	-	567,726
2018 / January 1, 2018 to December 31, 2019						
Balance at 01.01.2018	38,070	13,729	490,692	542,491	-	542,491
Consolidation adjustment	-	-	2,547	2,547	-	2,547
Net profit distribution	-	-	- 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
Balance at 31.12.2018	49,122	13,968	742,007	805,097	-	805,097
3 quarter/2019, from July 1, 2019 to September 30, 2019						
Balance at 01.07.2019	49,122	14,394	763,478	826,994	-	826,994
Consolidation adjustment	-	-	- 6,169	- 6,169	-	- 6,169
Net profit (loss) for the period	-	-	- 1,826	- 1,826	-	- 1,826
Stock option programme valuation	-	372	-	372	-	372
Share issuance	-	-	-	-	-	-
Balance at 30.09.2019	49,122	14,766	755,483	819,371	-	819,371
3 quarters/ 2019, from January 1, 2019 to September 30, 2019						
Balance at 01.01.2019	49,122	13,968	742,007	805,097	-	805,097
Consolidation adjustment	-	-	- 6,169	- 6,169	-	- 6,169
Net profit distribution	-	-	-	-	-	-
Net profit (loss) for the period	-	-	19,645	19,645	-	19,645
Stock option programme valuation	-	798	-	798	-	798
Share issuance	-	-	-	-	-	-
Balance at 30.09.2019	49,122	14,766	755,483	819,371	-	819,371

CONDENSED INTERIM CONSOLIDATED

STATEMENT OF CASH FLOWS

FOR 9 MONTHS ENDING SEPTEMBER 30, 2019


	PLN ths			
	3Q19 January 1, 2019 to 30 September, 2019	3 quarters / 2019 January 1, 2019 to 30 September, 2019	3Q18 January 1, 2018 to 30 September, 2018	3 quarters / 2018 January 1, 2018 to 30 September, 2018
Operating cash flows				
Pre-tax profit (loss)	181	25,493	8,832	26 872
Adjustments:				
Amortization and depreciation	28,286	82,413	3,982	12 529
Profit (loss) on investing activities	100	- 745	45	219
Income tax paid	- 2,399	- 10,333	- 2,689	- 8 753
Interest costs	2,483	6,866	1,267	3 376
Change in provisions	- 1,102	- 3,730	- 1,501	- 4 186
Change in inventories	- 56,008	- 102,796	- 46,313	- 44 878
Change in receivables	- 6,432	- 13,620	1,344	- 14 435
Change in short-term liabilities, excluding bank loans and borrowings	23,487	4,075	15,308	7 506
Other adjustments	- 1,101	- 1,450	- 23	- 16
Net cash flows from operating activities	- 12,505	- 13,827	- 19,748	- 21 766
Investing cash flows				
Interest received	3	7	4	11
Dividends from subsidiaries	-	-	-	-
Dividends from investments available for sale	-	-	-	-
Inflows from sale of investments held for trading	-	-	-	-
Inflows from sale of investments available for sale	-	-	-	-
Inflows from sale of subsidiary	-	-	-	-
Inflows from sale of intangibles	-	-	-	-
Inflows from sale of fixed assets	1,935	8,429	46	327
Disposal of investment property	-	-	-	-
Inflows from loans granted	-	-	-	-
Purchase of investments held for trading	-	-	-	-
Purchase of investments available for sale	-	-	-	-
Purchase of subsidiary	-	-	-	-
Purchase of intangible assets	- 49	- 669	- 45	- 1,307
Purchase of fixed assets	- 3,185	- 17,341	- 4,926	- 11,429
Purchase of investment property	-	-	-	-
Purchase of financial assets in subsidiaries	-	-	-	-
Purchase of financial assets in other entities	-	-	-	-
Loans granted	-	-	-	-
Outflows due to sale of subsidiary	-	-	-	-
Net cash flows from investing activities	- 1,296	- 9,574	- 4,921	- 12,398

Interim condensed financial report of VRG Capital Group

	PLN ths			
	3Q19 January 1, 2019 to 30 September, 2019	3 quarters / 2019 January 1, 2019 to 30 September, 2019	3Q18 January 1, 2018 to 30 September, 2018	3 quarters / 2018 January 1, 2018 to 30 September, 2018
Financing cash flows				
Proceeds from issuance of shares and other capital instruments and additional payments to capital			-	3,998
Inflows from loans and borrowings	23,870	82,165	24,554	42,685
Other financial inflows	-	-	-	-
Dividends and other distributions to owners	-	-	-	-
Repayment of bank loans and borrowings	- 4,502	- 15,088	- 2,352	- 11,305
Redemption of debt securities	-	-	-	-
Finance lease payments	- 493	- 1,640	- 173	- 470
Interest payments	- 1,338	- 3,679	- 1,267	- 3,376
IFRS16 interest	- 1,135	- 3,187	-	-
IFRS16 leasing	- 13,320	- 56,374	-	-
Other financial expenses	-	-	-	-
Net cash flows from financing activities	3,082	2,197	20,762	31,532
Change in cash and cash equivalents in the balance sheet	- 10,719	- 21,204	- 3,907	- 2,632
Opening balance of cash	23,038	33,523	17,695	16,420
Change in cash due to foreign currency translation	-	-	-	-
Closing balance of cash	12,319	12,319	13,788	13,788

The value shown under "Other adjustments" consists of:

	PLN ths	
capital reserves increase – valuation of stock options	798	239
fixed assets - impairment - liquidation	- 2,241	- 244
interest received	- 7	- 11
Total	- 1,450	- 16



**PLN 39.9m
of EBIT
in 9M19**

INFORMATION AND EXPLANATIONS

TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR 3Q19

1. General information

1.1. Name, registered office, business activity

VRG S.A. (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 retail sale of clothing in specialized stores (PKD 47.71.Z).

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

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

The Company's key corporate milestones

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

2019 | ■ Merger with BTM 2 Sp. z o.o

The lifespan of the Issuer is indefinite.

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

As at the end of 3Q19 VRG S.A. Capital Group consisted of the following entities:

- 1. VRG S.A.** - Parent Company
- 2. W.KRUK S.A.** based in Cracow, Pilotów 10 St.; post code 31-462. The company was registered in the District Court for Cracow Śródmieście, XI Commercial Division of the National Court Register (KRS) under number KRS 0000500269.
The company specialises in design, manufacturing and retail sales of brand luxury products such as jewellery, watches and accessories.
Share in equity: 100.0%. Share in votes at the General Shareholder Meeting: 100.0%.
- 3. DCG S.A.** based in Warsaw, Bystrzycka 81a St., post code 04-907. The company was registered in the District Court for Warsaw, the XXI Commercial Division of the National Court Register (KRS) under number KRS 0000285675.
The company specialises in retail sale of clothing.
Share in equity: 100.0%. Share in votes at the General Shareholder Meeting: 100.0%.
- 4. Wólczanka Shirts Manufacturing Sp. z o.o.** based in Cracow, Pilotów 10 St., post code: 31-462. The company was registered in the District Court for Cracow Śródmieście, XI Commercial Division of the National Court Register (KRS) under number KRS 0000538836.
The company specialises in confectioning of clothing at the request of the parent company, in particular including shirts branded Wólczanka, Lambert, Vistula and Lantier. The company also conducts confectioning of women's shirts and blouses under export contracts concluded by VRG S.A.
Share in equity: 100.0%. Share in votes at the General Shareholder Meeting: 100.0%.
- 5. VG Property Sp. z o.o.** based in Cracow, Pilotów 10 St., post code: 31-462. The company was registered in the District Court for Cracow Śródmieście, XI Commercial Division of the National Court Register (KRS) under number KRS 0000505973.
The company specialises in renting and managing of own or leased real estate.
Share in equity: 100.0%. Share in votes at the General Shareholder Meeting: 100.0%.

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 3Q19 include data of the Parent Company and subsidiaries: W.KRUK S.A., DCG S.A., Wólczanka Shirts Manufacturing Sp. z o.o., VG Property Sp. z o.o.

Changes in Capital Group structure in 3Q19.

- merger of VRG S.A. with a subsidiary BTM 2 Sp. z o.o. with its registered office in Cracow, entered into the Register of Entrepreneurs of the National Court Register under the number KRS 0000605215 - "Acquired Company", which previously became part of VRG Capital Group as a result of the merger of Bytom S.A. with VRG S.A. 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 registered office of the Acquiring Company, i.e. on July 1, 2019. This entry results in the removal from the register of the Acquired Company, i.e. BTM 2 Sp. z o.o.

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Pursuant to art. 494 Code of Commercial Companies VRG is the legal successor of BTM 2 Sp. z o.o., i.e. on the day of the merger, it entered into all rights and obligations of BTM 2 Sp. z o.o. as the Acquired 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 Merged Company to the Merging Company.

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

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

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

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

In the period from January 1, 2019 to 30 September 2019 the following changes took place in the Supervisory Board:

On April 9, 2019, the parent company received a statement from Katarzyna Basiak-Gała regarding her resignation from the function of a member of the Company's Supervisory Board on the day of the next General Meeting of Shareholders of the Company. The statement of Katarzyna Basiak-Gała, referred to above, was submitted on the basis of art. 26 of the Act of August 21, 1997 on the limitation of business activity for persons performing public functions. Pursuant to the above statement, 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 Shareholder Meeting").

In addition, the General Shareholder Meeting adopted the following resolutions regarding changes in the composition of the Company's Supervisory Board of the current joint term of office:

a) pursuant to Resolution No. 20/06/2019 of the Company's General Shareholder Meeting regarding the dismissal of a member of the Company's Supervisory Board, Maciej Matusiak was dismissed from the Company's Supervisory Board of the current joint term of office.

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

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

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 November 12, 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. September 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.

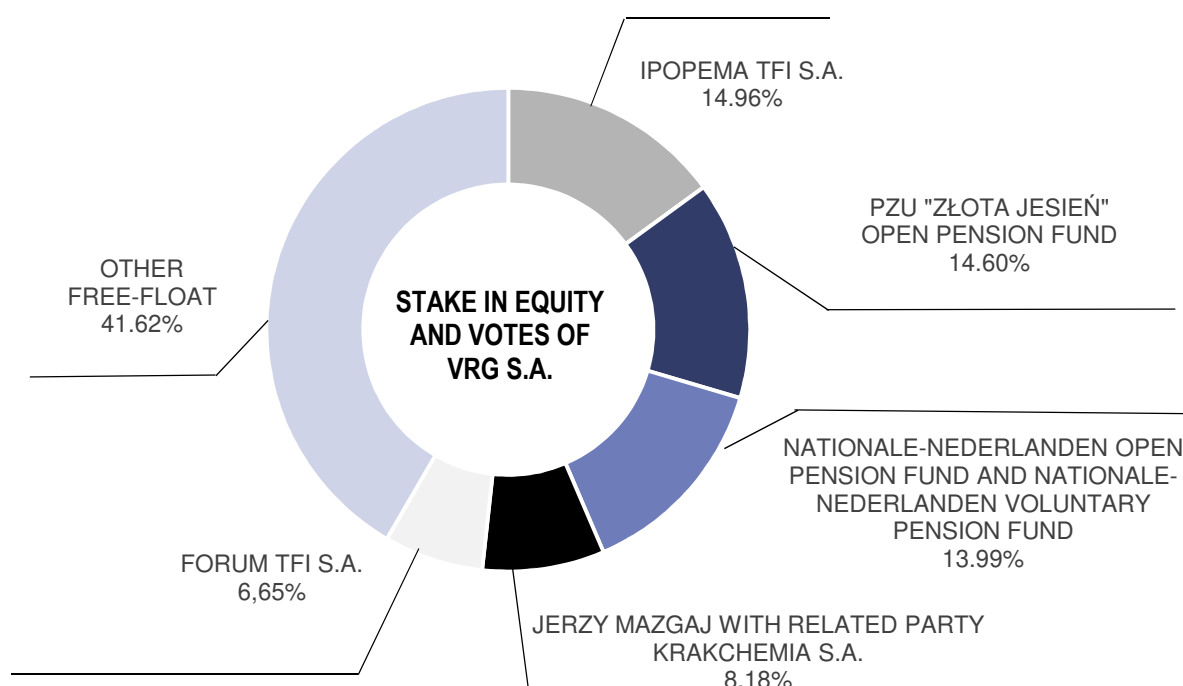
1.6. Share capital and shareholders

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

1) Ownership structure of the share capital, in accordance with the information possessed by the Company as at the date of signing (November 12, 2019) of the consolidated quarterly report for 3Q19

As at the date of signing of the consolidated quarterly report for the third quarter of 2019, equity 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").

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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 Company's General Shareholder Meeting.

No.	Shareholders	Number of shares held	Share in equity (in %)	Number of votes at the AGM	Share in the total number of votes at the AGM (in %)
1	IPOPEMA TFI S.A. ¹	35,075,787	14.96	35,075,787	14.96
2	Otwarty Fundusz Emerytalny PZU „Złota Jesień” ²	34,230,000	14.60	34,230,000	14.60
3	Nationale-Nederlanden Otwarty Fundusz Emerytalny oraz Nationale-Nederlanden Dobrowolny Fundusz Emerytalny ³	32,802,252	13.99	32,802,252	13.99
4	Jerzy Mazgaj łącznie z podmiotem powiązonym Krakchemia S.A. ⁴	19,177,333	8.18	19,177,333	8.18
5	Forum TFI S.A. ⁵	15,580,800	6.65	15,580,800	6.65

¹ information on the number of shares provided in accordance with the notification received by the Company pursuant to art. 69 clause 1 point 2 and art. 87 paragraph 1 item 2 of the Act of July 29, 2005 on public offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies, applies to shares held jointly by all funds managed by IPOPEMA TFI S.A. According to the information received by the Company, the Ipopema 21 FIZ of Private Assets, managed by IPOPEMA TFI S.A., 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, representing 5.89 % in the total number of votes at the General Meeting of the Company.

² information provided based on the number of shares registered by the PZU "Złota Jesień" Open Pension Fund at the Company's Ordinary General Shareholder Meeting on June 17, 2019.

³ information provided on the basis of the number of shares registered together by Nationale-Nederlanden Open Pension Fund and Nationale-Nederlanden Voluntary Pension Fund at the Company's Ordinary General Shareholder Meeting on June 17, 2019. At the Company's General Shareholder Meeting on June 17, 2019, Nationale-Nederlanden Open Pension Fund independently owned 32,433,252 shares of the Company, which constitutes 13.83% of the Company's entity and was entitled to 32,433,252 votes at the Company's General Shareholder Meeting, which constitutes 13.83% of the total number of votes at the Company's General Shareholder Meeting.

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⁴ information on the number of shares provided in accordance with the notifications received by the Company pursuant to art. 69 of the Act of July 29, 2005 on public offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies and in accordance with the notifications received by the Company pursuant to art. 19 MAR. According to the information held by the Company, Mr. Jerzy Mazgaj owns 18,177,333 shares of the Company, which constitutes 7.75% of the share capital of the Company and is entitled to 18,177,333 votes at the General Meeting of the Company, which constitutes 7.75% of the total number of votes at the Company's General Shareholder Meeting.

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

2) Changes in the ownership structure of significant blocks of shares in accordance with the information available to the Company from the date of publication of the last periodical report, i.e. the semi-annual report for 1H19 (August 28, 2019)

To the best of the Company's knowledge, the following changes in the ownership structure of significant blocks of the Company's shares took place from the day of submitting the previous consolidated periodic report for the first half of 2019 (August 28, 2019).

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 28.08.2019	35,759,051	15.25	35,759,051	15.25
As at 12.11.2019	35,075,787	14.96	35,075,787	14.96

b)

Jerzy Mazgaj with related party Krakchemia S.A	Number of shares held	Share in equity (in %)	Number of votes at the AGM	Share in the total number of votes at the AGM (in %)
As at 28.08.2019	18,844,333	8.04	18,844,333	8.04
As at 12.11.2019	19,177,333	8.18	19,177,333	8.18

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 separate and consolidated 3Q19
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

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- b) changes in the ownership of the first tranche of F-series subscription warrants by management, entitling them to subscribe for new P-series shares, issued in connection with implementation of the incentive program in 2018 pursuant to Resolution No. 17/06/2018 of the Company's Ordinary General Shareholder Meeting of June 27, 2018 on the adoption of the assumptions of the incentive program for members of the Company's Management Board, key managers or other persons of significant significance to the Company (and companies from its capital group), issuance of subscription warrants excluding pre-emptive rights, conditional share capital increase by issuance of new shares, excluding pre-emptive right, amendment to the Company's Articles of Association, authorization of the Company's management board to conclude a contract for registration of newly issued shares at the National Depository for Securities and authorizing the Company's management board to take all appropriate actions to admit newly issued shares to trading on the regulated market.

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 publishing separate and consolidated 3Q19 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 publishing consolidated 3Q19 report
Jerzy Mazgaj – Chairman of the Supervisory Board	17,844,333	18,177,333

2. Principles for preparation of the financial statements

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

The condensed interim financial report for 3Q19 has been prepared in accordance with the principles of International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and to the extent not regulated by the above standards in accordance with the requirements of the Accounting Act of September 29, 1994 (Official Journal of Laws from 2019, item 351, as amended) and executive regulations issued based on it.

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

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

The interim condensed financial statements for 3Q19 have been prepared in Polish zloty, rounded up to full thousands (ths).

The condensed interim consolidated financial statements are presented for the period from January 1, 2019 to September 30, 2019 and as of September 30, 2019. The fiscal year is equal to the calendar year. Comparable financial data is presented for the period from January 1, 2018 to September 30, 2018 and in case of statement of financial position and statement of changes in equity also as of December 31, 2018 and January 1, 2019.

Comparable data has been prepared in accordance with the principles of International Financial Reporting Standards (IFRS), including IFRS16 application from January 1, 2019.

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The consolidated financial statements for 3Q19 and comparable data for the previous year include data on the Parent Company and subsidiaries as entities preparing stand-alone financial statements. Neither the Company nor its subsidiaries have business units required to prepare separate financial statements.

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

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

The consolidated financial statements are prepared for the three quarters of 2019, when the merger of VRG S.A and the subsidiary BTM 2 Sp. z o.o. took place.

In accordance with art. 493 § 2 of the Code of Commercial Companies Code, the merger of companies takes place on the date of entering the merger into the appropriate register according to the registered office of the Acquiring Company, i.e. on July 1, 2019. This entry results in the removal from the register of the Acquired Company, i.e. BTM 2 Sp. z o.o. Pursuant to art. 494 Code of Commercial Companies VRG is the legal successor of BTM 2 Sp. z o.o., i.e. on the day of the merger, it entered into all rights and obligations of BTM 2 Sp. z o.o. as the Acquired 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 Merged Company to the Merging Company.

Due to the fact that VRG as the Acquiring Company was the sole shareholder of the Acquired Company and owned 100% of shares in the Acquired Company's equity, the merger took place in a simplified mode and pursuant to art. 515 § 1 of the Code of Commercial Companies, the merger was carried out without increasing VRG's equity 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. Due to the lack of increase of VRG's share capital and the fact that the merger does not create new circumstances requiring disclosure in VRG's Articles of Association, no changes have been made to the Company's Articles of Association in connection with the merger.

Below are the changes in individual items of the consolidated statement of financial position of the Group as at 01.07.2019 in connection with the merger of VRG S.A. with the subsidiary BTM 2 Sp. z o.o.

Item	PLN ths		
	Balance at 01.07.2019 before merger	Change in item in the consolidated statement of financial position as a result of the merger of VRG and BTM 2	Balance at 01.07.2019 after merger
Fixed assets, including:	876,952	- 6,606	870,346
Goodwill	324,033	- 21,385	302,748
Other intangibles	183,088	14,001	197,089
<i>incl: BYTOM trademark valuation</i>	65,503	14,001	79,504
Deferred tax assets	7,416	678	8,094
Current assets, including:	563,588	- 43	563,545
Trade receivables and other receivables	30,629	- 43	30,586
Assets total	1,440,540	- 6,649	1,433,891
Total equity	826,994	- 6,169	820,825
<i>Incl. retained earnings</i>	742,008	- 6,169	735,839

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Deferred tax liability	939	- 480	459
Liabilities and provisions total	613,546	- 480	613,066
Total liabilities and equity	1,440,540	- 6,649	1,433,891

Below are the changes to individual items in the separate statement of financial position of VRG S.A. as at 01.07.2019 in connection with the merger with the subsidiary BTM 2 Sp. z o. o.

Item	PLN ths		
	Balance at 01.07.2019 before merger	Change in items in the consolidated statement of financial position as a result of the merger of VRG and BTM 2	Balance at 01.07.2019 after merger
Fixed assets, including:	801,697	- 68,929	732,768
Goodwill	142,140	- 21,385	120,855
Other intangibles	98,055	- 48,322	49,733
<i>incl. stakes in BTM 2</i>	65,508	- 65,508	-
<i>incl. BYTOM trademark valuation</i>	62,318	17,186	79,504
Deferred tax assets	4,830	678	5,508
Current assets, including:	310,580	3,178	313,758
Trade receivables and other receivables	26,726	209	26,935
Cash and equivalents	15,470	2,969	18,439
Assets total:	1,112,277	- 65,751	1,046,526
Long-term liabilities, including:	206,155	- 63,056	143,099
Finance lease liabilities	179,711	- 63,056	116,655
Deferred tax liability	780	- 480	300
Short-term liabilities, including:	173,441	- 2,215	171,226
Lease liabilities	54,798	- 619	54,179
Trade liabilities and other liabilities	96,730	- 1,079	95,651
Bank loans	17,068	- 517	16,551
Liabilities and provisions total	387,100	- 65,751	321,349
Total liabilities and equity	1,112,277	- 65,751	1,046,526

The accounting principles (policy) adopted in these consolidated financial statements were applied consistently and they are consistent with the accounting principles applied in the last annual consolidated financial statements.

In the period from January 1, 2019 to September 30, 2019, the Group did not change the adopted accounting principles and methods of preparing the financial statements. The accounting principles adopted by the Capital Group were used consistently for all periods presented in 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

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to the party resulting in early repayment. The calculation of this compensation must be the same for both penalty for early repayment and early repayment gains. Date of application - annual periods commencing on January 1, 2019 or after this date.

- IFRS 16 "Leases" - In accordance with IFRS 16, the lessee recognizes the right to use an asset and liability under leasing. The right to use an asset is treated similarly to other non-financial assets and depreciated accordingly. Lease liabilities are initially measured at the present value of lease payments payable during the lease period, discounted at the rate included in the lease, if it is not difficult to determine it, or at the marginal interest rate. IFRS 16 defines the lease period as a total, irrevocable period during which the lessee has the right to use the asset. The leasing period also includes optional periods when the entity is confident of the option of renewing (or not executing the termination option) of the lease. Date of application - annual periods commencing on January 1, 2019 or after this date. Earlier application is permitted for entities that apply IFRS 15 "Revenue from contracts with customers" from or before the date of first application of this standard.
- Interpretation of IFRIC 23 "Uncertainty in income tax settlement" - it may be unclear how the tax law relates to a specific transaction or circumstances or whether the tax authority will accept tax records of the entity. IAS 12 "Income Taxes" defines the method of settling current and deferred taxes, but does not reflect the effects of uncertainty. IFRIC 23 contains guidelines that supplement the requirements of IAS 12, specifying how to reflect the effects of uncertainty when recognizing income tax. Date of application - annual periods commencing on January 1, 2019 or after this date.
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" - long-term stakes in associates and joint ventures were introduced to clarify that an entity applies IFRS 9 (including impairment regulations) to long-term involvement in associates or joint ventures that are included in the net investment in an associate or joint venture, for which the equity method was not applied. The amendments also remove paragraph 41, as it was considered that this paragraph only repeated the requirements contained in IFRS 9 and caused confusion regarding the settlement of long-term stakes. Date of application - annual periods commencing on January 1, 2019 or after this date.
- Amendments to IFRS (cycle 2015-2017) - changes made as part of the process of introducing annual amendments to IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) mainly focused on solving incompatibilities and refinement of vocabulary (valid for annual periods starting on January 1, 2019 or after that date).
- Amendments to IAS 19 "Employee benefits" - change, limitation or settlement of the plan require that after the plan change, updated valuation assumptions are applied to determine current service costs and net interest for the remainder of the reporting period. Date of application - annual periods commencing on January 1, 2019 or after this date.

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

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

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

- Amendments to IFRS 3 "Business Combinations" - the amendment clarifies the definition of a business and aims to distinguish between acquisitions of business and groups of assets for the purpose of settlement of mergers (effective for annual periods beginning on January 1, 2020 or after this date).
- Changes in the scope of references to IFRS Conceptual Framework - they will apply as of January 1, 2020.
- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting principles (policy), changes in estimates and correcting errors" - these clarify the definition of materiality and increase consistency

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between standards, but are not expected to have a significant impact on the preparation of financial statements. The change is mandatory for annual periods beginning on January 1, 2020 or after that date. As at the date of preparation of these financial statements, these changes have not yet been approved by the European Union.

- IFRS 17 "Insurance Agreements" - was issued by the International Accounting Standards Board on May 18, 2017 and applies to annual periods beginning on or after January 1, 2021. The new IFRS 17 Insurance Agreements will replace the current IFRS 4, which allows 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 currently analyzing the impact of the above-mentioned standards, interpretations and amendments to standards. According to 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 since January 1, 2019.

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

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

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

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

The Group decided to implement IFRS16 using a simplified approach, i.e. retrospectively with the combined effect of the first application of this standard recognized on the first application date. In the opinion of the Management Board, the implementation of IFRS16 has a significant impact on the financial statements, because it increases the total value of assets and liabilities and thus the levels and values of financial ratios, including debt ratio, EBITDA, net profit, profit per share, operating cash flow. At the same time, the implementation of the new standard increases

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depreciation and financial costs (interest on discounted lease liabilities and exchange rate differences due to valuation of these liabilities) while reducing third-party costs of services (i.e. rental costs of premises previously presented in selling costs) and, hence, improves EBITDA.

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

The impact of applying IFRS 16 on Statement of Profit or Loss in the period between January 1, 2019 to September 30, 2019 is presented in the table below:

Items	PLN ths		
	9M19 excl. IFRS16	Impact of IFRS 16 (on rental agreements)	9M19 as published
Gross profit on sales	377,580	0	377,580
Selling and general and administrative costs	336,906	210	337,116
Other operating revenues	1,294	74	1,368
Result on operations	40,073	- 136	39,937
Financial costs	6,897	8,143	15,040
Net profit (loss) for the period	27,924	- 8,279	19,645

Depreciation for the first three quarters of 2019 under IFRS 16 was PLN 64,734 thousand. The following is the impact of applying IFRS 16 on the Group's financial result in the third quarter of 2019, i.e. July 1, 2019 to September 30, 2019.

Item	PLN ths		
	3Q19 excl. IFRS16	Impact of IFRS 16 (on rental agreements)	3Q19 as published
Gross profit on sales	128,003	0	128,003
Selling and general and administrative costs	115,638	- 166	115,472
Other operating revenues	560	19	579
Result on operations	12,418	185	12,603
Financial income	748	0	748
Financial costs	4,035	9,135	13,170
Net profit (loss) for the period	7,124	- 8,950	- 1,826

Depreciation in the third quarter of 2019 under IFRS 16 amounted to PLN 22,351 thousand.

The following is the impact of applying IFRS 16 on the opening balance as at 01.01.2019 and 30.09.2019 of individual items in the Group's financial statements

ASSETS	PLN ths		
	3Q19 excl. IFRS16	Impact of IFRS 16 (on rental agreements)	3Q19 as published
Right of use assets *	277,453	299,580	0

EQUITY AND LIABILITIES	PLN ths		
	3Q19 excl. IFRS16	3Q19 excl. IFRS16	3Q19 excl. IFRS16
Finance leases IFRS16	285,731	299,580	0

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* 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 rights to use in the net value of PLN 4,467 thousand PLN, which in the previous financial year were treated as financial leases in accordance with IAS 17. These rights mainly include car leasing.

The following is the impact of applying IFRS 16 on the Group's cash flow statement in the reporting period January 1, 2019 to September 30, 2019.

Cash flow statement items	PLN ths		
	3 quarters / 2019 January 1, 2019 September 30, 2019 excluding IFRS16	Effect of recognising lease agreements IFRS16	3 quarters/ 2019 January 1, 2019 September 30, 2019 excluding IFRS16
Operating cash flows	-73,388	59,561	-13,827
Financing cash flows	61,758	-59,561	2,197

3. Accounting principles

3.1. Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Parent Company.

Control takes place when the Company has the ability to manage the financial and operating policy of a given entity in order to obtain benefits from its activity.

Acquisition of subsidiaries by the Group is accounted for using the acquisition method.

Acquisition cost is determined as fair value of assets transferred, equity instruments issued and liabilities contracted or taken over as at the exchange date, grossed up by the costs directly related to the takeover. Identifiable acquired assets and liabilities and contingent liabilities taken over as part of business combinations are initially measured at their fair values at the acquisition date, irrespective of the extent of any minority interest. The surplus of the acquisition cost over the fair value of the Group's share in identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is lower than the fair value of net assets of the subsidiary acquired, the difference is recognised directly in the profit or loss statement.

The subsidiaries' financial data are included in the consolidated financial statements using the full method from the moment control is taken over the entity up to the date on which the Company ceases to exercise control.

The financial statements of subsidiaries are prepared for the same period as financial statements of the parent company. Accounting principles applied by subsidiaries have been changed, where it was necessary to ensure compliance with the Capital Group's accounting principles.

Consolidation exclusions

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

3.2. Transactions in foreign currencies

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

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

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

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

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

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

3.3. Financial instruments

Classification of financial instruments

The Group classifies financial instruments in accordance with the requirements of IFRS 9. The classification of financial instruments is based on the business model of managing groups of financial assets and the characteristics of contractual cash flows for a given financial asset and financial liability.

Classification is made at the moment of initial recognition, except for items recognized at the time of the first application of IFRS 9. The classification of derivative instruments depends on their intended use and compliance with the requirements contained in IFRS 9.

Financial instruments are classified into the following categories:

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

Financial assets measured at amortised cost

Financial assets at amortised cost include loans granted, trade receivables and other receivables falling under the scope of IFRS 9. Income from interest on investments in debt instruments is recognized by the Group in profit or loss statement. At the moment of disposal of investments in debt instruments, the Group recognizes cumulative profits / losses from measurement in the financial result.

Loans and trade receivables and other receivables are measured at amortized cost using the effective interest rate.

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Loans and long-term receivables are discounted as at the balance sheet date. Loans and receivables with maturities not exceeding 12 months from the balance sheet date classified as current assets are valued at their nominal value after being decreased by the value of expected loan losses.

Financial assets valued at amortized cost are recognised taking into account expected credit losses.

Financial assets at fair value through profit or loss

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

The financial result also includes interest income and dividends received from capital instruments listed on an active market.

Financial assets measured at fair value through other comprehensive income

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

Financial liabilities measured at amortized cost

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

Financial liabilities are measured at amortized cost using the effective interest rate.

Impairment of financial assets

IFRS 9 introduces a new concept for estimating impairment losses on financial assets - expected losses model.

The Group establishes revaluation write-offs in accordance with the model of expected credit losses for items subject to IFRS 9 in respect of impairment losses.

The expected loss model applies to financial assets at amortised cost and to debt financial assets measured at fair value through other comprehensive income, as well as to financial guarantees and loan commitments granted (except for those measured at fair value).

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

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

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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 19.6m
of net income
in 9M19**



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. Tangibles fixed assets

Tangible fixed assets constitute buildings, machines and devices used for production, product delivery and provision of services or for management purposes, were valued as of the day of initial recognition at purchase price or production cost.

As at the balance sheet date, property, plant and equipment are valued at the purchase price or manufacturing cost less accumulated depreciation and impairment losses.

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

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

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

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

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

3.7. Goodwill

If recognised as asset at the acquisition date, goodwill is the excess of the purchase price over the fair value of the assets, liabilities and contingent liabilities of the acquired enterprise.

Goodwill is tested annually for impairment and is recognised in the balance sheet at its initial value less accumulated impairment losses. The impairment determined as a result of the tests is immediately recognized in the profit and loss account and is not subject to subsequent adjustment.

Goodwill recognised in the financial statements relating to an acquisition of an enterprise is subject to impairment tests carried out as at the balance sheet date.

The surplus of acquired net assets over the purchase price is recognised in the profit or loss statement for the accounting year in which the acquisition took place.

3.8. Other intangible assets

Other intangible assets acquired as part of a separate transaction are capitalized at purchase price or manufacturing cost. Intangible assets acquired as part of a business combination or takeover transaction are recognized as assets separately from goodwill, if their fair value can be determined reliably at the initial recognition.

As at the balance sheet date, intangible assets are measured at the purchase price less the accumulated depreciation and accumulated amount of impairment losses.

Intangible assets with a definite useful life are amortized using the straight-line method. The depreciation method and rate are subject to verification as at each balance sheet date. Intangible assets with an indefinite useful life (trademarks) are not subject to amortisation. The value of components with an indefinite useful life is tested for permanent impairment for each balance sheet date.

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

3.9. Shares and stakes in controlled entities

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

3.10. Impairment of non-financial assets

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

Impairment losses on assets subject to a previous revaluation adjust the revaluation reserve to the amounts recognized in equity, and if they fall below the purchase price, they are recognized in the profit or loss statement.

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

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

3.11. Inventory

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

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

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

The distribution of inventories is accounted as follows:

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

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

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

3.12. Trade and other receivables and other receivables

At the initial recognition of trade receivables, the maturity of which usually ranges from 7 to 75 days, are recognized at the transaction price (amount payable). As at the balance sheet day, receivables are valued at the initial value, including impairment losses. Revaluation write-offs are made at the level of expected credit losses.

Trade receivables, whose maturity is usually between 7 and 75 days, are recognized at the transaction price (amounts initially invoiced), including impairment losses. Revaluation write-offs are made at the level of expected credit losses.

The amounts of created write-offs revaluing the value of receivables are charged to the profit and loss account in sales costs. Amounts of released receivables adjust selling costs.

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

3.13. Cash and cash equivalents

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

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

3.14. Equity

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

3.15. Liabilities

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

Trade and other liabilities are recognised at fair value.

3.16. Provisions

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

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

Adequacy of provisions is assessed at each balance sheet date.

3.17. Leases

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

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

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

3.18. Revenues

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

Costs of external financing

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

Interest

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

Dividends

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

Rental income

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

3.19. Costs

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

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

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

3.19a Costs of employee benefits

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

3.20. Income tax

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

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

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

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

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

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

3.21. Share-based compensation (stock options)

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

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

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

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

3.22. Operating segments





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

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





Leading brands of the Vistula business line:

Vistula		Operating on the Polish market since 1967, Vistula is the basic line of men formalwear. The brand offers a wide range of suits, jackets, trousers, shirts and other complementary accessories.
		The brand was launched in 1998. Its signature products are associated with apparel of French origins. Introduction of the Lantier brand was aimed at broadening the Company's offer to include products aimed at the most demanding customers, using the latest global fashion trends and the highest quality fabrics. Apart from classic suits, Lantier collections, similarly to Vistula brand collections, also include knitwear, shirts, jackets, coats and a wide range of complementary items.
		A brand introduced in 2009, which offers fashionable and smart casual products. The Vistula Red branded products are characterized by high quality and design consistent with global fashion trends. The brand is addressed at younger customers looking for bolder and more casual outfits.
		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		<p>BYTOM is a Polish brand with a history dating back to 1945, in which tradition meets the modern vision of tailoring and men's fashion. Basing on a dozen of years long heritage, the brand offers men formalwear with a flagship product in the form of suits, made from finest Italian fabrics in Polish sewing facilities.</p> <p>BYTOM is not just the art of tailoring. The brand refers to the Polish cultural heritage by creating limited collections inspired by the work of outstanding personalities, inviting people with a significant influence on the development of Polish culture and art.</p>
		<p>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.</p>

Leading brands of the Wólczanka business line:


Wólczanka		<p>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. Complementary assortment of the brand is constituted by sweaters, polo T-shirts and from Spring/Summer 2019 men's trousers – chinos.</p>
		<p>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.</p>

Other own brands in the apparel segment:

Clothing segment		<p>The brand's clothing is dedicated to the upper segment of the women fashion. The brand's products were introduced to the Polish market in the early 90's.</p> <p>Deni Cler offering is sewn from Italian fabrics, with the majority of accessories used being of Italian origins as well. Fabrics used to make branded clothes are mostly cashmere and wool with silk. The brand's assortment includes mostly: skirts, jackets, pants, blouses, coats and dresses.</p> <p>The owner of the Deni Cler brand originating in Milan is DCG S.A. based in Warsaw (the Company's subsidiary). The main activity of DCG S.A. focuses on the design, production and distribution of exclusive women's clothing.</p>
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The VRG S.A Group is systematically expanding the range of complementary articles in its showrooms, including, among others, the offer of smart casual products, exclusive leather accessories and footwear. The offered accessories are currently one of the fastest growing categories of goods and are also characterized by a high trade margin.

Own brands in jewellery segment:

<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Jewellery segment</p>		<p>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.</p> <p>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.</p> <p>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.</p> <p>W.KRUK as the first chain of jewellery stores on the Polish market in 2019 introduced a new category of lab-grown diamonds to its offer under the own name - New Diamond by W.KRUK. They have parameters identical to diamonds mined by traditional methods and are classified according to the same parameters, using the same expert judgment standards as mine diamonds. The jewellery collection with New Diamond by W.KRUK includes rings under the name Doskonały® (in English: Perfect), earrings and pendants with lab-grown diamonds in the colours white and, for the first time on the Polish market, pink and blue.</p>
	<p>WATCHES</p>	<p>Selected jewellery stores of W.KRUK brand also distribute luxury Swiss watches of such brands as ROLEX (VRG Group is the sole distributor of this brand in Poland), HUBLOT, GIRARD PERREGAUX, OMEGA, TUDOR, TAG HEUER, LONGINES, RADO, FREDERIQUE CONSTANT, TISSOT, CERTINA, DOXA, EPOS, VICTORINOX, INGERSOLL, CK, SKAGEN, ROTARY, SWATCH and also fashion brands: Gucci, Michael Kors, DKNY, Versace, Diesel, Fossil, E. Armani. Watches of renowned brands sold in W.KRUK stores occupy a strong position on the Polish market and the value of their sales is systematically increasing.</p>

Manufacturing operations:

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

Seasonality and cyclicity of operations

Retail sales both in the fashion sector and in the jewellery industry are characterized by significant seasonality of sales. For the apparel market, the most favourable period from the point of view of 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 30.09.2019 announced by the National Bank of Poland, which amounted to 4.3736 PLN/EUR. Selected items of the profit or loss statement were converted into EUR at the rate of 4.3086 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, 31.07.19 – 4.2911 PLN/EUR, 30.08.19 – 4,3844 PLN/EUR, 30.09.19 – 4,3736 PLN/EUR.

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

a) change in the balance of deferred income tax assets to the amount of	+ PLN 1,794 ths
b) change in the provision for deferred income tax for an amount of:	- PLN 867 ths
c) change in the balance of impairment losses on receivables in the amount of:	+ PLN1 135 ths
d) change in the balance of write-downs for impairment of inventories to net realizable value in the amount of:	- PLN 49 ths
e) change in revaluation write-offs, the value of fixed assets and intangible assets in the amount of:	+ PLN 1,188 ths
f) change in provisions for costs and other liabilities:	- PLN 2,571 ths

5. Issuance, redemption and repayment of debt and securities

During the 9 months ended September 30, 2019, the parent company did not issue any shares.

6. Paid and declared dividends

During the 9 months ended September 30, 2019, the Capital Group did not pay or declare dividend payment. There is no preference for shares regarding dividend payments.

7. Pending court or public administration or arbitration proceedings

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

8. Related party transactions

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

9. Guarantees and pledges granted

In the first nine months of 2019, the parent company did not grant a loan or a loan and additional sureties to subsidiaries in relation to those described in the consolidated and separate annual report for 2018 and for 1H19.

10. Information on financial instruments

The parent company uses currency derivatives to hedge future cash flows against exchange rate risk. As a hedging transaction, the parent company has forward contracts for the purchase of currency. Derivative instruments are denominated in USD and EUR. As at 30.09.2019, the balance in the nominal value amounts to PLN 1,730 thousand USD and 1,551 thousand EUR and after conversion at the transaction exchange rate of PLN 13,181 ths. As at the balance sheet date, the Company carried out the valuation of its transactions at fair value, the difference from the valuation in the amount of PLN 523 ths was recognized in financial revenues and other short-term financial assets.

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

11. Significant risk factors

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

<p>Economic risk related to the macroeconomic situation</p>	<p>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.</p> <p>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.</p>
<p>Risk related to the instability of the Polish legal system, including tax system</p>	<p>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.</p> <p>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</p>

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	<p>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.</p> <p>The factors described above may have a material adverse effect on the Group's growth outlook, results and financial position.</p>
Risk associated with introduction of a trade ban on Sundays	<p>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.</p>
Risk of retail sales tax introduction	<p>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 in 2020 at the earliest depending on the European Union Justice Tribunal.</p>
Risk associated with adopting the wrong strategy	<p>There is a risk that the adopted development strategy of the Group, whose basic assumptions are presented in point "Planned development activities", 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.</p>
Risk related to intensification of competition	<p>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.</p>
Risk of changing the tastes and behaviours of buyers	<p>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.</p> <p>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</p>

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	<p>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.</p>
Risk related to lease agreements	<p>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.</p>
Risk related to inventory management	<p>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).</p> <p>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.</p>
FX risk	<p>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.</p> <p>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.</p> <p>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.</p>
Risk related to hedging policy	<p>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.</p>
Risk of higher prices of raw materials and production costs of suppliers	<p>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.</p> <p>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.</p>

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Risk of cost of external services	<p>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.).</p> <p>One cannot exclude the risk of worsening the commercial conditions of one or more external services purchased by the Company, in particular rental costs.</p>
Interest rate risk	<p>As at 30.09.2019, the Company held loan liabilities measured at amortized cost in the amount of PLN 161,330 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.</p>
Risk of termination of loan agreement	<p>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.</p> <p>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.</p> <p>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.</p>
Risk of losing financial liquidity	<p>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.</p> <p>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.</p>
Risk of collateral and loss of collateral assets	<p>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.</p> <p>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.</p>
Risk of transactions with related parties	<p>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.</p>

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<p>Risk related to the shareholder structure</p>	<p>The Company is characterised by a fragmented shareholding structure, where the largest shareholder does not exceed 15% of votes at the General Shareholder Meeting, and five significant shareholders hold a total of 58.38% 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.</p> <p>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.</p>
<p>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</p>	<p>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.</p>
<p>Risk related to guarantees granted to subsidiaries</p>	<p>In relation with the separation of the organized business unit in the form of jewellery assets and transferring them to the subsidiary W.KRUK SA, the Company carried out a simultaneous financial restructuring. As part of this process, W.KRUK S.A. obtained new financing from PKO BP Bank and the Company guaranteed for the debts of the subsidiary. In the second quarter of 2015, the subsidiary DCG S.A. received refinancing from the PKO BP Bank, and during the third quarter of 2016, the subsidiary VG Property Sp. z o.o. obtained an investment loan from PKO BP Bank. The above liabilities of subsidiaries of DCG S.A. and VG Property Sp. z o.o. have been guaranteed by the Company.</p> <p>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.</p>
<p>The risk related to disruptions in the functioning of information systems</p>	<p>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).</p> <p>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.</p>
<p>Risk related to the EU GDPR Directive</p>	<p>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</p>

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	<p>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.</p> <p>In connection with the above, the Company carried out works aimed at:</p> <ul style="list-style-type: none"> ▪ 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. <p>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.</p>
<p>Risks related to co-operation with an external logistics operator</p>	<p>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:</p> <ul style="list-style-type: none"> ▪ 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. <p>Actions taken by VRG S.A. aimed at limiting the above risks relate respectively to:</p> <ol style="list-style-type: none"> a) introduction of a procedure for regular audits of logistics structures and systems made available for the needs of VRG S.A. by the external operator; 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. <p>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.</p>
<p>Risk related to the quality of customer service in individual stores</p>	<p>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.</p>

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

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

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

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

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

During the three months ended 30 September 2019, there were no other circumstances that could significantly affect the deterioration of the staff, property, financial and financial results of the Capital Group, or that could jeopardize its ability to meet its obligations.

13. Significant events of 3Q19:

07.2019

Notification regarding a significant block of shares.

In current report no. 37/2019, the Company announced that it had received from IPOPEMA Towarzystwo Funduszy Inwestycyjnych 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 item 2 of the Act of July 29, 2005 on public offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies (the "Act") that, as a result of the acquisition by IPOPEMA 21 FIZ Non-Public Assets managed by the Fund ("Fund"), 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 Company 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 Company's share capital, giving 4,200,000 votes, which constituted 1.79% in the total number of votes at the Company's General Shareholder Meeting. After the above-mentioned event, the Fund holds a total of 13,800,226 shares of the Company, which constitutes 5.89% of the Company's equity and gives 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 Company 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 General Meeting of the Company.

After the above-mentioned event, all funds managed by the Company held a total of 35,759,051 shares of the Company, which constituted 15.25% of the share capital of the

Company and gives 35.759.051 votes and constituted 15.25% of the total number of votes at the General 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. 69 b paragraph 1 of the Act.

Merger of the Company with a 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, the District Court for Cracow - Śródmieście in Cracow, 11th Commercial Department Of the National Court Register, entry in the Register of Entrepreneurs of the National Court Register, merger of the Issuer (the "Acquiring Company") with the 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 VRG capital group as a result of the merger of BYTOM SA with Vistula Group. According to art. 493 § 2 of the Code of Commercial Companies, the merger of companies takes place on the day of entering the merger into the appropriate register according to the registered office 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 VRG is the legal successor of BTM 2 Sp. z o.o., i.e. on the day of the merger, he entered into all the rights and obligations of BTM 2 Sp. z o.o. as the Merged Company.

Due to the lack of increase of the Issuer's share capital and the fact that the merger does not create new circumstances requiring disclosure in VRG's Articles of Association, no changes have been made to the VRG's Articles of Association in connection with the merger. Merger of VRG S.A. companies and BTM 2 Sp. z o.o. has been 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 were 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 (e.g. 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. was included in the separate and consolidated financial statements for the third quarter of 2019.

14. Significant events after the balance sheet date:

10.2019

Notification regarding a significant block of shares


In current report No. 47/2019, the Company announced that it had received from IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw ("Fund"), information of October 31, 2019 sent pursuant to art. 69 clause 1 point 2 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 sale by the IPOPEMA 2 FIZ Non-Public Assets fund managed by the Society ("Fund"), the Company's shares in a transaction carried out on a regulated market on October 28, 2019, settled on October 30, 2019, the share of funds managed by the Company in the total number of votes in the Company dropped below the 15% threshold in the total number of votes in the Company.

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Prior to the above-mentioned event, all funds managed by the Company held in total 35,355,787 shares of the Company, which constituted 15.08% of the share capital of the Company and gave 35,365,787 votes, which constituted 15.08% in the total number of votes at the Company's General Shareholder Meeting.

After the abovementioned event, all funds managed by the Company have a total of 35,075,787 shares of the Company, which constitutes 14.96% of the share capital of the Company and gives 35,075,787 votes and 14.96% in the total number of votes at the Company's General Shareholder Meeting.

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

A full-body photograph of a man standing in a room with dark wood paneling. He is wearing a dark blue pinstriped double-breasted suit jacket over a white turtleneck sweater, and matching pinstriped trousers. He is also wearing black dress shoes. The room has a wooden floor and a wooden door or wall behind him. On the left side of the image, there is a blue graphic element consisting of a square frame with horizontal lines above it. The text "586 stores all over Poland" is written in white inside the blue frame.

**586 stores all
over Poland**

MANAGEMENT COMMENTARY TO FINANCIAL INFORMATION

PRESENTED IN INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR 3Q19

1. 3Q19 financial results

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

At the end of 3Q19, as compared to the corresponding period in 2018, the group's retail floorspace increased to 53.8 ths m2 or 55% YoY (8% excl. Bytom brand). Floorspace of the apparel segment increased by 73% (without the Bytom brand + 8%), while in the jewellery segment floorspace increased by some 10%.

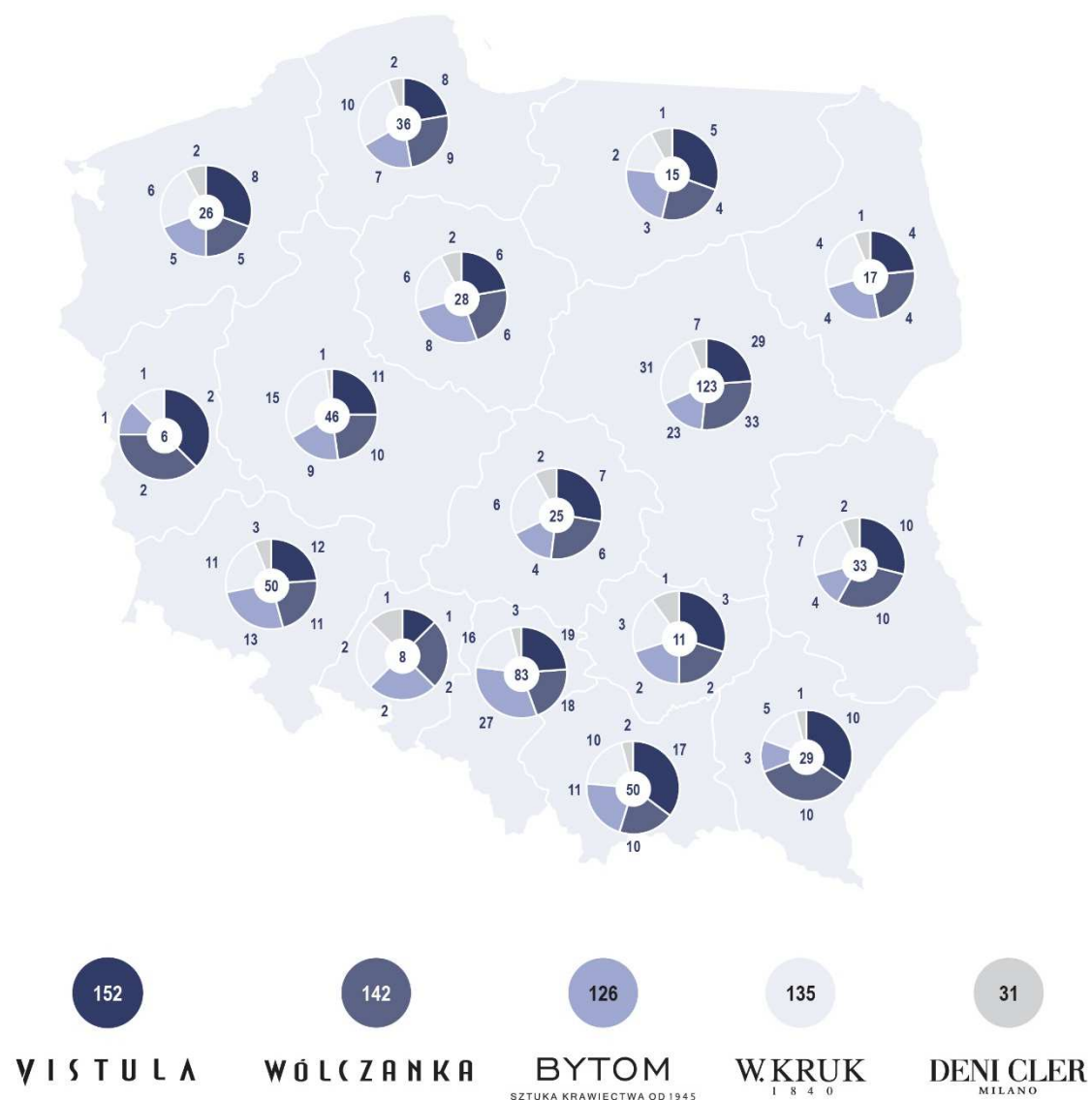
Retail floorspace (end of period):

	ths m2	
	30.09.2019	30.09.2018
Apparel segment	43.5	25.2
Jewellery segment	10.3	9.4
Total floorspace	53.8	34.6

The majority of group revenues comes from a network of retail stores of individual brands belonging to the Capital Group. At the end of 3Q19, the group's 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.

Interim condensed financial report of VRG Capital Group

Below we present distribution and number of branded stores of the Capital Group at the end of 3Q19 by individual brands.



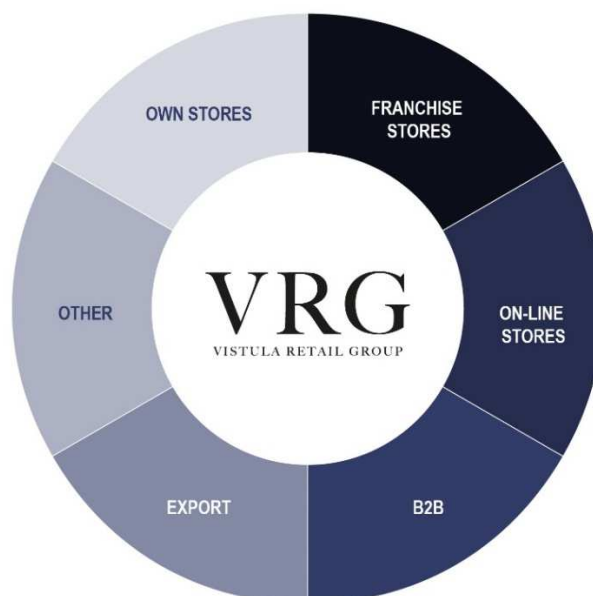
Selected financial data of VRG Group

Item	PLN ths			
	9M'2019	IFRS16 impact	9M'2019 excl. IFRS16	9M'2018
Revenues	735,804	-	735,804	533,533
EBITDA	122,350	64,599	57,751	43,681
EBIT	39,937	-135	40,072	31,152
Net profit	19,645	- 8,279	27,924	21,140

Interim condensed financial report of VRG Capital Group

Revenues

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



In 3Q19, revenues of the Capital Group amounted to PLN 251.2 million and were PLN 71.1 million (39.5%) higher than revenues in the same period of the previous year. The Group recorded higher revenues in both core business segments.

APPAREL SEGMENT

Apparel segment	PLN ths			
	Q3'2019	Q3'2018	9M'2019	9M'2018
Revenues	160,354	103,373	485,485	321,124
Costs of sales	79,475	51,777	238,422	160,395
Gross profit on sales	80,879	51,596	247,063	160,729
Other operating income	125	634	445	480
Gain on sale of non-financial non-current assets	-	-	717	-
Selling costs	64,344	39,736	190,071	118,856
Administrative expenses	13,270	9,539	39,782	28,840
Other operating costs	284	186	1,898	1,049
Loss on sale of non-financial non-current assets	144	40	-	18
Operating profit	2,962	2,729	16,474	12,446
Financial income/ costs	-6,673	-640	-7,464	-1,376
Pre-tax profit	-3,711	2,089	9,010	11,070
Income tax	643	539	1,988	2,469
Net profit (loss) for the period	-4,354	1,550	7,022	8,601

Interim condensed financial report of VRG Capital Group

Apparel segment	PLN ths			
	9M'2019	IFRS16 impact	9M'2019 excl. IFRS16	9M'2018
Revenues	485,485	-	485,485	321,124
Costs of sales	238,422	-	238,422	160,395
Gross profit on sales	247,063	-	247,063	160,729
Other operating income	445	-	445	480
Gain on sale of non-financial non-current assets	717	-	717	-
Selling costs	190,071	- 100	189,971	118,856
Administrative expenses	39,782	51	39,833	28,840
Other operating costs	1,898	66	1,964	1,049
Loss on sale of non-financial non-current assets	-	-	-	18
Operating profit	16,474	17	16,457	12,446
Financial income/ costs	- 7,464	- 5,085	- 2,379	-1,376
Pre-tax profit	9,010	-5,068	14,078	11,070
Income tax	1,988	-	1,987	2,469
Net profit (loss) for the period	7,022	- 5,068	12,091	8,601

Apparel segment	PLN ths			
	Q3'2019	IFRS16 impact	Q3'2019 excl. IFRS16	Q3'2018
Revenues	160,354	-	160,354	103,373
Costs of sales	79,475	-	79,475	51,777
Gross profit on sales	80,879	-	80,879	51,596
Other operating income	125	-	125	634
Gain on sale of non-financial non-current assets	-	-	-	-
Selling costs	64,344	89	64,433	39,736
Administrative expenses	13,270	19	13,289	9,539
Other operating costs	284	18	302	186
Loss on sale of non-financial non-current assets	144	-	144	40
Operating profit	2,962	126	2,836	2,729
Financial income/ costs	- 6,673	- 5,707	- 966	- 640
Pre-tax profit	- 3,711	- 5,581	1,870	2,089
Income tax	643	0	643	539
Net profit (loss) for the period	- 4,354	- 5,581	1,227	1,550

Increase in retail sales

Revenues from sales of the clothing segment in the third quarter of 2019 amounted to PLN 160.4 million and were PLN 57.0 million (i.e. 55%) higher than revenues achieved in the third quarter of 2018.

Interim condensed financial report of VRG Capital Group

Apparel segment	PLN m			
	Q3'2019	Q3'2018	9M'2019	9M'2018
Revenues	160.4	103.4	485.5	321.1
Retail sales	152.5	96.9	459.0	299.0
Processing	5.6	4.3	16.8	15.0
B2B	2.3	2.2	9.8	7.1

In the third quarter of 2019, the Group recorded the following sales dynamics in retail channels:

VISTULA up PLN 4.6m (+ 7%)	WÓLCZANKA up PLN 3.3m (+ 13%)	BYTOM consolidation in 3Q'2019 (PLN 46.3m)	DENI CLER MILANO up PLN 1.9m (+15%)
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Increase in retail sales is related to the recognition of the Bytom brand in the current period, the development of the sales network and the dynamic increase in internet sales.

Gross profit on sales

Gross profit on sales in 3Q19 reached PLN 80.9m and was 57% YoY higher than in comparable period. Gross profit on sales margin was up 0.5 p.p. to 50.4% compared to 3Q18.

Changes in margins by brands in 3Q 2019:

VISTULA fall in margin by 0,6 p.p. due to higher sell-offs	WÓLCZANKA pick-up in margin by 0,1 p.p. due to higher in-take margin	BYTOM gross profit at 51.8%	DENI CLER MILANO pick-up in margin by 1.5 p.p. due to higher in-take margin
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Gross profit on sales of the apparel segment in the period of 9 months of 2019 amounted to PLN 247.1 million and was 57% higher than that generated in the period of 9 months of 2018. The gross margin for the period of 9 months of 2019 was 50.9% (9M 2018: 50.1%).

Selling costs

Selling costs amounted to PLN 64.3 million in 3Q19 and were PLN 24.6 million higher (up 62%) than costs in the comparable period. Consolidation of Bytom's results in 3Q19 had a sizeable impact (in 3Q18 Bytom was not consolidated). The share of selling costs in revenues in 3Q19 was 40.1% compared to 38.4% in 3Q18. 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.

Administrative expenses

General administrative expenses amounted to PLN 13.3 million in 3Q19 versus PLN 9.5 million in 3Q18 (the result of Bytom consolidation). At the same time, the share of general administrative expenses in revenues fell to 8.3% compared to 9.2% in 3Q18.

Interim condensed financial report of VRG Capital Group

Operating result in the apparel segment

In the third quarter of 2019, there was a profit on the apparel segment in the amount of PLN 3.0 million, which means that the result of this segment was higher by PLN 0.2 million than the operating result in the corresponding period of 2018. A higher decrease in sales / m2 (fewer trading days YoY) than a decrease in costs / m2 resulted in a decrease in the profitability of the retail network.

Financial income and costs

The balance on financial activity in the clothing segment amounted to PLN -6.7 million in the third quarter of 2019 compared to PLN -0.6 million in the third quarter of 2018. Introduction of IFRS 16 into financial reporting had an adverse effect on the balance of financial activities of the clothing segment in the third quarter of 2019, as it resulted in an increase in net financial costs of PLN 5.7 million. In addition, due to the strengthening of EUR to PLN as at the balance sheet date, financial costs of the apparel segment in the third quarter of 2019 were charged with PLN 0.9 million (PLN 0.2 million in the third quarter of 2018).

Apparel segment	PLN ths			
	Q3'2019	Q3'2018	9M'2019	9M'2018
Net financial costs	- 91	- 681	- 2,162	- 1,912
FX differences (excl. IFRS16)	- 874	41	- 217	536
IFRS16 impact	- 5,707	-	- 5,085	-
↳ due to FX differences	- 5,000	-	- 3,081	-
↳ interest payments	- 707	-	- 2,004	-
Net financial costs	- 6,673	- 640	- 7,464	- 1,376

Net profit in the apparel segment

The VRG Capital Group as part of the apparel segment showed a net loss of PLN 4.35 million in the third quarter of 2019 in relation to PLN 1.55 million net profit in the third quarter of 2018. Comparable net profit in the third quarter 2019 without applying IFRS 16 amounted to PLN 1.2 million.

JEWELLERY SEGMENT

Jewellery segment	tys. zł			
	Q3'2019	Q3'2018	9M'2019	9M'2018
Revenues	90,801	76,714	250,319	212,409
Costs of sales	43,677	38,210	119,802	104,684
Gross profit on sales	47,124	38,504	130,517	107,725
Other operating income	454	182	923	653
Gain on sale of non-financial non-current assets	44	-	10	-
Selling costs	30,124	25,195	85,010	71,106
Administrative expenses	7,734	6,007	22,253	17,896
Other operating costs	123	163	724	660
Loss on sale of non-financial non-current assets	-	5	-	10
Operating profit	9,641	7,316	23,463	18,706
Financial income/ costs	- 5,749	-573	- 6,980	- 2,904
Pre-tax profit	3,892	6,743	16,483	15,802
Income tax	1,364	1,371	3,861	3,263
Net profit (loss) for the period	2,528	5,372	12,622	12,539

Interim condensed financial report of VRG Capital Group

Jewellery segment	PLN ths			
	9M'2019	IFRS16 impact	9M'2019 excl. IFRS16	9M'2018
Revenues	250,319	-	250,319	212,409
Costs of sales	119,802	-	119,802	104,684
Gross profit on sales	130,517	-	130,517	107,725
Other operating income	923	-	923	653
Gain on sale of non-financial non-current assets	10	-	10	-
Selling costs	85,010	- 148	84,862	71,106
Administrative expenses	22,253	- 12	22,241	17,896
Other operating costs	724	8	732	660
Loss on sale of non-financial non-current assets	-	-	-	10
Operating profit	23,463	- 152	23,615	18,706
Financial income/ costs	- 6,980	- 3,058	- 3,922	- 2,904
Pre-tax profit	16,483	- 3,211	19,694	15,802
Income tax	3,861	-	3,861	3,263
Net profit (loss) for the period	12,622	- 3,211	15,833	12,539

Jewellery segment	PLN ths			
	Q3'2019	IFRS16 impact	Q3'2019 excl. IFRS16	9M'2018
Revenues	90,801	-	90,801	76,714
Costs of sales	43,677	-	43,677	38,210
Gross profit on sales	47,124	-	47,124	38,504
Other operating income	454	-	454	182
Gain on sale of non-financial non-current assets	44	-	44	0
Selling costs	30,124	53	30,177	25,195
Administrative expenses	7,734	5	7,739	6,007
Other operating costs	123	1	124	163
Loss on sale of non-financial non-current assets	-	-	-	5
Operating profit	9,641	59	9,582	7,316
Financial income/ costs	-5,749	- 3,427	- 2,322	- 573
Pre-tax profit	3,892	- 3,369	7,261	6,743
Income tax	1,364	-	1,364	1,371
Net profit (loss) for the period	2,528	- 3,369	5,897	5,372

Revenues

Revenues of the jewellery segment in VRG Capital Group amounted to PLN 90.8 million in 3Q19 and were higher than the segment's results in 3Q18 by PLN 14.1 million (18%).

The increase in sales of the jewellery segment was achieved due to higher floorspace and improvements in store inventory management, which favourably affected sales/ m2.

Interim condensed financial report of VRG Capital Group

Gross profit on sales

Gross profit from the sales of the jewellery segment amounted to PLN 47.1 million in 3Q19 and was 22% higher than the one generated in the corresponding period of the previous year. Gross profit margin grew by 1.7 p.p. and reached 51.9% in 3Q19 versus 50.2% in 3Q18. Growth in gross profit margin results from lower sell-offs.

Selling costs

Selling costs in the jewellery segment increased from 32.8% of revenues in 3Q18 to 33.2% in 3Q19. Marketing outlays were higher by PLN 0.6 million (+62%) compared to 3Q18.

Administrative expenses

In 3Q19 general administrative expenses were higher by PLN 1.7 million (+29%) compared to 3Q18. The share of general administrative expenses in jewellery segment revenues amounted to 8.5% and was lower by 0.7 p.p. compared to 3Q18.

Operating profit in the jewellery segment

VRG Group within the jewellery segment achieved an increase in operating profit by PLN 2.3 million (+ 32%) in 3Q19 versus a comparable period in 3Q18. The operating margin reached 10.6% and was higher by 1.1 p.p. YoY. Increase in the operating result was a consequence of higher gross profit on sales and cost growth lower than this of gross profit on sales (gross profit margin grew 1.7 p.p.).

Financial income and costs

The net financial activity in the jewellery segment amounted to PLN -5.7 million in 3Q19. Introduction of IFRS16 unfavourably affected the line in 3Q19, as it increased interest expense by PLN 3.4 million. Additionally, due to strengthening of euro to PLN at the balance sheet date there were PLN 1.6m of FX losses (+PLN 0.2m in 3Q18).

Jewellery segment	PLN ths			
	Q3'2019	Q3'2018	9M'2019	9M'2018
Net financial costs	- 735	- 793	- 2,333	- 2,388
FX differences (excl. IFRS16)	- 1,587	220	- 1,589	- 516
IFRS16 impact	- 3,427	-	- 3,058	-
↳ due to FX differences	- 3,001	-	- 1,876	-
↳ interest payments	- 427	-	- 1,183	-
Net financial costs	- 5,749	- 573	- 6,980	- 2,904

Net profit in the jewellery segment

The net profit of the jewellery segment amounted to PLN 2.5 million in 3Q19 compared to PLN 5.4 million in 3Q18. Comparable net profit for 3Q19 excluding IFRS16 amounted to PLN5.9m (+10%).

Interim condensed financial report of VRG Capital Group

Structure and characteristics of statement of financial position

CONSOLIDATED BALANCE SHEET	30.09.2019		30.09.2018	
	value (PLN ths)	share (%)	value (PLN ths)	share (%)
Non-current assets, including:	858,987	58.2%	425,173	50.9%
<i>Intangible assets</i>	499,656	33.9%	359,560	43.0%
<i>Fixed assets</i>	72,048	4.9%	59,264	7.1%
<i>Right of use assets IFRS16</i>	277,453	18.8%	-	0.0%
Current assets, including:	616,269	41.8%	410,834	49.1%
<i>Inventory</i>	563,578	38.2%	360,159	43.1%
<i>Receivables</i>	36,652	2.5%	34,554	4.1%
<i>Short-term assets (incl. cash)</i>	12,850	0.9%	13,816	1.7%
Total assets	1,475,256		836,007	
Equity attributable to dominating entity, including:	819,371	55.5%	567,726	67.9%
<i>Share capital</i>	49,122	3.3%	38,470	4.6%
<i>Net profit (loss) for the current period</i>	19,645	1.3%	21,140	2.5%
Long-term liabilities and provisions	267,707	18.1%	80,618	9.6%
<i>Long-term loans and borrowings</i>	64,163	4.3%	77,673	9.3%
<i>Financial leases</i>	201,923	13.7%	1,657	0.2%
<i>‘ including IFRS16</i>	199,332	13.5%	-	0.0%
Short-term liabilities and provisions, including:	388,178	26.3%	187,663	22.4%
<i>Trade liabilities</i>	191,980	13.0%	113,133	13.5%
<i>Short-term loans and borrowings</i>	99,554	6.7%	68,764	8.2%
<i>Financial leases</i>	88,189	6.0%	561	0.1%
<i>‘ including IFRS16</i>	86,399	5.9%	-	0.0%
Total equity and liabilities	1,475,256		836,007	

Assets

In 9M19, the assets of VRG S.A. Group almost doubled compared to 3Q18. That was the result of two factors: merger with Bytom S.A. in 4Q18 (there was not Bytom as at November 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 140.1 million

A significant increase in intangible assets in 3Q19 as compared to September 30, 2018 resulted mainly from recognition of goodwill as a result of the acquisition of Bytom S.A. and merger with BTM 2 sp. z o.o. which was described in point 2 of this financial report.

Interim condensed financial report of VRG Capital Group

Increase in fixed assets by PLN 12.8 million

Change in fixed assets was primarily the effect of acquisition of fixed assets owned by Bytom S.A. 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 September 30, 2019 is PLN 277.5 million, which significantly increases the Group's balance sheet total.

Inventory

The value of inventories as at September 30, 2019 amounted to PLN 563.6 million, which means an increase compared to September 30, 2018 by 56%. In the apparel segment, the inventories increased by + 96% YoY (effect of Bytom inventories, which amounted to some PLN 100m), while in the jewellery segment by + 21%. The nominal increase in inventories results, apart from the effect of merger with Bytom, from floorspace development, preparations for a strong 4Q in the apparel and jewellery segment.

The Group's inventories in terms of m2 amounted to PLN 10,474, which means a 1% YoY growth:

INVENTORY / [PLN/m2]	3Q19	3Q18	YoY
VRG	10,474	10,406	1%
Apparel segment	7,679	6,751	14%
Jewellery segment	22,214	20,139	10%

Receivables

Receivables were at a similar level YoY despite that these did not include Bytom's receivables at the end of September 30, 2018. The group continues changes in terms of payments, among others changes in prepayments for goods from Asian markets and letters of credit with deferred payment.

Equity and liabilities

Equity

Changes in equity by PLN 251.6 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 from merger with BTM 2 in July 2019 (point 2 of financial report).

Long-term and short-term indebtedness

Indebtedness under long-term loans as at September 30, 2019 amounted to PLN 64.2 million compared to PLN 77.7 million, which means a PLN 13.5 million decrease compared to the end of September 2018. The amount of

Interim condensed financial report of VRG Capital Group

the leases increased due to the takeover of liabilities the Bytom S.A. and recognition of liabilities due to the valuation of lease agreements in accordance with IFRS16. Total liabilities in this respect amount to PLN 285.7 million, of which PLN 199.3 million is a long-term part, and 86.4 million short-term part.

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

- lease obligations under the right of use described above (PLN 86.4 million),
- increase in overdraft facilities by PLN 30.6 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 24.2 million, which were not present as at the end of March 2018, because this product was previously used only by the acquired company Bytom.

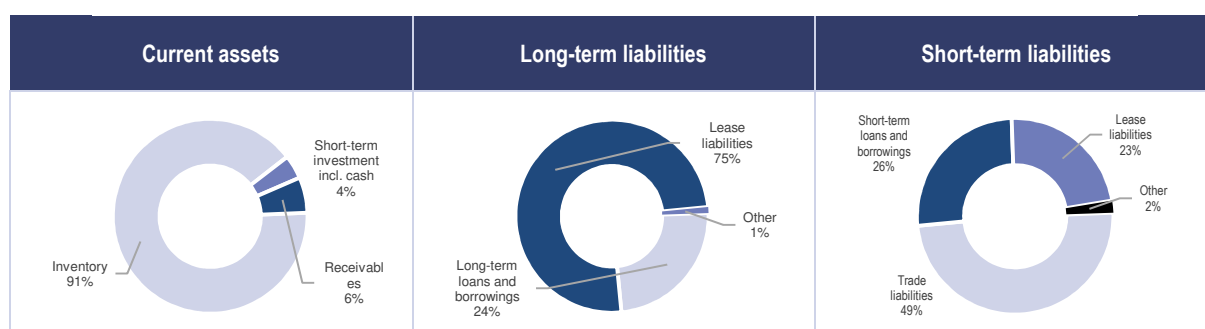
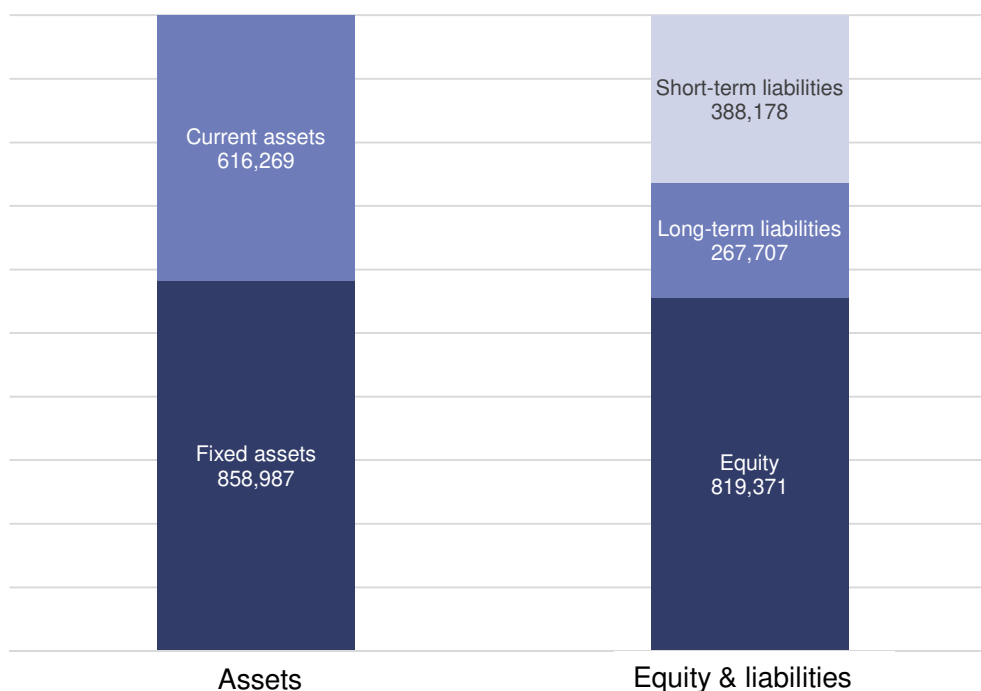
The table below presents development of financial liabilities as at November 30, 2019, November 30, 2018 and net debt. In addition, data on net debt was also presented without the impact of IFRS16, which significantly affects the scale of indebtedness.

Net debt (PLN ths)	30.09.2019	30.09.2019 (excl. IFRS16)	30.09.2018
Long-term debt	266,086	66,754	79,330
Long-term loans and borrowings	64,163	64,163	77,673
Finance lease liabilities	201,923	2,591	1,657
- including IFRS16	199,332	0	0
Short-term debt	211,896	125,497	69,325
Loans and borrowings	88,712	88,712	58,130
Short-term part of long-term loans	10,842	10,842	10,634
Reverse factoring	24,153	24,153	0
Finance lease liabilities	88,189	1,790	561
- including IFRS16	86,399	0	0
Cash	12,319	12,319	13,788
Net debt	465,663	179,932	134,867

Increase in trade and other liabilities

The increase in trade liabilities by PLN 79 million is associated with the increase in liabilities due to the higher value of goods and materials ordered in both the apparel and jewellery segment and the effect of the merger with Bytom. The graph below presents the balance sheet structure, including the most important components of assets and liabilities.

Statement of financial position analysis as of the end of 3Q19



2. Planned development activities

As relates to information presented in 2018 annual report and 1H19 report of the Capital Group and taking into consideration 3Q19 results, in the current year we plan to achieve: 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 55.1 ths m² (596 stores). That would increase the Group's floorspace by some 7%. Floorspace development planned for 2019, assumes an increase in sales network of W.KRUK by some 1.0 ths m², and the apparel segment floorspace by 2.4 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 20 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

Interim condensed financial report of VRG Capital Group

Group's revenues by the end of 2019 (taking into account the share of Bytom's brand where the contribution is lower and stands at 10%;

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

The Vistula brand offer for the Autumn/Winter 2019/20 season includes a wide selection of both formal and total proposals. Suits remained the main part of the formal collection. In addition to suits, the offer also includes jackets - plain or plaid, shirts, pants, coats, jackets and a wide range of accessories. In the current quarter the *Vistula with Passion* project is also continued, in which well-known persons of sport, music, culture and other fields, operating with passion in various spheres of life, present the brand in their daily activities.

The faces of the current Bytom collection are Jan Frycz and Kamil Nożyński, promoting the brand as well as culture and art. The Heritage Collection is kept in a vintage climate reminiscent of the 1980s.

The faces of the Wólczanka brand in the Autumn / Winter 2019/20 season are Professionals i.e. people who are accompanied by Wólczanka shirts at work and in everyday life. The 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 multi-colored casual shirts. The shirts collection is complemented by sweaters - including turtlenecks, from a wool and cashmere blend, chinos pants and the highest quality accessories: silk ties, pocket square and flies, shirt clips, leather straps. In the women's part of the collection, apart from 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 Deni Cler brand in its collection continues the departure from the formal style in favour of everyday elegance. The current marketing communication of the W.KRUK brand promotes the unveiling of a collection designed with Ewa Chodakowska. This collection is a modern design gold and silver and brass jewellery, combined with the motive of volcanic berry OHELO, which was the inspiration for the creation and the name of the collection.

The Autumn / Winter 2019/20 collection from Deni Cler combines tradition with modernity, putting emphasis on capsule collections, with both office, daytime and evening fashion as well as casual fashion (an increasingly visible trend in the brand's collections). In the third quarter, W.KRUK introduced new products: lab-grown diamonds (New Diamond by W.KRUK) having parameters identical to diamonds extracted by traditional methods, and a collection of perfumes presenting modern fragrance compositions created on the basis of the noblest ingredients of haute parfumerie.

After completing the merger with Bytom, the priority of the Management Board is to achieve synergies, both revenue and cost. Revenue synergies should be visible by improving the gross margin as a result of combined purchasing policy mainly on foreign markets. The Management Board estimates that improvement of gross margin of the Vistula, Wólczanka and Bytom brands should translate into PLN 8-10 million of margin synergy per year. Cost synergies should be achieved in the areas of selling and general administrative expenses and should amount to some PLN 2 million annually, supporting the Group in achieving the planned cost discipline. The Management Board expects that all synergies will be realized in 2020, but the first effects should be visible already in 2019, e.g. PLN 1.5 million of margin synergies realised in 2Q19 as well as lower group interest costs due to changes in financing structure.

In 2020, the Company's Capital Group plans to:

- increase its area by some 5% compared to the end of 2019,

- expand the product offer of each brand (sports and ecological collection in the Vistula brand, new assortments in the Wólczanka brand, clear stylistic diversification of the Vistula brand collection from the Bytom brand, new brands of watches and development of the collection with new diamonds at W.KRUK), which should translate into increase in on-line sales and higher sales efficiency per m2,

Interim condensed financial report of VRG Capital Group

- dynamically develop the Internet channel by further improving websites, mobile applications and improving the quality of the service by accelerating delivery times and shortening the time of settling returns, we assume that the share of internet in sales in 2020 will be 16%,
- improve gross margins by 1 pp thanks to margin synergies (new combined sources of supply),
- improve working capital: reduce the level of inventories and increase the level of liabilities mainly by changing the method of financing suppliers with the active use of reverse factoring,
- planned investment expenditure in 2020 for the development of the retail network, including revitalization of the most important commercial premises, further improvement of IT systems, online sales and other investments should amount to approximately PLN 25 million;

At the same time, the Management Board will continue activities related to the strategic goal of building the House of Brands through acquisition and consolidation activities on the Polish market and close foreign markets. The first practical example of such activities is the signing by the subsidiary W.KRUK S.A. letter of intent to purchase a company from the jewellery sector operating in the Czech Republic. The project is at a due diligence stage, the final completion of the project should take place in the first quarter of 2020.

3. Financial forecasts

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

4. Statement of the Management Board

The Management Board declares that, to the best of its knowledge, the financial statements and comparative data have been prepared in accordance with the applicable accounting principles and that they reflect in a true, reliable and clear manner the financial position and standing of the issuer and its financial result and that the financial statements contain a true picture of development and issuer's situation and achievements, including a description of basic risks and threats.

Grzegorz Pilch

Michał Wójcik

Mateusz Żmijewski

Erwin Bakalarz

President of the
Management Board

Vice-President of the
Management Board

Vice-President of the
Management Board

Management Board Member

*Signature of a person entrusted
with bookkeeping*

Alicja Weber

.....
Chief Accountant

Cracow, November 12, 2019



**34.6 ths m²
group
floorspace**



CONDENSED INTERIM SEPARATE

FINANCIAL STATEMENTS

FOR 3 MONTHS ENDED SEPTEMBER 30, 2019

SELECTED FINANCIAL DATA TO CONDENSED INTERIM SEPARATE FINANCIAL STATEMENTS

	PLN ths		EUR ths	
	3 quarters / 2019 January 1, 2019 to 30 September, 2019	3 quarters / 2018 January 1, 2018 to 30 September, 2018	3 quarters / 2019 January 1, 2019 to 30 September, 2019	3 quarters / 2018 January 1, 2018 to 30 September, 2018
Revenues	447,185	282,438	103,789	65,552
Profit (loss) from operations	15,750	12,379	3,655	2,873
Pre-tax profit (loss)	8,487	11,465	1,970	2,661
Net profit (loss)	6,659	9,005	1,546	2,090
Net cash flows from operating activities	-14,295	-14,045	-3,318	-3,260
Net cash flows from investing activities	-832	-5,164	-193	-1,199
Net cash flows from financing activities	-735	16,342	-171	3,793
Total net cash flows	-15,862	-2,867	-3,681	-665
	30.09.2019	31.12.2018	30.09.2019	31.12.2018
Total assets	1,078,507	931,516	246,595	216,632
Liabilities and provisions	356,836	217,302	81,589	50,535
Long-term liabilities	135,465	92,921	30,973	21,610
Short-term liabilities	214,256	114,326	48,988	26,587
Total equity	721,671	714,214	164,995	166,096
Share capital	49,122	49,122	11,231	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)	0.03	0.12	0.01	0.03
Diluted earnings (loss) per share (in PLN/EUR)	0.03	0.12	0.01	0.03
Book value per share (in PLN/EUR)	3.08	3.05	0.70	0.71
Diluted book value per share (in PLN/EUR)	2.99	2.96	0.68	0.69
Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

CONDENSED INTERIM SEPARATE STATEMENT OF FINANCIAL POSITION AT SEPTEMBER 30, 2019

	PLN ths					
	3Q19 September 30, 2019	2Q19 June 30, 2019	January 1, 2019 after restatement	December 31, 2018	3Q18 September 30, 2018	2Q18 June 30, 2018
Assets						
Non-current assets	723,126	801,697	814,876	639,122	410,668	409,782
Goodwill	120,855	142,140	142,140	142,140	60,697	60,697
Other intangibles	115,121	98,055	98,567	98,567	34,885	34,969
Fixed assets	36,700	33,916	38,039	38,039	21,224	19,883
Investment property	874	4,686	7,170	7,170	7,254	7,296
Assets held for sale	-	-	-	-	-	-
Right of use assets	159,754	168,475	175,754	-	-	-
Long-term receivables	301	220	272	272	176	172
Long-term loans granted	16	16	20	20	24	28
Shares and stakes	283,963	349,355	349,222	349,222	283,714	283,693
Other long-term investments	4	4	4	4	4	4
Deferred tax assets	5,538	4,830	3,688	3,688	2,690	3,040
Other non-current assets	-	-	-	-	-	-
Current assets	355,381	308,440	292,394	292,394	189,048	169,934
Inventory	313,098	266,875	247,112	247,112	149,756	129,762
Trade and other receivables	32,235	27,097	20,200	20,200	30,520	26,240
<i>of which corporate income tax assets</i>	-	-	-	-	1,227	539
Short-term loans granted	-	-	-	-	-	-
Short-term part of long-term loans	15	15	15	15	15	15
Cash and equivalents	8,577	13,700	24,439	24,439	7,624	12,588
Other short-term assets	531	-	8	8	28	-
Other current assets	925	753	620	620	1,105	1,329
Total assets	1,078,507	1,110,137	1,107,270	931,516	599,716	579,716
Equity and liabilities						
Equity	721,671	725,177	714,214	714,214	498,136	495,962
Share capital	49,122	49,122	49,122	49,122	38,470	38,470
Capital reserves	648,066	648,066	625,374	625,374	433,635	433,635
Other reserves	17,824	17,451	17,026	17,026	17,026	16,966
Retained earnings	-	-	-	-	-	-
Net profit (loss) for the current period	6,659	10,538	22,692	22,692	9,005	6,891
Total equity	721,671	725,177	714,214	714,214	498,136	495,962
Long-term liabilities	135,465	206,154	219,336	92,921	29,951	30,944

Interim condensed financial report of VRG Capital Group

	PLN ths					
	3Q19 September 30, 2019	2Q19 June 30, 2019	January 1, 2019 after restatement	December 31, 2018	3Q18 September 30, 2018	2Q18 June 30, 2018
Liabilities due to purchase of fixed assets	-	-	-	-	-	-
Lease liabilities	111,021	179,710	191,891	65,476	570	563
<i>incl. IFRS16</i>	109,699	114,987	126,415	-		
Loans and borrowings	24,444	26,444	27,445	27,445	29,381	30,381
Deferred tax liabilities	348	780	1,197	1,197	445	599
Long-term provisions	483	483	483	483	279	279
Total long-term liabilities and provisions	136,296	207,417	221,016	94,601	30,675	31,822
Short-term liabilities	214,256	171,302	163,665	114,326	67,902	49 161
Lease liabilities	50,416	54,799	51,320	1,981	272	269
<i>incl. IFRS16</i>	54,757	53,039	49,339	-	-	-
Trade and other liabilities	113,554	95,496	107,896	107,896	45,091	44,961
<i>of which corporate income tax liabilities</i>	1,384	1,530	967	967	-	-
Loans and borrowings	40,348	17,069	511	511	18,608	-
Short-term part of long-term loans and borrowings	3,938	3,938	3,938	3,938	3,931	3,931
Short-term provisions	6,284	6,241	8 375	8,375	3,003	2,771
Total short-term liabilities and provisions	220,540	177,543	172,040	122,701	70,905	51,932
Total liabilities and provisions	356,836	384,960	393,056	217,302	101,580	83,754
Total equity and liabilities	1,078,507	1,110,137	1,107,270	931,516	599,716	579,716
Book value of equity	721,671	725,177	714,214	714,214	498,136	495,962
Shares outstanding	234,455,840	234,455,840	234,455,840	234,455,840	181,194,964	181,194,964
Book value per share	3.08	3.09	3.05	3.05	2.75	2.74
Diluted number of shares	245,505,840	241,505,840	241,505,840	241,505,840	188,244,964	181,194,964
Diluted book value per share	2.99	3.00	2.96	2.96	2.65	2.74

**CONDENSED INTERIM SEPARATE OFF-BALANCE SHEET ITEMS
AS OF SEPTEMBER 30, 2019**

	PLN ths				
	3Q19 September 30, 2019	3Q19 September 30, 2019	3Q19 September 30, 2019	3Q19 September 30, 2019	3Q19 September 30, 2019
bank guarantees issued for store rental expenses	26,992	26,297	24,163	14,459	14,798
open letters of credit	21,069	41,718	30,803	12,571	11,319
bills of exchange securing lease liabilities	-	-	-	-	-
Total off-balance sheet items	48,061	68,015	54,966	27,030	26,117



**VRG Group
consists of 5
diversified
brands**

CONDENSED INTERIM SEPARATE

STATEMENT OF COMPREHENSIVE INCOME

FOR 9 MONTHS ENDED 30 NOVEMBER, 2019

INTERIM CONDENSED SEPARATE PROFIT OR LOSS STATEMENT

	PLN ths			
	3Q19 January 1, 2019 to 30 September, 2019	3Q19 January 1, 2019 to 30 September, 2019	3Q19 January 1, 2019 to 30 September, 2019	3Q19 January 1, 2019 to 30 September, 2019
Revenues	146,337	447,185	91,438	282,438
Cost of sales	71,178	216,473	44,426	137,262
Gross profit on sales	75,159	230,712	47,012	145,176
Other operating income	105	381	619	363
Gain on sale of non-financial non-current assets	-	735	-	-
Selling costs	59,098	175,096	35,114	104,984
Administrative expenses	12,944	39,183	9,139	27,477
Other operating costs	264	1,799	154	666
Loss on sale of non-financial non-current assets	144	-	39	33
Profit (loss) from operations	2,814	15,750	3,185	12,379
Financial income	568	586	111	689
Financial costs	6,686	7,849	559	1,603
<i>incl. costs of IFRS16</i>	5,285	4,704	-	-
Pre-tax profit (loss)	- 3,304	8,487	2,737	11,465
Income tax	575	1,828	623	2,460
Net profit (loss) for the period from continuing operations	- 3,879	6,659	2,114	9,005
DISCONTINUED OPERATIONS				
Net profit (loss) from discontinued operations	-	-	-	-
Net profit (loss) for the period	- 3,879	6,659	2,114	9,005
Weighted average number of ordinary shares	234,455,840	234,455,840	181,194,964	180,462,363
Diluted weighted average number of ordinary shares	241,505,840	241,505,840	188,244,964	187,512,363
Earnings per share from continued and discontinued operations				
- basic	- 0.02	0.03	0.01	0.05
- diluted	- 0.02	0.03	0.01	0.05

CONDENSED INTERIM SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	PLN ths			
	3Q19 January 1, 2019 to 30 September, 2019	3Q19 January 1, 2019 to 30 September, 2019	3Q19 January 1, 2019 to 30 September, 2019	3Q19 January 1, 2019 to 30 September, 2019
Net profit for the period	- 3,879	6,659	2,114	9,005
Other comprehensive income, including:	-	-	-	-
Revaluation of financial assets available for sale	-	-	-	-
Income tax related to other comprehensive income	-	-	-	-
Total comprehensive income	- 3,879	6,659	2,114	9,005



Safe financial
situation of VRG
Group

CONDENSED INTERIM SEPARATE

STATEMENT OF CHANGES IN EQUITY

FOR 9 MONTHS ENDED SEPTEMBER 30, 2019

	PLN ths				
	Share capital	Share capital	Share capital	Share capital	Share capital
3 quarters/ 2018 from July 1, 2018 to September 30, 2018					
Balance at 01.07.2018	38,470	433,635	16,966	6,891	495,962
Net profit (loss) for the period	-	-	-	2,114	2,114
Stock-option program valuation	-	-	60	-	60
Share issuance	-	-	-	-	-
Balance at 30.09.2018	38,470	433,635	17,026	9,005	498,136
3 quarters/ 2018 from January 1, 2018 to September 30, 2018					
Balance at 01.01.2018	38,070	413,306	16,787	16,731	484,894
Distribution of net profit	-	16,731	-	- 16,731	-
Net profit (loss) for the period	-	-	-	9,005	9,005
Stock-option program valuation	-	-	239	-	239
Share issuance	400	3,598	-	-	3,998
Balance at 30.09.2018	38,470	433,635	17,026	9,005	498,136
2018 / from January 1, 2018 to December 31, 2018					
Balance at 01.01.2018	38,070	413,306	16,787	16,731	484,894
Distribution of net profit	-	16,731	-	- 16,731	-
Net profit (loss) for the period	-	-	-	22,692	22,692
Stock-option program valuation	-	-	239	-	239
Share issuance	11,052	195,337	-	-	206,389
Balance at 31.12.2018	49,122	625,374	17,026	22,692	714,214
3 quarter/ 2019 from July 1, 2019 to September 30, 2019					
Balance at 01.07.2019	49,122	648,066	17,451	10,538	725,177
Net profit (loss) for the period	-	-	-	- 3,879	- 3,879
Stock-option program valuation	-	-	373	-	373
Share issuance	-	-	-	-	-
Balance at 30.09.2018	49,122	648,066	17,824	6,659	721,671
3 quarters/ 2019 from January 1, 2019 to September 30, 2019					
Balance at 01.01.2019	49,122	625,374	17,026	22,692	714,214
Distribution of net profit	-	22,692	-	- 22,692	-
Net profit (loss) for the period	-	-	-	6,659	6,659
Stock-option program valuation	-	-	798	-	798
Share issuance	-	-	-	-	-
Balance at 30.09.2018	49,122	648,066	17,824	6,659	721,671

CONDENSED INTERIM SEPARATE

STATEMENT OF CASH FLOWS

FOR 9 MONTHS ENDED SEPTEMBER 30, 2019

	PLN ths			
	3Q19 January 1, 2019 to 30 September, 2019	3Q19 January 1, 2019 to 30 September, 2019	3Q19 January 1, 2019 to 30 September, 2019	3Q19 January 1, 2019 to 30 September, 2019
Operating cash flow				
Pre-tax profit	- 3,304	8,487	2,737	11,465
Adjustments:				
Share in equity consolidated entities	-	-	-	-
Amortization and depreciation	17,410	51,426	1,581	5,607
Profit (loss) on investing activities	144	- 735	39	33
Income tax paid	- 681	- 2,930	- 1,114	- 2,972
Interest costs	1,178	3,459	404	1,095
Change in provisions	- 1,115	- 3,249	232	- 1,167
Change in inventories	- 46,224	- 65,986	- 19,994	- 9,399
Change in receivables	- 4,738	- 12,137	- 4,301	- 13,687
Change in short-term liabilities, excluding bank loans and borrowings	19,123	8,400	807	- 5,118
Other adjustments	- 885	- 1,030	1	98
Net cash flows from operating activities	- 19,092	- 14,295	- 19,608	- 14,045
Investing cash flows				
Interest received	5	7	4	13
Dividends from subsidiaries	-	-	-	-
Dividends from investments available for sale	-	-	-	-
Inflows from sale of investments held for trading	-	-	-	-
Inflows from sale of investments available for sale	-	-	-	-
Inflows from sale of subsidiary	-	-	-	-
Inflows from sale of intangibles	-	-	-	-
Inflows from sale of fixed assets	1,251	7,443	4	24
Disposal of investment property	-	-	-	-
Inflows from loans granted	-	4	3	11
Purchase of investments held for trading	-	-	-	-
Purchase of investments available for sale	-	-	-	-
Purchase of subsidiary	-	-	-	-
Purchase of intangible assets	- 35	- 606	- 5	- 287
Purchase of fixed assets	- 1,489	- 7,680	- 2,492	- 4,925

Interim condensed financial report of VRG Capital Group

	PLN ths			
	3Q19 January 1, 2019 to 30 September, 2019	3Q19 January 1, 2019 to 30 September, 2019	3Q19 January 1, 2019 to 30 September, 2019	3Q19 January 1, 2019 to 30 September, 2019
Purchase of investment property	-	-	-	-
Purchase of financial assets in subsidiaries	-	-	-	-
Purchase of financial assets in other entities	-	-	-	-
Loans granted	-	-	-	-
Net cash flows from investing activities	- 268	- 832	- 2,486	- 5,164
Financing cash flows				
Proceeds from issuance of shares and other capital instruments and additional payments to capital	-	-	-	3,998
Inflows from loans and borrowings	23,796	40,347	18,608	16,932
Other financial inflows	-	-	-	-
Dividends and other distributions to owners	-	-	-	-
Repayment of bank loans and borrowings	2,969	2,969	-	-
Redemption of debt securities	- 2,000	- 3,000	- 1,000	- 3,250
Finance lease payments	-	-	-	-
Interest payments	- 333	- 1,307	- 74	- 243
IFRS16 interest	- 524	- 1,624	- 404	- 1,095
IFRS16 leasing	- 652	- 1,835		
Other financial expenses	- 9,019	- 36,285		
Proceeds from issuance of shares and other capital instruments and additional payments to capital	-	-	-	-
Net cash flows from financing activity	14,237	- 735	17,130	16,342
Change in cash and cash equivalents in the balance sheet	- 5,123	- 15,862	- 4,964	- 2,867
Opening balance of cash	13,700	24,439	12,588	10,491
Change in cash due to foreign currency translation	-	-	-	-
Closing balance of cash	8,577	8,577	7,624	7,624

The value „other adjustments” encompasses:

	PLN ths	
reserve capital increase - option valuation	798	239
interest received	- 7	- 13
fixed assets - write-down / liquidation	- 1 573	- 43
balance sheet valuation of the shares of W.KRUK S.A	- 248	- 85
Total	- 1,030	98

INFORMATION AND EXPLANATIONS

TO THE INTERIM CONDENSED INDIVIDUAL REPORT FINANCIAL FOR 3Q19

Accounting policies that are material to the preparation of these interim condensed separate financial statements have been included in the information and explanations to the consolidated interim financial statements.

Grzegorz Pilch

Michał Wójcik

Mateusz Żmijewski

Erwin Bakalarz

**President of the
Management Board**

**Vice-President of the
Management Board**

**Vice-President of the
Management Board**

Management Board Member

*Signature of a person entrusted
with bookkeeping*

Alicja Weber

.....
Chief Accountant

Cracow, November 12, 2019

W. KRUK
1 8 4 0

DENICLER
MILANO

BYTOM
SZTUKA KRAWIECTWA OD 1945

WÓLCZANKA

VISTULA

VRG
VISTULA RETAIL GROUP

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