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

VRG
VISTULA RETAIL GROUP

INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

Of VRG S.A. Capital Group
for 6 months ended June 30, 2021
prepared in accordance with IFRS approved by the European Union

Cracow, August 25, 2021

TABLE OF CONTENTS

INTERIM CONDENSED CONSOLIDTED

FINANCIAL STATEMENTS

FOR 6 MONTHS ENDED JUNE 30, 2021

SELECTED FINANCIAL DATA TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	PLN ths		EUR ths	
	1H21 from January 1, 2020 to June 30, 2020	1H20 from January 1, 2020 to June 30, 2020	1H21 from January 1, 2021 to June 30, 2021	1H20 from January 1, 2020 to June 30, 2020
Revenues	416,114	372,342	91,479	83,837
Profit (loss) from operations	895	- 22,288	197	- 5,018
EBITDA	54,233	35,813	11,923	8,064
Pre-tax profit (loss)	4,211	- 38,388	926	- 8,644
Net profit (loss)	2,848	- 31,775	626	- 7,155
Net cash flows from operating activities	26,235	62,059	5,768	13,973
Net cash flows from investing activities	- 4,837	- 8,036	- 1,063	- 1,809
Net cash flows from financing activities	- 55,494	- 29,300	- 12,200	- 6,597
Total net cash flows	- 34,096	24,723	- 7,496	5,567
	30.06.2021	31.12.2020	30.06.2021	31.12.2020
Total assets	1,433,543	1,466,233	316,441	317,724
Liabilities and provisions	607,341	642,879	134,065	139,308
Long-term liabilities	291,708	305,988	64,392	66,306
Short-term liabilities	304,103	325,796	67,128	70,598
Total equity	826,202	823,354	182,376	178,416
Share capital	49,122	49,122	10,843	10,644
Shares outstanding	234,455,840	234,455,840	234,455,840	234,455,840
Diluted number of shares	241,505,840	241,505,840	241,505,840	241,505,840
Earnings (loss) per ordinary share (in PLN/EUR)	0.01	- 0.15	0.00	- 0.03
Diluted earnings (loss) per share (in PLN/EUR)	0.01	- 0.14	0.00	- 0.03
Book value per share (in PLN/EUR)	3.52	3.51	0.78	0.76
Diluted book value per share (in PLN/EUR)	3.42	3.41	0.76	0.74
Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

INTERIM CONDENSED CONSOLIDATED

STATEMENT OF PROFIT OR LOSS

FOR 6 MONTHS ENDED JUNE 30, 2021

	Note	PLN ths			
		1H21 from January 1, 2021 to June 30, 2021	1H20 from January 1, 2020 to June 30, 2020	2Q21 from April 1, 2021 to June 30, 2021	2Q20 from April 1, 2020 to June 30, 2020
Revenues	1, 2	**416,114**	**372,342**	**244,013**	**174,873**
Cost of sales	3	203,287	196,299	112,869	92,794
Gross profit on sales		**212,827**	**176,043**	**131,144**	**82,079**
Selling costs	3	169,065	149,138	90,972	65,560
Administrative expenses	3	36,786	39,063	18,759	17,092
Other operating income	1	9,315	9,227	9,108	8,650
Profit from sale of non-financial non-current assets	1	18	-	35	-
Other operating costs	3	15,414	19,126	13,841	18,251
Loss from sale of non-financial non-current assets		-	231	-	200
Profit (loss) from operations		**895**	**- 22,288**	**16,715**	**- 10,374**
Financial income	1, 5	8,823	1,950	13,506	10,090
incl.: financial income from IFRS16 on store and office floorspace		*7,558*	-	*10,779*	*6,095*
Financial costs	6	5,507	18,050	3,448	3,007
incl.: financial income from IFRS16 on store and office floorspace		*2,753*	*13,204*	*1,317*	*1,086*
Pre-tax profit (loss)		**4,211**	**- 38,388**	**26,773**	**- 3,291**
Income tax	7	1,363	- 6,613	3,821	- 3,471
Net profit (loss) for the period		**2,848**	**- 31,775**	**22,952**	**180**
Attributed to dominating entity		2,848	- 31,775	22 952	180
Attributed to non-controlling interest		**-**	-	-	-
Earnings (loss) per share:					
- basic	8	0.01	- 0.14	0.10	- 0.00
- diluted	8	0.01	- 0.13	0.10	- 0.00

INTERIM CONDENSED CONSOLIDATED

STATEMENT OF COMPREHENSIVE INCOME

FOR 6 MONTHS ENDED JUNE 30, 2021

	Note	PLN ths			
		1H21 from January 1, 2021 to June 30, 2021	1H20 from January 1, 2020 to June 30, 2020	2Q21 from April 1, 2021 to June 30, 2021	2Q20 from April 1, 2020 to June 30, 2020
Net profit for the period		**2,848**	**- 31,775**	**22,952**	**180**
Other comprehensive income, including:		-	-	-	-
Income that can be recycled		-	-	-	-
Income that cannot be recycled		-	-	-	-
Total comprehensive income		**2,848**	**- 31,775**	**22,952**	**180**
Attributed to dominating entity		2,848	- 31,775	22,952	180
Attributed to non-controlling interest		-	-	-	-

INTERIM CONDENSED CONSOLIDATED

STATEMENT OF FINANCIAL POSITION

AS AT JUNE 30, 2021

	Note	PLN ths		
		30.06.2021	31.12.2020	30.06.2020
Non-current assets		**888,844**	**898,027**	**893,451**
Goodwill	9	302,748	302,748	302,748
Other intangible assets	10	196,688	196,242	196,615
Fixed assets	11	53,421	60,626	65,329
Investment property		295	874	874
Right-of-use assets (IFRS16)	11a	307,159	312,690	312,129
Long-term receivables		275	295	521
Shares and stakes		27	27	27
Other long-term investments		4	4	4
Deferred tax assets	17	28,227	24,521	15,172
Other non-current assets		-	-	32
Current assets		**544,699**	**568,206**	**552,542**
Inventory	12	515,790	505,584	485,345
Trade and other receivables	13	13,744	13,332	17,194
Cash and cash equivalents	14	14,748	48,839	50,003
Other current assets		417	451	-
Total assets		**1,433,543**	**1,466,233**	**1,445,993**

	Note	PLN ths		
		30.06.2021	31.12.2020	30.06.2020
Dominating entity's equity		**826,202**	**823,354**	**831,574**
Share capital	21	49,122	49,122	49,122
Other reserves	22	14,333	14,333	14,396
Retained earnings	23	762,747	759,899	768,056
Long-term liabilities and provisions		**292,946**	**307,227**	**292,208**
Liabilities due to purchase of fixed assets		391	438	380
Lease liabilities	18	250,183	258,354	236,066
incl.: IFRS16 on store and office floorspace		*248,758*	*256,974*	*234,256*
Loans and borrowings	15	41,134	47,196	54,640
Long-term provisions	20	1,238	1,239	1,122
Short-term liabilities and provisions		**314,395**	**335,652**	**322,211**
Lease liabilities	18	97,388	98,839	90,075
incl.: IFRS16 on store and office floorspace		*96,328*	*97,510*	*88,300*
Trade and other liabilities	19	181,608	199,240	161,176
Corporate income tax liabilities	19	4,336	3,345	3,367
Loans and borrowings and short-term part of long-term loans and borrowings	15	20,771	24,372	57,525
Short-term provisions	20	10,292	9,856	10,068
Total liabilities and provisions		**607,341**	**642,879**	**614,419**
Total equity and liabilities		**1,433,543**	**1,466,233**	**1,445,993**

INTERIM CONDENSED CONSOLIDATED

STATEMENT OF CHANGES IN EQUITY

FOR 6 MONTHS ENDED JUNE 30, 2021

	Share capital	Capital reserves	Retained earnings	Total equity
Balance at 01.01.2020	**49,122**	**14,333**	**799,831**	**863,286**
Consolidation adjustment	-	-	-	-
Net profit (loss) for the period	-	-	- 31,775	- 31,775
Stock-option program valuation	-	63	-	63
Share issuance	-	-	-	-
Balance at 30.06.2020	**49,122**	**14,396**	**768,056**	**831,574**
Balance at 01.01.2020	**49,122**	**14,333**	**799,831**	**863,286**
Consolidation adjustment	-	-	-	-
Net profit (loss) for the period	-	-	- 39,932	- 39,932
Stock-option program valuation	-	-	-	-
Share issuance	-	-	-	-
Balance at 31.12.2020	**49,122**	**14,333**	**759,899**	**823,354**
Balance at 01.01.2021	**49,122**	**14,333**	**759,899**	**823,354**
Consolidation adjustment	-	-	-	-
Net profit (loss) for the period	-	-	2,848	2,848
Stock-option program valuation	-	-	-	-
Share issuance	-	-	-	-
Balance at 30.06.2021	**49,122**	**14,333**	**762,747**	**826,202**

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

INTERIM CONDENSED CONSOLIDATED

STATEMENT OF CASH FLOWS

FOR 6 MONTHS ENDED JUNE 30, 2021

	Note	PLN ths	
		1H21 from January 1, 2021 to June 30, 2021	1H20 from January 1, 2020 to June 30, 2020
Cash flows from operating activities			
Pre-tax profit (loss)		**4,211**	**- 38,388**
Amortization and depreciation		53,338	58,101
Profit (loss) on investing activities		- 18	233
Income tax paid		- 4,070	- 6,633
Interest costs		3,691	3,606
Change in provisions		435	- 1,026
Change in inventories		- 10,206	50,194
Change in receivables		- 392	5,525
Change in short-term liabilities, excluding bank loans and borrowings		- 22,417	- 9,164
Other adjustments		1,663	- 389
Net cash flows from operating activities		**26,235**	**62,059**
Przepływy środków pieniężnych z działalności inwestycyjnej			
Interest received		-	18
Disposal of intangibles		-	-
Disposal of fixed assets		526	526
Disposal of real estate		-	-
Loans obtained		-	-
Purchase of intangible assets		- 899	- 105
Purchase of fixed assets		- 4,464	- 8,475
Purchase of financial assets in other entities		-	-
Loans granted		-	-
Net cash flows from investing activities		**- 4,837**	**- 8,036**

	Note	PLN ths	
		1H21 from January 1, 2021 to June 30, 2021	1H20 from January 1, 2020 to June 30, 2020
Proceeds from issuance of shares and other capital instruments and additional payments to capital		-	-
Inflows from loans and borrowings		517	27,930
Repayment of bank loans and borrowings		- 10,625	- 5,462
Other lease payments		- 736	- 819
Other interest paid		- 938	- 1,585
Interest paid on IFRS16 on store and office floorspace		- 2,753	- 2,021
Lease payments on IFRS16 on store and office floorspace		- 40,959	- 47,343
Other financial flows		-	-
Net cash flows from financing activity		**- 55,494**	**- 29,300**
Increase (decrease) in cash and cash equivalents in the balance sheet		**- 34,096**	**24,723**
Opening balance of cash and cash equivalents		**48,844**	**25,280**
Change in cash due to foreign currency translation		-	-
Closing balance of cash and equivalents	**14**	**14,748**	**50,003**

The value shown under 'other adjustments' consists of:	PLN ths	
	1H21 from January 1, 2021 to June 30, 2021	1H20 from January 1, 2020 to June 30, 2020
capital reserves increase – valuation of stock options `	-	63
fixed assets - impairment - liquidation	1,663	- 434
interest received	-	- 18
Total	**1,663**	**- 389**

SUPPLEMENTARY INFORMATION

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 1H21

1. GENERAL INFORMATION

1.1. Name, registered office, business activity

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

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

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

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

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

The Company's key corporate milestones

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

The lifespan of the Issuer is indefinite.

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

As at the end of 1H21 VRG S.A. Capital Group consisted of the following entities:

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

   The company specialises is design, manufacturing and retail sales of brand luxury products such as jewellery, watches and accessories.
   Share in equity: 100.0%. Share in votes at the General Shareholder Meeting: 100.0%
3. **DCG S.A.** based in Warsaw, Bystrzycka 81a St., post code 04-907. The company was registered in the District Court for Warsaw, the XXI Commercial Division of the National Court Register (KRS) under number KRS 0000285675.

   The company specialises in retail sale of clothing.
   Share in equity: 100.0%. Share in votes at the General Shareholder Meeting: 100.0%
4. **Wólczanka Shirts Manufacturing Sp. z o.o**. based in Cracow, Pilotów 10 St., post code: 31-462. The company was registered in the District Court for Cracow Śródmieście, XI Commercial Division of the National Court Register (KRS) under number KRS 0000538836.

   The company specialises in confectioning of clothing at the request of the parent company, in particular including shirts branded Wólczanka, Lambert, Vistula and Lantier. The company also conducts confectioning of women's shirts and blouses under export contracts concluded by VRG S.A.
   Share in equity: 100.0%. Share in votes at the General Shareholder Meeting: 100.0%
5. **VG Property Sp. z o.o.** based in Cracow, Pilotów 10 St., post code: 31-462. The company was registered in the District Court for Cracow Śródmieście, XI Commercial Division of the National Court Register (KRS) under number KRS 0000505973.

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

The consolidated financial statements for 1H21 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 the structure of the Capital Group in 1H21:

There were no changes in VRG S.A. Capital Group structures in 1H21.

1.3. Composition of the Management and Supervisory Boards

Management Board

As at June 30, 2021, the composition of the Management Board of VRG S.A. was the following:

Management Board	**Andrzej Jaworski** President of the Management Board	**Radosław Jakociuk** Executive Vice-President of the Management Board	**Michał Zimnicki** Executive Vice-President of the Management Board	**Olga Lipińska-Długosz** Management Board Member

In the first half of 2021, the following changes were made to the composition of the parent company's Management Board:

- on January 11, 2021, Mr. Erwin Bakalarz resigned from the position of a Member of the Company's Management Board, effective January 11, 2021.

- On January 11, 2021, the Supervisory Board of the parent company appointed two members to the Management Board of the Company for the current joint term of office. In accordance with the adopted resolutions of the Supervisory Board, the following were appointed to the Management Board of the Company:

Mr. Ernest Podgórski, PhD for the position of the Member of the Management Board responsible for IT and e-commerce;

Mrs Olga Lipińska-Długosz, PhD for the position of a Member of the Management Board.

- on May 19, 2021, Mr Ernest Podgórski, PhD resigned from the position of a Member of the Management Board of the Company, effective on the date of the Ordinary General Meeting of VRG S.A. approving the Company's financial statements for 2020. Therefore, the resignation of Mr Ernest Podgórski, PhD took effect with effect on the date of the Ordinary General Meeting of VRG S.A. on June 28, 2021 In the period from the balance sheet date, i.e. June 30, 2021 to the date of signing this report, the following changes were made to the composition of the Management Board of the parent company:
- on July 22, 2021, Dr. Olga Lipińska-Długosz resigned from the position of a Member of the Management Board of the Company, effective August 31, 2021.

Supervisory Board

Na dzień 30 czerwca 2021 roku skład Rady Nadzorczej VRG S.A. był następujący:

Supervisory Board	**Mateusz Kolański** Chair of the Supervisory Board	**Jan Pilch** Deputy-Chair of the Supervisory Board	**Piotr Kaczmarek** Member of the Supervisory Board	
	Marcin Gomoła Member of the Supervisory Board	**Piotr Stępniak** Member of the Supervisory Board	**Wacław Szary** Member of the Supervisory Board	**Andrzej Szumański** Member of the Supervisory Board

In the period from January 1, 2021 to June 30, 2021, the following changes were made to the composition of the Supervisory Board:

- on January 11, 2021, Mr. Ernest Podgórski resigned from the position of a Member of the Supervisory Board of the Company with effect on January 11, 2021.
- on January 19, 2021, the Supervisory Board of Company adopted a resolution to supplement the composition of the Supervisory Board by co-option provided for in paragraph 22 sec. 3 of the Company's Articles of Association. The Supervisory Board appointed Mr. Mateusz Kolański to the Supervisory Board of the parent company of the current joint term of office. Mr. Mateusz Kolański was appointed Vice-Chair of the Supervisory Board with effect from February 17, 2021. Extraordinary General Meeting of the parent company on March 17, 2021, acting pursuant to paragraph 22 sec. 3 of the Company's Articles of Association, approved the above-mentioned co-option of Mr. Mateusz Kolański to the Supervisory Board of the Company, in connection with the resignation submitted by Mr Ernest Podgórski, PhD.
- On June 28, the Annual General Meeting of the Company adopted resolutions according to which the following were appointed to the composition of the 7-person Supervisory Board of the parent company for a new term in office:
  1. Prof. Andrzej Szumański
  2. Mr Piotr Kaczmarek
  3. Mr Piotr Stępniak

4. Mr Mateusz Kolański
5. Mr Jan Pilch
6. Mr Wacław Szary
7. Mr Marcin Gomoła.

At the meeting on July 13, 2021, the Supervisory Board of the new term of office in the above composition, appointed Mr. Mateusz Kolański to the position of Chairman of the Supervisory Board and appointed Mr. Jan Pilch to the position of Deputy Chairman of the Supervisory Board.

In the period from the balance sheet date, i.e. June 30, 2021 to the date of signing this report, the above composition of the parent company's Supervisory Board did not change.

1.4. Approval of the financial statements

These consolidated financial statements have been approved for publication and signed by the Management Board of the Parent Company on August 25, 2021.

1.5. Going concern

Interim condensed consolidated financial statements of the VRG S.A. Capital Group (hereinafter also referred to as the "Capital Group" or "VRG Group") has been prepared on the assumption that the Group companies will continue as a going concern in an unchanged form and scope for a period of at least 12 months from the date on which the financial statements were prepared, i.e. June 30, 2021 year. In the opinion of the Management Board of the Company, as at the date of approval of these interim consolidated financial statements, there are no circumstances or circumstances that would indicate a threat to the continued operations of the Group companies in the foreseeable future.

From 2020, the Management Board of the parent company took steps to limit the impact of the epidemic on the financial situation of the companies within the Group. In 2021, which, like 2020, was burdened with closings of shopping centers, measures were taken to secure the Group's liquidity situation: an annex was signed to the agreement with the bank financing the parent company, ING Bank Śląski for the next two years, and the value of orders for the year 2021. The Group also applied for a subsidy to the costs of remuneration, which was granted in the amount of PLN 4.5 million (in total for all companies of the Capital Group). In addition, the Group also applied for an exemption from paying social security contributions for November 2020 and January 2021 (a subsidiary of DCG S.A.) and April 2021 (W.Kruk S.A.), the exemption was granted in the total amount of PLN 3.4 million in the second quarter of 2021. In the opinion of the Management Board of the parent company, there is no risk of a threat to the going concern status.

The Management Board of the parent company underlines that the financial indebtedness of the Capital Group is at a safe level and decreased from PLN 79.3 million (under the previously applicable IAS 17 standard) at the end of 2Q20 to PLN 74.2 million at the end of 2Q21.

2. ZASADY SPORZĄDZENIA SPRAWOZDANIA FINANSOWEGO

These separate and consolidated condensed interim financial statements of VRG S.A. for the first half of 2021 have been prepared in accordance with IAS 34 Interim Financial Reporting and other applicable IAS/IFRS, and in the scope not regulated by the above standards in accordance with the requirements of the Accounting Act of September 29, 1994 (Official Journal of Laws of 2019, item 351, as amended) and the executive regulations issued on its basis and present the financial situation of VRG SA as at June 30, 2021, December 31, 2020 and June 30, 2020, the results of its operations for the 6 and 3 months ended June 30, 2021 and June 30, 2020 and cash flows for the 6-month period ended June 30, 2021 and June 30, 2020.

Moreover, the basis for preparation of these interim consolidated financial statements is the Ordinance of Minister of Finance from March 29, 2018 on current and periodical reports provided by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Official Journal of Laws of 2018, item 757).

These separate and consolidated condensed interim financial statements have been prepared on the basis of the fair value concept, except for the items:

- tangible fixed assets, investment property and intangible assets, valued at purchase prices or costs incurred for their creation, taking into account possible depreciation and impairment write-offs,
- inventories valued at purchase prices or costs incurred for their creation, taking into account possible write-offs,
- liabilities due to loans, borrowings and financial leases carried at amortized cost.

The interim condensed consolidated financial statements for the first half of 2021 have been prepared in Polish zlotys rounded to full thousands (PLN thousand).

The consolidated financial statements are presented for the period from January 1, 2021 to June 30, 2021 and as of June 30, 2021. The fiscal year is the calendar year. Comparable financial data are presented for the period from January 1, 2020 to June 30, 2020, as of June 30, 2020 and December 31, 2020.

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

The presented financial data of the Parent Company as at June 30, 2021 and for the six-month period ended with that date, were reviewed by an auditor. The independent auditor's report on the audit of the annual consolidated financial statements is attached to this report. Comparable financial data as at June 30, 2020 contained in these financial statements were reviewed for the purpose of 1H20 report.

The entity authorized to review the financial statements in the scope of the separate and consolidated financial statements of the Parent Company for the first half of 2021 was Grant Thornton Polska limited partnership, with which July 26, 2021 an agreement to review consolidated interim financial statements and the audit of separate and consolidated annual financial statements was signed. The entity authorized to review the financial statements in the scope of the separate and consolidated financial statements of the Parent Company for the first half of 2020 was Mazars Audyt Sp. z oo, with which an agreement was concluded on June 19, 2017, amended by Annex No. 1 of June 19, 2018 and Annex No. 2 of August 7, 2019 for the review of individual and consolidated interim financial statements and the audit of separate and consolidated annual financial statements.

The consolidated condensed interim financial statements for the first half of 2021 and the comparable data for the previous year include data on the parent company and its subsidiaries as entities drawing up separate statements. The enterprise of the Company and the subsidiaries covered by consolidation does not include organizational units that prepare separate financial statements.

The preparation of the financial statements in accordance with IFRS requires the Management Board of the parent company to make estimates, assessments and adopt assumptions that affect the applied accounting principles 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 as well as based on other factors considered appropriate in the given circumstances. The results of these activities form the basis for making estimates of the carrying amounts of assets and liabilities that cannot be unequivocally determined on the basis of other sources. The validity of the above estimates and assumptions is verified on an ongoing basis.

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

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

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

The consolidated financial statements are prepared for 1H21, i.e. period during which no merger of entities took place.

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

Based on the provisions of IAS 8 "Accounting principles, changes in estimates and correcting errors", the Group in 1H21 statements retrospectively restated data for earlier periods (adjustment of comparable data from previous years). Data transformation was made retrospectively due to a change in data presentation in the statement of financial position. Therefore, in the report for the first half of 2021, the Company corrects the comparable data for the first half of 2020 and for 2020. The impact of the adjustments on individual items in the statement of financial position for the first half of 2020 and the year 2020 is presented in Note 29 to these interim condensed financial statements.

Standards and interpretations that have been published and approved by the EU and entered into force from or after January 1, 2021

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 related to the IBOR reform. In response to the expected reform of the reference rates (IBOR reform), the International Accounting Standards Board published the second part of the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. The amendments relate to accounting issues that appear when financial instruments based on IBOR switch to new interest rates. The changes introduce a number of guidelines and exemptions, in particular, practical simplification in the case of modification of contracts required by the reform, which will be accounted for by updating the effective interest rate, exemption from the obligation to terminate hedge accounting, temporary exemption from the need to identify the risk component, and also the obligation to post additional disclosures. Effective date - an annual period beginning on January 1, 2021 or after that date.

- Amendments to IFRS 4 "Insurance Contracts" - the main changes include: delay of the first application of IFRS 17 by two years for annual reporting periods beginning on or after January 1, 2023, extension of the temporary exemption from IFRS 9 application by two years. As a result, qualifying entities will be required to apply IFRS 9 for annual reporting periods beginning on or after 1 January 2023.

In the Group's opinion, the above-mentioned standards, interpretations and amendments to the standards did not have a significant impact on the financial statements in the period of their first application.

New standards, interpretations and amendments to published standards that have been published by the International Accounting Standards Board (IASB) but are not yet effective

- IFRS 17 "Insurance Contracts" - effective date - an annual period beginning on or after January 1, 2023.
- Amendments to IAS 1 "Presentation of Financial Statements" - effective date - the annual period beginning on or after January 1, 2023.
- Amendments to IFRS 3 "Business Combinations" - effective date - annual period beginning on or after January 1, 2022.
- Amendments to IAS 16 "Property, plant and equipment" - effective date - annual period beginning on or after January 1, 2022.
- Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" - effective date - annual period beginning on or after January 1, 2022.
- Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - effective date - annual period beginning on or after January 1, 2023.
- Annual amendment program 2018-2020 - the amendments clarify the guidelines for standards for recognition and measurement: IFRS 1 "first-time application of International Financial Reporting Standards", IFRS 9 "Financial Instruments", IAS 41 "Agriculture" , and to the illustrative examples to IFRS 16 "Leases" - effective date - annual period beginning on or after January 1, 2022.

The Group is currently analyzing the impact of the above-mentioned standards, interpretations and amendments to the standards. According to the Group's current estimates, they will not have a significant impact on the consolidated financial statements in the period of their first application.

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.

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

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

Consolidation exclusions

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

3.2. Transactions in foreign currencies

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

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

Foreign 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. Foreign exchange differences arising on borrowing costs are recognized in the value of assets if the borrowing costs on which they arise are also capitalized.

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 relating to exchange rate differences are recognized directly in equity.

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

3.3. Financial instruments

Classification of financial instruments

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

Financial instruments are classified into the following categories:

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

Financial assets measured at amortized cost

The Group for measurement at amortized cost classifies loans granted, trade receivables and other receivables falling under the scope of IFRS 9. Interest income from investments in debt instruments is recognized by the Group in the financial result. As at the moment of selling the investment in debt instruments, the Group recognizes the accumulated gains / losses on measurement in the financial result.

Loans and trade receivables and other receivables are measured at amortized cost using the effective interest rate. Loans and long-term receivables are discounted as at the balance sheet date. Receivables with a maturity period not exceeding 12 months from the balance sheet date are classified as current assets and are measured at their nominal value less expected credit losses.
Financial assets measured at amortized cost are measured taking into account expected credit losses.

Financial assets at fair value through profit or loss

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

Financial assets measured at fair value through other comprehensive income

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

Financial liabilities measured at amortized cost

The Group classifies for amortized cost measurement loans received, loans taken, liabilities due to debt securities, trade liabilities (for deliveries and services) and other liabilities subject to IFRS 9. Interest expenses are recognized by the company in profit or loss.

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

Impairment of financial assets

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

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

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

Fair value of derivatives and other financial instruments

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

3.4. Non-current assets available for sale

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

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

3.5. Investment property

The property valuation is carried out according to the principles described in point 3.6.

3.6. Fixed assets

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

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

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

Buildings and structures	Machines and devices	Other fixed assets
2.5%	**10-14%**	**20%**
40 years	8.5 years	5 years

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

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

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

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

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

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

3.7. Goodwill

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

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

The goodwill recognized in the financial statements regarding the acquisition of an enterprise is subject to impairment tests carried out as at the balance sheet date.

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

3.8. Other intangible assets

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

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

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

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

3.9. Shares and stakes in controlled entities

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

3.10. Impairment of non-financial assets

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

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

The amount of revaluation write-offs is determined as the surplus of the carrying amount of these components over their recoverable amount. The recoverable amount is the higher of the following: net realisable value or value in use.
Non-financial assets (except goodwill) from which previously write-offs were made are tested for each balance sheet day in view of the existence of premises indicating the possibility of reversal of a previously made impairment. The effects of the reversal of write-offs are recognized in the profit or loss account, except for amounts previously reducing the revaluation reserve, which adjust this capital to the amount of its decreases.

3.11. Inventory

Inventories include raw materials, materials, work in progress, finished goods and trade goods.
The costs incurred to bring each of the components of the inventory to its current location are valued as follows:

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

Determination of value of sold inventories is accounted as follows:

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

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

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

3.12. Trade and other receivables

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

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

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

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

3.13. Cash and cash equivalents

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

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

3.14. Equity

Share capital	The share capital is shown in the amount specified in the Articles of Association and registered by the court.
Capital reserves	The value presented in the Capital reserves consists of: ▪ share premium from issuance of shares at a price that exceeds their nominal value, reduced by issue costs, ▪ amounts of profits from previous years, classified on the basis of decisions of the General Shareholders Meetings.
Revaluation reserve	The revaluation reserve was created from the surplus achieved with the revaluation of tangible fixed assets as at 1 January 1995.
Other reserves	Other reserves capital is created from the valuation of stock option plan in proportion to the duration of the program.
Retained earnings	This item presents the net financial result of the previous financial years until the decision on its distribution (or other usage) has been made, as well as the adjustment of the financial result from previous years, resulting from errors in previous years or changes in accounting principles.
Capital management	The Group's capital management is aimed at maintaining the ability to continue operations, with consideration of planned investments, so that the Capital Group could generate returns and economic benefits for shareholders/investors in the future. The use of capital is monitored on an ongoing basis by analysing indicators and comparing the situation of the Capital Group against the industry in which the Capital Group operates. The Capital Group does not have externally imposed capital restrictions. In relation to the previous reporting period there were no changes in terms of rules and processes for capital management.

3.15. Liabilities

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

Financial liabilities subject to IFRS 9 (including liabilities due to credits, loans, see also for supplies and services) and included in the measurement at amortized cost are initially recognized at fair value, taking into account any possible transaction costs. As at the reporting date, such liabilities are measured at amortized cost.

Financial liabilities classified according to IFRS 9 as measured at fair value through profit or loss (including derivative instruments) are initially recognized at fair value, and as at the reporting date, they are revalued to fair value.

3.16. Provisions

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

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

Adequacy of provisions is assessed at each balance sheet date.

3.17. Leases

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

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

The right-of-use assets are depreciated using the straight-line method from the start date to the end of the useful life of the right-of-use asset or until the end of the lease, whichever is earlier. The rights to use are tested for impairment in accordance with IAS 36, if there are any reasons for impairment.

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

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

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

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

The revaluation of the liability is recognized as an adjustment to the right-of-use assets.

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

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

3.18. Revenues

Operating revenues

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

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

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

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

In order to determine the transaction price, the Group takes into account the terms of the contract and its usual commercial practices.
he Group recognizes revenues in accordance with IFRS 15, i.e. when the obligation to perform the service is met by transferring the promised good or service to the customer. An asset is transferred when the customer gains control over that asset.

Other revenues, including financial income

Interest

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

Dividends

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

Rental income

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

3.19. Costs

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

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

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

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.

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 shown in the profit and loss account includes current and deferred income tax.

Current income tax is the expected tax liability due to taxable income for a given year, calculated using the tax rates applicable on 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 and loss account for a given period, except for items settled directly with equity. In such a situation, the deferred tax is also recognized in the appropriate item in equity. Deferred income tax is determined using the balance sheet method, based on temporary differences between the income tax disclosed in the profit and loss account includes current and deferred income tax.

Current income tax is the expected tax liability due to taxable income for a given year, calculated using the tax rates applicable on 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 and loss account for a given period, except for items settled directly with equity. In such a situation, the deferred tax is also recognized in the appropriate item 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 value for tax purposes. The amount of the disclosed deferred income tax takes into account the planned method of realizing the temporary differences, using the income tax rates that will be in force at the moment of realizing the differences, based on the tax rates that were legally binding or were generally enacted as at the balance sheet date.

Deferred tax assets are determined in the amount to be deducted from income tax in the future, due to negative temporary differences, which will reduce the tax base in the future. The carrying amount of a deferred tax asset is verified at each balance sheet date and is subject to a write-off when there is doubt that the Company will achieve economic benefits related to the use of deferred income tax assets.

Provision for deferred income tax is created from positive temporary differences between the tax value of assets and liabilities and their balance sheet value in the financial statements.

3.21. Share based payments (stock options)

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

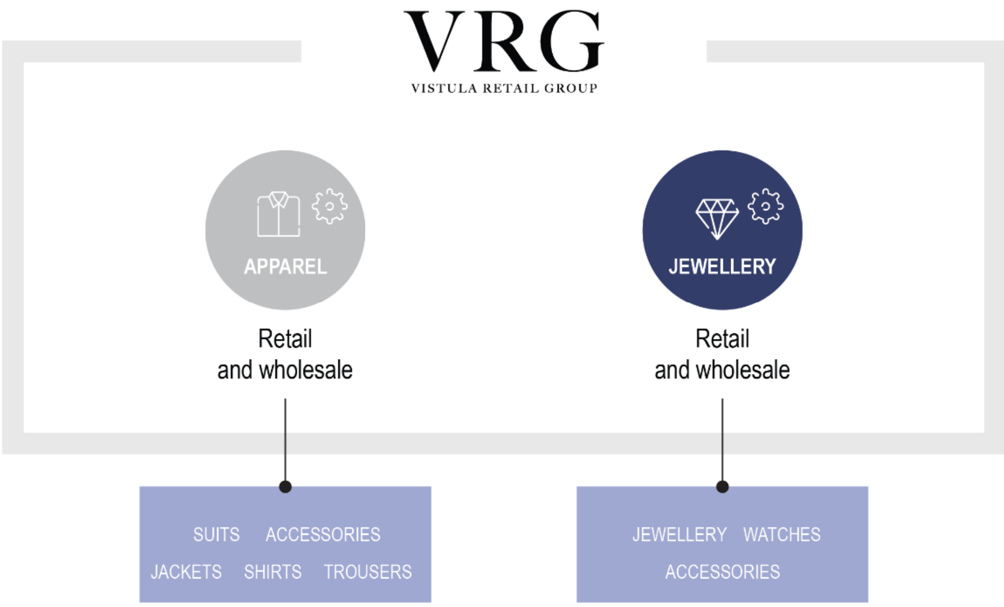
The cost of transactions settled in equity instruments is recognized along with the corresponding increase in the equity in the period to which the vesting conditions regarding the effectiveness of results refer, ending on the day when Management Board members and key managers acquire full entitlement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

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

3.22. Operating segments

The VRG Group specialises in design and retail sales of branded clothing for men and women in the medium segment and up-market as well as luxury jewellery and watches. Currently, it is building its revenue base on following brands: Vistula, Lantier, Vistula Red, Wólczanka, Lambert, Bytom, W.KRUK (via a subsidiary) and Deni Cler (via a subsidiary). From the second quarter of 2015, following a divesture of an organised business unit related to W.KRUK brand, the jewellery activities are carried out by Issuer's a subsidiary, i.e. W.KRUK S.A. based in Cracow. From November 30, 2018, the Group also possesses the Bytom brand.

The diagram below shows the division of the Group's operations by business segments:



Leading brands of the Vistula business line:

Vistula	VISTULA	Operating on the Polish market since 1967, Vistula is the basic line of men formalwear. The brand offers a wide range of suits, jackets, trousers, shirts and other complementary accessories.

	VISTULA Lantier	The brand was launched in 1998. Its signature products are associated with apparel of French origins. Introduction of the Lantier brand was aimed at broadening the Company's offer to include products aimed at the most demanding customers, using the latest global fashion trends and the highest quality fabrics. Apart from classic suits, Lantier collections, similarly to Vistula brand collections, also include knitwear, shirts, jackets, coats and a wide range of complementary items.
	VISTULA RED	A brand introduced in 2009, which offers fashionable and smart casual products. The Vistula Red branded products are characterized by high quality and design consistent with global fashion trends. The brand is addressed at younger customers looking for bolder and more casual outfits.

Leading brands of the Bytom business line:

Bytom	BYTOM	BYTOM is a Polish brand with a history dating back to 1945, in which tradition meets the modern vision of tailoring and men's fashion. Basing on a dozen of years long heritage, the brand offers men formalwear with a flagship product in the form of suits, made from finest Italian fabrics in Polish sewing facilities. BYTOM is not just the art of tailoring. The brand refers to the Polish cultural heritage by creating limited collections inspired by the work of outstanding personalities, inviting people with a significant influence on the development of Polish culture and art.

Leading brands of the Wólczanka business line:

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

Other own brands in the apparel segment:

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

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

Own brands in jewellery segment:

Jewellery segment	W.KRUK 1840	W.KRUK is the oldest jewellery brand in Poland with over 180 years of tradition. W.KRUK's offer includes gold and platinum jewellery, in particular jewellery with diamonds and precious stones. W.KRUK also creates the highest quality collections made of silver and other precious metals. W.KRUK offers many original jewellery lines with a unique character. The distinctive style of W.KRUK products is the result of the work of designers, projects inspired by ambassadors (including the Freedom collection by Martyna Wojciechowska) and an expert and innovative approach to jewellery. A significant part of the collections presented every year is made in the Manufaktura of the brand near Poznań, which is one of the few in Europe that still uses traditional manufacturing techniques. In the studios of the W.KRUK brand, handicraft is combined with the latest technologies. In 2019, the W.KRUK brand was the first in Poland to introduce a new category of man-made diamonds in laboratory conditions to the offer in its chain of stores under the name New Diamond by W.KRUK. They have parameters identical to diamonds mined with traditional methods and are classified according to the same parameters, using the same standards of expert assessment. The collection decorated with New Diamond by W.KRUK includes rings called Perfect®, earrings and pendants with man-made diamonds in the colors: white and, for the first time on the Polish market, pink and blue. Since 2016, the brand's range has been complemented by a selection of W.KRUK-branded accessories, such as leather bags and accessories, silk scarves, sunglasses and fragrances for women and men.
	WATCHES	W.KRUK offers watches of luxury Swiss brands like Rolex (as the only distributor of this brand in Poland), Cartier, Jaeger-LeCoultre, Hublot, Panerai, Chopard, Breitling, Girard-Perregaux, Omega, Tudor, Tag Heuer, Longines, Rado, Frédérique Constant, Tissot, Certina, Doxa, Gucci, Swatch and many others. At the end of 2020, Patek Philippe considered the most prestigious worldwide, was included into the offer. Watches of renowned brands sold in W.KRUK stores occupy a strong position on the Polish market, and their sales value is systematically increasing.

Manufacturing operations

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

Seasonality and cyclicality of operations

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

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

3.23. Exchange rates used to value assets and liabilities

Individual items of assets and liabilities were converted into EUR at the average exchange rate as of June 30, 2021 announced by the National Bank of Poland, which was 4.5208 PLN/EUR. Individual items of the profit and loss account were converted into EUR at the exchange rate of PLN 4.5487/EUR, which is the arithmetic mean of average EUR exchange rates set by the National Bank of Poland on the last day of each completed month covered by the report. To calculate the average exchange rate, the following EUR exchange rates were adopted as of: 29.01.21 - 4.5385 PLN/EUR, 26.02.21 - 4.5175 PLN/EUR, 31.03.21 - 4.6603 PLN/EUR, 30.04.21 – 4.5654 PLN/EUR, 31.05.21 - 4.4805 PLN/EUR, 30.06.21 - 4.5208 PLN/EUR.

Comparable data for individual assets and liabilities were converted into EUR at the average exchange rate announced by the National Bank of Poland, applicable on the last day of the reporting periods, i.e. on 31.12.2020, which amounted to 4.6148 PLN/EUR and on 30.06.2020, which was 4.4660 PLN/EURO. Comparable data for individual items of the profit and loss account have been converted into EUR at the rates constituting the arithmetic mean of the average EUR rates set by the National Bank of Poland on the last day of each completed month of the comparative period, i.e. from 01/01/2020 to 30/06/2020, which amounted to 4.4413 PLN/EURO.

4. SUPPLEMENTARY NOTES TO FINANCIAL STATEMENTS

Note 1 Revenues

Analysis of the Group's revenues	PLN ths			
	1H21 from January 1, 2021 to June 30, 2021	1H20 from January 1, 2020 to June 30, 2020	2Q21 from April 1, 2021 to June 30, 2021	2Q20 from April 1, 2020 to June 30, 2020
Revenues from the sale of products, goods and materials	416,062	372,271	244,005	174,837
Revenue from property lease	52	71	8	36
Revenue from lease of other fixed assets	**416,114**	**372,342**	**244,013**	**174,873**
Total revenue	18	-	35	-
Result on the sale of fixed assets	9,315	9,227	9,108	8,650
incl. COVID-19 State subsidies and Social Security charges reductions	*7,869*	*7,830*	*7,642*	*7,830*
Financial income	8,823	1,950	13,506	10,090
Total	**434,270**	**383,519**	**266,662**	**193,613**

The main item in other operating income is the Group's co-financing from the Guaranteed Employee Benefits Fund in connection with COVID-19 for the period of 3 months in the amount of PLN 4,503 thousand and exemption from paying social security contributions for November 2020 and January and April 2021 in the total amount of PLN 3,366 thousand zloty.

Due to the nature of the main type of activity conducted by the Group (retail trade), there is no concentration of sales to customers whose share in the total value of sales revenues would exceed 10%.

Note 2 Segments by type of activity and geographical breakdown

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

Key business segments:

- Retail and wholesale sale of clothing
- Retail and wholesale sale of jewellery and watches

Information about business segments is presented below:

1H21 from January 1, 2021 to June 30, 2021	PLN ths		
	Apparel segment	Jewellery segment	Total
External sales	226,442	189,672	416,114
Gross profit on sales	**116,573**	**96,254**	**212,827**
Segmental operating costs	134,112	71,739	205,851
of which depreciation	*33,357*	*19,981*	*53,338*
Other operating income and costs	- 6,954	873	- 6,081
Financial income and costs	2,287	1,029	3,316

Income tax	- 3,821	5,184	1,363
Net profit	**- 18,385**	**21,233**	**2,848**

1H20 from January 1, 2020 to June 30, 2020	PLN ths		
	Apparel segment	Jewellery segment	Total
External sales	237,292	135,050	372,342
Gross profit on sales	**108,944**	**67,099**	**176,043**
Segmental operating costs	124,483	63,718	188,201
of which depreciation	*37,810*	*20,291*	*58,101*
Other operating income and costs	- 12,644	2,514	- 10,130
Financial income and costs	- 9,909	- 6,191	- 16,100
Income tax	-,6,898	285	- 6,613
Net profit	**- 31,194**	**- 581**	**- 31,775**

2Q21 from April 1, 2021 to June 30, 2021	PLN ths		
	Apparel segment	Jewellery segment	Total
External sales	140,385	103,628	244,013
Gross profit on sales	**78,121**	**53,023**	**131,144**
Segmental operating costs	72,555	37,176	109,731
of which depreciation	*16,754*	*10,041*	*26,795*
Other operating income and costs	- 5,664	966	- 4,698
Financial income and costs	6,849	3,209	10,058
Income tax	541	3,280	3,821
Net profit	**6,210**	**16,742**	**22,952**

2Q20 from April 1, 2020 to June 30, 2020	PLN ths		
	Apparel segment	Jewellery segment	Total
External sales	113,996	60,877	174,873
Gross profit on sales	**52,132**	**29,947**	**82,079**
Segmental operating costs	55,519	27,133	82,652
of which depreciation	*18,700*	*10,188*	*28,888*
Other operating income and costs	- 12,184	2,383	- 9,801
Financial income and costs	3,890	3,193	7,083
Income tax	- 4,030	559	- 3,471
Net profit	**- 7,651**	**7,831**	**180**

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

- for the apparel segment, PLN 532 ths for 1H21 (PLN 828 ths for 1H20),
- for the jewellery segment, PLN 405 ths for 1H21 (PLN 943 ths for1H20).

In 1H21, financial income and expenses also include interest and exchange rate differences (surplus of negative to positive ones) related to store and office lease agreements, which were:

- for the apparel segment, interest amounted to PLN 1,669 ths (PLN 1,216 ths in 1H20) and exchange rate differences (surplus of positive over negative) amounted to PLN 4,567 ths (surplus of negative over positive of PLN 6,677 ths in 1H20),
- for the jewellery segment, interest amounted to PLN 1,084 ths (PLN 805 ths in 1H20) and exchange rate differences (surplus of positive over negative) amounted to PLN 2,991 ths (surplus of negative over positive of PLN 6,677 ths in 1H20).

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

Geographical segments of activity:

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

Sales revenues in various markets in terms of geographical location	PLN ths			
	1H21 from January 1, 2021 to June 30, 2021	1H20 from January 1, 2020 to June 30, 2020	2Q21 from April 1, 2021 to June 30, 2021	2Q20 from April 1, 2020 to June 30, 2020
Poland	408,088	366,611	240,033	171,754
EURO area	7,859	5,679	3,700	3,095
USD area	19	52	-	24
GBP area	148	-	-	-
Other	**416,114**	**372,342**	**244,013**	**174,873**

Segmental assets and liabilities as at June 30, 2021 are as follows:

1H21	PLN ths		
	Apparel segment	Jewellery segment	Total
Assets	747,502	686,041	1,433,543
Liabilities	353,472	253,869	607,341

Segmental assets and liabilities as at June 30, 2020 are as follows:

1H20	PLN ths		
	Apparel segment	Jewellery segment	Total
Assets	796,257	649,736	1,445,993
Liabilities	354,676	259,743	614,419

Note 3 Operating expenses and other operating costs

	PLN ths			
	1H21 from January 1, 2021 to June 30, 2021	1H20 from January 1, 2020 to June 30, 2020	2Q21 from April 1, 2021 to June 30, 2021	2Q20 from April 1, 2020 to June 30, 2020
Depreciation	53,338	58,101	26,795	28,888
Materials and energy	32,024	31,214	16,184	7,584

Costs of goods sold	191,553	184,453	106,985	88,103
Change in products and work in progress	- 37,786	- 37,412	- 14,320	- 4,599
Inventory write-offs	9,435	14,075	9,418	13,952
Remuneration and employee benefits	68,444	62,168	35,663	25,664
Other costs by type	20,539	18,238	10,623	6,214
Third party costs	81,026	67,738	40,670	23,592
Other operating costs	5,979	5,282	4,423	4,499
Total costs of products sold, goods and materials, distribution, general and administrative expenses and other operating costs	**424,552**	**403,857**	**236,441**	**193,897**

Note 4 Remuneration and employee benefits

Remuneration broken into salaries, insurance and other:	PLN ths			
	1H21 from January 1, 2021 to June 30, 2021	1H20 from January 1, 2020 to June 30, 2020	2Q21 from April 1, 2021 to June 30, 2021	2Q20 from April 1, 2020 to June 30, 2020
Total remuneration, including:	**68,444**	**62,168**	**35,663**	**25,664**
Salaries	57,244	51,766	30,063	21,676
Social security and other benefits	11,200	10,402	5,600	3,988

Note 5 Financial income

	PLN ths			
	1H21 from January 1, 2021 to June 30, 2021	1H20 from January 1, 2020 to June 30, 2020	2Q21 from April 1, 2021 to June 30, 2021	2Q20 from April 1, 2020 to June 30, 2020
Interest on bank deposits and loans granted	-	19	-	-
Dividends received	8,796	-	13,482	8,312
FX gains	*7,558*	-	*10,779*	*6,095*
incl: leases for store and office floorspace	-	1,722	-	1,722
Valuation of loans at amortized cost	-	90	-	-
Derivatives valuation	27	119	24	56
Gain on sale of subsidiary	**8,823**	**1,950**	**13,506**	**10,090**

Note 6 Financial costs

	PLN ths			
	1H21 from January 1, 2021 to June 30, 2021	1H20 from January 1, 2020 to June 30, 2020	2Q21 from April 1, 2021 to June 30, 2021	2Q20 from April 1, 2020 to June 30, 2020
Interest on overdrafts and bank loans	779	1,592	416	692
Factoring interest	122	96	56	85
Interest on other than finance lease liabilities	36	83	16	36
Interest on leases for store and office floorspace	2,753	2,021	1,317	1,086
Fees on loans and guarantees	1,194	642	721	213

FX losses	-	13,380	-	-
Incl. leases for store and office floorspace	-	*11,183*	-	-
Bank loan amortised cost valuation	445	-	445	-
Forwards valuation	32	-	389	678
Other	146	236	88	217
Total	**5,507**	**18,050**	**3,448**	**3,007**

Note 7 Income tax

	PLN ths			
	1H21 from January 1, 2021 to June 30, 2021	1H20 from January 1, 2020 to June 30, 2020	2Q21 from April 1, 2021 to June 30, 2021	2Q20 from April 1, 2020 to June 30, 2020
Current income tax				
Corporate income tax	**1,363**	**- 6,613**	**3,821**	**- 3,471**
Income tax in in other countries	-	-	-	-
Deferred income tax (note 17)	- 3,706	- 7,465	- 1,840	- 4,254
Current year	5,069	852	5,661	783

Reconciliation of tax base and pre-tax profit shown in the profit or loss statement	PLN ths			
	1H21 from January 1, 2021 to June 30, 2021	1H20 from January 1, 2020 to June 30, 2020	2Q21 from April 1, 2021 to June 30, 2021	2Q20 from April 1, 2020 to June 30, 2020
Profit before tax	4,211	- 38,388	26,773	- 3,291
According to the statutory rate 19% (since 2019: 19%)	800	- 7,294	5,087	- 625
Non-taxable income	- 25,803	- 7,005	- 15,559	- 6,266
Costs not constituting tax deductible costs	27,793	8,977	8,720	- 8,983
Usage of earlier not recognised tax loss	975	1,610	179	265
Tax loss carryforward	-	-	-	-
Tax base	7,176	- 34,806	20,113	- 18,270
Income tax charge	1,363	- 6,613	3,821	- 3,471
Effective tax rate	32.38%	17.23%	14.27%	105.48%

Note 8 Earnings per share

Continuing operations	w tys. zł.			
	1H21 from January 1, 2021 to June 30, 2021	1H20 from January 1, 2020 to June 30, 2020	2Q21 from April 1, 2021 to June 30, 2021	2Q20 from April 1, 2020 to June 30, 2020
Net profit attributable to the shareholders of the dominating entity	2,848	- 31,775	22,952	180
Profits from continuing operations for the purpose of calculating earnings per share after excluding discontinued operations	2,848	- 31,775	22,952	180
Weighted average number of ordinary shares	234,455,840	234,455,840	234,455,840	234,455,840
Diluted weighted average number of ordinary shares	241,505,840	241,505,840	241,505,840	241,505,840

Earnings per share

– basic	0.01	- 0.14	0.10	0.00
– diluted	0.01	- 0.13	0.10	0.00

Calculation of the weighted average number of shares	PLN ths	
	1H21 from January 1, 2021 to June 30, 2021	1H20 from January 1, 2020 to June 30, 2020
Number of shares as at 01.01.2021	234,455,840	234,455,840
Change during 1H21 (issuance)		
Number of shares as at 30.06.2021	234,455,840	234,455,840
Number of days with increased equity	-	-
Ratio (number of days with increased equity / number of days in the period)	-	-
Weighted average number of shares	234,455,840	234,455,840
Scale of potential dilution (ordinary shares)	7,050,000	7,050,000
Diluted weighted average number of ordinary shares	241,505,840	241,505,840

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

Note 9 Goodwill

	PLN ths
PURCHASE PRICE OR FAIR VALUE	
Balance at January 1, 2020	**302,748**
Adjustment: disclosure at the time of acquisition	-
Derecognition at the moment of disposal	-
Balance at June 30, 2020	**302,748**
Balance at January 1, 2020	**302,748**
Adjustment: acquisition of Bytom	-
Derecognition at the moment of disposal	-
Balance at December 31, 2020	**302,748**
Balance at January 1, 2021	**302,748**
Adjustment: disclosure at the time of acquisition	-
Derecognition at the moment of disposal	-
Balance at June 30, 2021, incl.:	302,748
Generated from acquisition of Wólczanka S.A.	60,697
Generated from acquisition of W. KRUK S.A.	181,893
Generated from acquisition of Bytom S.A	60,158
ACCUMULATED DEPRECIATION AND IMPAIRMENT	
Balance at January 1, 2020	**-**
Losses due to impairment in the current year	-
Derecognition at the moment of disposal	-
Balance at June 30, 2020	**-**

	PLN ths
Balance at January 1, 2020	**-**
Losses due to impairment in the current year	-
Derecognition at the moment of disposal	-
Balance at December 31, 2020	**-**
Balance at January 1, 2021	**-**
Losses due to impairment in the current year	-
Derecognition at the moment of disposal	-
Balance at June 30, 2021	**-**
WARTOŚĆ BILANSOWA	
At June 30, 2020	302,748
At December 31, 2020	302,748
At June 30, 2021	302,748

As at June 30, 2021, based on the assessment of indications of impairment in relation to intangible assets with an indefinite useful life, it was not necessary to conduct an impairment test for intangible assets with an indefinite useful life, including goodwill. In the period for which the interim financial statements were prepared, no revaluation write-offs were made for intangible assets, including goodwill.

The last impairment test for intangible assets with an indefinite useful life was carried out on December 31, 2020. The test did not show the need to make write-downs.

Note 10 Other intangible assets

	PLN ths			
	Costs of devel-opment works	Trademarks	Patents and licenses	Total
GROSS VALUE				
Balance at January 1, 2020	**1,219**	**194,116**	**24,851**	**220,186**
Consolidation adjustment	-	-	-	-
Additions	-	-	104	104
Decreases	-	-	-	-
Balance at June 30, 2020	**1,219**	**194,116**	**24,955**	**220,290**
Balance at January 1, 2020	**1,219**	**194,116**	**24,851**	**220,186**
Additions			168	168
Decreases				-
Balance at December 31, 2020	**1,219**	**194,116**	**25,019**	**220,354**
Balance at January 1, 2021	**1,219**	**194,116**	**25,019**	**220,354**
Consolidation adjustment	-	-	-	-
Additions	-	-	912	912
Decreases	-	-	- 955	- 955
Balance at June 30, 2021	**1,219**	**194,116**	**24,976**	**220,311**
AMORTISATION				

	PLN ths			
	Costs of development works	Trademarks	Patents and licenses	Total
Balance at January 1, 2020	**1,219**	**23**	**18,841**	**20,083**
Consolidation adjustment	-	-	-	-
Additions	-	-	445	445
Decreases	-	-	-	-
Balance at June 30, 2020	**1,219**	**23**	**19,286**	**20,528**
Balance at January 1, 2020	**1,219**	**23**	**18,841**	**20,083**
Amortization for the period			882	882
Disposal				-
Balance at December 31, 2020	**1,219**	**23**	**19,723**	**20,965**
Balance at January 1, 2021	**1,219**	**23**	**19,723**	**20,965**
Consolidation adjustment	-	-	-	-
Amortization for the period	-	-	459	459
Decreases	-	-	- 948	- 948
Balance at June 30, 2021	**1,219**	**23**	**19,234**	**20,476**
IMPAIRMENT				
Balance at January 1, 2020	**-**	**-**	**3,147**	**3,147**
Consolidation adjustment	-	-	-	-
Additions	-	-	-	-
Decreases	-	-	-	-
Balance at June 30, 2020	**-**	**-**	**3,147**	**3,147**
Balance at January 1, 2020	**-**	**-**	**3,147**	**3,147**
Consolidation adjustment	-	-	-	-
Additions	-	-	-	-
Decreases	-	-	-	-
Balance at December 31, 2020	**-**	**-**	**3,147**	**3,147**
Balance at January 1, 2021	**-**	**-**	**3,147**	**3,147**
Consolidation adjustment	-	-	-	-
Additions	-	-	-	-
Decreases	-	-	-	-
Balance at June 30, 2021	**-**	**-**	**3,147**	**3,147**
BOOK VALUE				
At June 30, 2020	-	194,093	2,522	196,615
At December 31, 2020	-	194,093	2,149	196,242
At June 30, 2021	-	194,093	2,595	196,688

Patents and licenses are amortised over their useful life, which is 5 years on average, trademarks are not subject to amortisation because they have an indefinite useful life. Amortization of other intangible assets was charged respectively to selling costs, general administrative expenses or the cost of sales in the statement of comprehensive income.

Write-offs were booked in other operating costs, and the reversed write-downs were booked other operating revenues.
Amortization of intangible assets was recognized in the cost of sales, general administrative expenses or cost of sales of the statement of comprehensive income, respectively.

Trademarks Wólczanka, W. KRUK, Bytom and Intermoda for the total value of PLN 194,093 ths are the subject of collateral under loan agreements shown in note 15.

As at June 30, 2021, based on the assessment of the indications of impairment of intangible assets with an indefinite useful life, it was not necessary to conduct an impairment test for intangible assets with an indefinite useful life, including trademarks. In the period for which the interim financial statements were prepared, no write-downs of intangible assets, including trademarks, were created.

The last impairment test for intangible assets with an indefinite useful life was carried out on December 31, 2020. The test did not show the need to make write-downs.

As at June 30, 2021, there were no contractual obligations regarding the purchase of intangible assets.

Note 11 Fixed assets

	PLN ths			
	Property and plant	Fixed assets under construction	Equipment and other fixed assets	Total
PURCHASE PRICE OR FAIR VALUE				
Balance at January 1, 2020	**118,985**	**3,600**	**118,252**	**240,837**
Consolidation adjustment	-	-	-	-
Additions	3,542	9,011	5,583	18,136
Disposal	- 3,971	- 9,778	- 5,329	- 19,078
Balance at June 30, 2020	**118,556**	**2,833**	**118,506**	**239,895**
Balance at January 1, 2020	**118,985**	**3,600**	**118,252**	**240,837**
Consolidation adjustment				
Additions	5,261	15,570	9,461	30,292
Disposal	- 6,826	- 15,886	- 7,985	- 30,697
Balance at December 31, 2020	**117,420**	**3,284**	**119,728**	**240,432**
Balance at January 1, 2021	**117,420**	**3,284**	**119,728**	**240,432**
Consolidation adjustment	-	-	-	-
Additions	941	5,434	3,000	9,375
Disposal	- 235	- 5,618	- 2,823	- 8,676
Balance at June 30, 2021, incl.:	**118,126**	**3,100**	**119,905**	**241,131**
– in COGS/COPS	118,126	3,100	119,905	241,131
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
Balance at January 1, 2020	**86,769**	**-**	**84,755**	**171,524**
Consolidation adjustment	-	-	-	-
Amortization for the period	4,400	-	6,003	10,403
Disposal	- 3,851	-	- 5,341	- 9,192
Balance at June 30, 2020	**87,318**	**-**	**85,417**	**172,735**
Balance at January 1, 2020	**86,769**	**-**	**84,755**	**171,524**

	PLN ths			
	Property and plant	Fixed assets under construction	Equipment and other fixed assets	Total
Depreciation for the period	8,676	-	11,844	20,520
Disposal	- 6,492	-	- 7,817	- 14,309
Balance at December 31, 2020	**88,953**	**-**	**88,782**	**177,735**
Balance at January 1, 2021	**88,953**	**-**	**88,782**	**177,735**
Consolidation adjustment	-	-	-	-
Depreciation for the period	3,928	-	5,510	9,438
Disposal	- 169	-	- 2,704	- 2,873
Balance at June 30, 2021	**92,712**	**-**	**91,588**	**184,300**
IMPAIRMENT				
Balance at January 1, 2020	**-**	**1,636**	**195**	**1,831**
Additions	-	-	-	-
Disposal	-	-	-	-
Balance at June 30, 2020	**-**	**1,636**	**195**	**1,831**
Balance at January 1, 2020	**-**	**1,636**	**195**	**1,831**
Additions	183	57		240
Disposal				
Balance at December 31, 2020	**183**	**1,693**	**195**	**2,071**
Balance at January 1, 2021	**183**	**1,693**	**195**	**2,071**
Additions	1,352	-	-	1,352
Disposal	-	-	- 13	- 13
Balance at June 30, 2021	**1,535**	**1,693**	**182**	**3,410**
BOOK VALUE				
At June 30, 2020	31,238	1,197	32,894	65,329
At December 31, 2020	28,284	1,591	30,751	60,626
At June 30, 2021	23,879	1,407	28,135	53,421

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

In 1H21, PLN 1,352 ths write-offs were created in other operating costs while PLN 13 ths of wrote-ups were booked in other operating income.

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

As at June 30, 2021, there were no contractual obligations regarding the purchase of fixed assets.

Note 11a Right-of-use assets

Right-of-use assets	PLN ths		
	Right-of-use assets to store and office floorspace	Other right-of-use assets	Total
GROSS VALUE			
Balance at January 1, 2020	**353,806**	**10,106**	**363,912**
Increases	88,836	367	89,203
Decreases	- 151	- 313	- 464

Right-of-use assets	PLN ths		
	Right-of-use assets to store and office floorspace	Other right-of-use assets	Total
Balance at June 30, 2020	**442,491**	**10,160**	**452,651**
Balance at January 1, 2020	**353,806**	**10,106**	**363,912**
Increases	136,174	633	136,807
Decreases	- 13,879	- 217	- 14,096
Balance at December 31, 2020	**476,101**	**10,522**	**486,623**
Balance at January 1, 2021	**476,101**	**10,522**	**486,623**
Increases	47,268	535	47,803
Decreases	- 14,850	- 503	- 15,353
Balance at June 30, 2021	**508,519**	**10,554**	**519,073**
AMORTYZACJA			
Balance at January 1, 2020	**87,401**	**5,965**	**93,366**
Increases	46,446	807	47,253
Decreases	-	- 97	- 97
Balance at June 30, 2020	**133,847**	**6,675**	**140,522**
Balance at January 1, 2020	**87,401**	**5,965**	**93,366**
Increases	87,382	1,561	88,943
Decreases	- 8,376	-	- 8,376
Balance at December 31, 2020	**166,407**	**7,526**	**173,933**
Balance at January 1, 2020	**166,407**	**7,526**	**173,933**
Increases	42,796	645	43,441
Decreases	- 5,024	- 436	- 5,460
Balance at June 30, 2020	**204,179**	**7,735**	**211,914**
BOOK VALUE			
At June 30, 2020	308,644	3,485	312,129
At December 31, 2020	309,694	2,996	312,690
At June 30, 2021	304,340	2,819	307,159

In connection with the situation related to COVID-19 that occurred again in the first half of 2021, companies from the VRG Capital Group started negotiating lease agreements for most of the rented store premises. Until the balance sheet date, the terms of the amendment were agreed, as a result of which the Group companies recalculated the impact on the right-of-use assets and lease liabilities in accordance with IFRS 16, which was reflected in the statement of financial position.

Note 12 Inventory

	PLN ths		
	30.06.2021	31.12.2020	30.06.2020
Materials (at purchase price)	27,885	25,751	26,373
Work in progress (at production cost)	10,603	7,048	2,663
Finished products (at production cost)	60,049	54,965	59,188
Trade goods (at purchase price)	443,998	435,851	418,627
Total inventory, at the lower of two values: purchase price (production cost) and net realizable value	**542,535**	**523,615**	**506,851**
Inventory write-offs	- 26,745	- 18,031	- 21,506
Total	**515,790**	**505,584**	**485,345**

Write-offs created in the amount of PLN 9,435 thousand were charged to other operating costs, while reversed write-offs in the amount of PLN 17 thousand were charged to cost of goods sold and in the amount of PLN 704 thousand were booked as lowering other operating costs due to liquidation of current assets. The reversal of inventories write-offs is related to sale of inventories that had been written-off or liquidated earlier.

In 2Q21 the Group created PLN 9.2m write-offs related to:
- PLN 5.3m to wholesale goods,
- PLN 3.5m for trade goods,
- PLN 0.4m for raw materials.

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

The value of inventory recognized as an expense during the period was PLN 196,743 thousand.

Note 13 Trade and other receivables

Trade and other receivables	PLN ths		
	30.06.2021	31.12.2020	30.06.2020
Trade receivables from third parties (gross)	**14,120**	**15,562**	**16,041**
minus: write-off of trade receivables from third parties	- 8,629	- 8,216	- 9,139
Trade receivables from third parties (net)	**5,491**	**7,346**	**6,902**
Trade receivables from related parties (gross)	**2,030**	**2,030**	**2,030**
minus: write-off of trade receivables from related parties	- 2,030	- 2,030	- 2,030
Trade receivables from related parties (net)	**-**	**-**	**-**
Receivables from taxes, subsidies, customs, social security and other benefits	729	1,294	1,535
Other receivables from third parties (gross)	**47,262**	**45,043**	**48,859**
minus: write-off of other trade receivables from third parties	- 42,859	- 42,840	- 42,693
Other receivables from third parties (net)	**4,403**	**2,203**	**6,166**
Other receivables from related parties (gross)	**4,300**	**4,300**	**4,300**
minus: write-off of other trade receivables from related parties	- 4,300	- 4,300	- 4,300
Other receivables from related parties (net)	**-**	**-**	**-**
Other current assets	3,121	2,489	2,591

Short-term receivables, total (gross)	**71,562**	**70,718**	**75,356**
minus: total receivables write-offs	- 57,818	- 57,386	- 58,162
Short-term receivables, total (net)	**13,744**	**13,332**	**17,194**

Payment terms for receivables range from 7-75 days. After the payment deadline expires, 8% interest is charged.

Change in short-term receivables write-offs	PLN ths		
	30.06.2021	31.12.2020	30.06.2020
Beginning of period values	**57,386**	**57,288**	**57,288**
a) additions (due to)	868	1,204	1,549
– consolidation adjustment – deconsolidation of a subsidiary	-	-	-
– write-offs creation	868	1,204	1,182
– foreign exchange rate differences	-	-	367
b) decreases (due to)	436	1,106	675
– receipt of payment	309	423	675
– receivables write-off	-	159	-
– cessation of the reason behind the write-off	-	-	-
– foreign exchange rate differences	127	524	-
Balance of short-term receivables and write-offs at the end of period	**57,818**	**57,386**	**58,162**

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

Short-term receivables gross (currency structure)	PLN ths		
	30.06.2021	31.12.2020	30.06.2020
a) PLN	56,886	58,148	55,584
b) in foreign currencies (by currency and after conversion into PLN)	14,676	12,570	16,772
b1. in EURO thousands	2,012	1,845	2,286
PLN thousands	9,100	8,518	10,163
b2. in USD thousands	1,291	839	1,497
PLN thousands	4,904	3,155	5,947
b3. in CHF thousands	68	102	66
PLN thousands	281	434	276
Other currencies in PLN thousands	391	463	386
Short-term receivables, total (gross)	**71,562**	**70,718**	**75,356**

The Group has receivables from loans granted for PLN 2,180 thousand (including PLN 227 thousand granted to subsidiaries). Receivables from loans granted were fully covered by write-offs.

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

Note 14 Cash and equivalents

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

	PLN ths		
	30.06.2021	31.12.2020	30.06.2020
Cash and bank accounts	14,282	41,313	43,152
Short-term deposits	466	7,526	6,851
Total	**14,748**	**48,839**	**50,003**

Note 15 Bank loans and borrowings

	PLN ths		
	30.06.2021	31.12.2020	30.06.2020
Overdrafts	**7,344**	**11,289**	**26,550**
Bank loans	**54,561**	**60,279**	**85,615**
Amounts payable according to bank loan agreements			
On demand or up to 1 year	20,771	24,372	57,525
From 2 to 5 years	41,134	47,196	54,640
Over five years	-	-	-
Loans	-	-	-
Amounts payable according to bank loan agreements			
On demand or up to 1 year	-	-	-
From 2 to 5 years	-	-	-
Over five years	-	-	-

Loans currency structure	PLN ths			
	Total in PLN	PLN	€	$
June 30, 2021	**61,905**	**61,905**	-	-
Overdrafts	7,344	7,344	-	-
Bank loans	54,561	54,561	-	-
Loans	-	-	-	-
December 31, 2020	**71,568**	**71,568**	**-**	**-**
Overdrafts	11,289	11,289	-	-
Bank loans	60,279	60,279	-	-
Loans	-	-	-	-
June 30, 2020	**112,165**	**112,165**	-	-
Overdrafts	26,550	26,550	-	-
Bank loans	85,615	85,615	-	-
Loans	-	-	-	-

Bank loans liabilities:

<table>
<tr><th rowspan="2">Name of the entity</th><th rowspan="2">Head-quarters</th><th colspan="2">Value of bank loan / according to the contract</th><th colspan="2">The loan amount to be repaid at face value</th><th>The loan amount measured at amortized cost</th><th rowspan="2">Interest conditions</th><th rowspan="2">Maturity</th><th rowspan="2">Collateral</th></tr>
<tr><th>PLN</th><th>currency</th><th>PLN</th><th>currency</th><th>zł</th></tr>
<tr><td rowspan="3">Bank PKO BP S.A.</td><td rowspan="3">Warsaw</td><td>37,000,000</td><td>PLN</td><td>-</td><td>PLN</td><td>-</td><td>Limit enabling the use of overdraft facility and execution of guarantees and letters of credit</td><td>July 1, 2022</td><td rowspan="3">1. Blank promissory note with declaration
2. Declaration of submission to enforcement
3. Contractual right to deduct receivables
4. Floating charge on inventories of Vistula and Wólczanka brands
5. Fixed charge on "Vistula" and "Wólczanka" trademarks
6. Registered pledge on shares of W.Kruk SA and DCG SA
7. Fixed charge on shares of Wólczanka Shirts Manufaturing Sp. z o.o. and VG Property Sp. z o.o.
8. Trilateral agreement on card transactions payments
9. Transfer of rights from insurance policy
10. BGK guarantee (overdraft facility agreement)
11. Civil law surety of the subsidiary W.KRUK S.A. (multi-purpose credit limit agreement</td></tr>
<tr><td>55,000,000</td><td>PLN</td><td>-</td><td>PLN</td><td>-</td><td>Limit for guarantees and letters of credit</td><td>July 1, 2022</td></tr>
<tr><td>47,600,000</td><td>PLN</td><td>22,080,000</td><td>PLN</td><td>21,325,229</td><td>Investment loan</td><td>December 31, 2024</td></tr>
<tr><td>ING Bank Śląski S.A.</td><td>Katowice</td><td>55,000,000</td><td>PLN</td><td>-</td><td>PLN</td><td>-</td><td>Limit enabling the use of overdraft facility and execution of guarantees and letters of credit</td><td>April 20, 2023</td><td>1. Assignment of receivables,
2. Receipts to a bank account,
3. Fixed charge on Bytom and Intermoda trademarks,
4. Fixed charge on selected locations of Bytom brand,
5. Transfer of rights from insurance policy
6. Declaration of submission to enforcement
7. BGK guarantee</td></tr>
<tr><td rowspan="2">mBank S.A.</td><td rowspan="2">Warsaw</td><td>19,000,000</td><td>PLN</td><td>-</td><td>PLN</td><td>-</td><td>Limit enabling the use of overdraft facility and execution of guarantees and letters of credit</td><td>April 18, 2022</td><td rowspan="2">1. Assignment of receivables,
2. Five blank promissory notes,
3. Fixed charge on selected locations under Bytom brand
4. BGK guarantee (for factoring)</td></tr>
<tr><td>11,500,000</td><td>PLN</td><td>-</td><td>PLN</td><td>-</td><td>Limit for reverse factoring</td><td>July 15, 2022</td></tr>
<tr><td rowspan="2">Bank PKO BP S.A.</td><td rowspan="2">Warsaw</td><td>52,000,000</td><td>PLN</td><td>-</td><td>PLN</td><td>-</td><td>Limit allowing to use overdraft</td><td>July 06, 2022</td><td rowspan="2">1. Blank promissory note, along with a promissory note declaration
2. Fixed charge on "W.KRUK" trademark
3. Floating charge on Company's inventory
4. Guarantee of VRG S.A.
5. Fixed charge on Company's inventory</td></tr>
<tr><td>33,000,000</td><td>PLN</td><td>-</td><td>PLN</td><td>-</td><td>Limit enabling the use of overdraft facility and execution of guarantees and letters of credit</td><td>July 06, 2022</td></tr>
</table>

		71,400,000	PLN	33,120,000	PLN	31,976,283	Investment loan	December 31, 2024	6. VRG S.A. guarantee 7. Trilateral agreement on credit card payments 8. Assignment of rights from insurance policy 9. BGK guarantee 10. Civil law surety of the subsidiary W.KRUK S.A.
Bank PKO BP S.A.	Warsaw	11,500,000	PLN	7,343,999	PLN	7,343,999	Limit allowing to use overdraft	July 14, 2022	1. Mortgage 2. Floating charge on inventory 3. Assignment of rights from insurance policy 4. BGK guarantee 5. Declaration of submission to enforcement 6. Surety granted by VRG S.A. (multi-purpose credit limit agreement).
		4,500,000	PLN	-	PLN	_	Limit enabling the use of overdraft facility and execution of guarantees and letters of credit		
Bank PKO BP S.A.	Warsaw	4,021,500	PLN	1,259,962	PLN	1,259,962	Investment loan	March 31, 2023	1. Surety granted by VRG S.A. 2. Contractual right offsetting claims 3. Mortgage 4. Assignment of rights under the insurance policy and the non-movable property and machinery lease agreement

The Group has the following bank loans:

- Bank loan agreements in the total amount of PLN 92,000 thousand, entitling to use an overdraft up to the amount of 37,000 thousand PLN and execution of bank guarantees up to the amount of PLN 25,000 thousand and letters of credit up to PLN 35,000 thousand. On July 2, 2020, an overdraft agreement was signed up to the amount of PLN 37,000.00 thousand. The multi-purpose agreement was signed on March 9, 2015, as amended, amended by the annex of July 2, 2020 excluding the loan in the current account from the agreement and the annex of May 14, 2021 increasing the sublimit for letters of credit. The agreements will expire on July 1, 2022. The agreements are secured with a blank promissory note along with a declaration, declaration of submission to enforcement, contractual right to set-off receivables, fixed charge on the Vistula and Wólczanka trademarks, and a fixed charge of contractual claims, assignment of rights under the insurance policy and liquidity guarantee of Bank Gospodarstwa Krajowego for an overdraft facility and a civil law surety of a subsidiary of the Company, i.e. W.KRUK S.A. for a multi-purpose loan.

- investment loan in the amount of PLN 47,600 thousand. The agreement was signed on March 9, 2015. The agreement will expire on December 31, 2024. The agreement is secured with a blank promissory note, a fixed charge on the shares of W.Kruk SA and DCG SA, a fixed charge on the shares of Wólczanka Shirts Manufactured Sp. z o.o. and VG Property Sp. z o.o., a declaration of submission to enforcement, assignment of contractual receivables, and assignment of rights under the insurance policy.

- multi-purpose credit line in the amount of PLN 55,000 thousand for the period until November 29, 2022, and then with its reduction by PLN 2,000 thousand by the following dates: from November, 30, 2022, December 31, 2022, January 31, 2023, February 28, 2023, March 31, 2023 with the end date until 20 April 2023, under the Multi-product Agreement at ING Bank Śląski SA, the Company may use the following products: an overdraft up to PLN 13,000,000, a letter of credit line up to PLN 15,000,000, a bank guarantee line up to PLN 6,000,000, reverse afctoring in the amount of EUR 8,000,000, and the total amount of debt resulting from the use of the limit in the form of the above-mentioned credit products may not exceed the limit amount, i.e. the amount of PLN 55,000,000 for the period until November 29, 2022, and then its reduction by 2,000 thousand in the following periods: from November 30, 2022, December 31, 2022, January 31, 2023, February 28, 2023 until March 31, 2023, April 20, 2023, may not exceed the amount of PLN 45,000 thousand. The collaterals for the limit granted to the Company under the Agreement are: assignment of receivables, inflows to the bank account, fixed charge on the Bytom and Intermoda trademarks, fixed charge on selected locations of the Bytom brand, assignment of rights under the insurance policy, declaration of submission to enforcement.

- multi-purpose credit line at mBank S.A. entitling to use an overdraft facility, execution of orders for bank guarantees and letters of credit, where the total amount of debt resulting from the use of the limit in the form of the above-mentioned credit products may not exceed PLN 19,000,000.00. The multi-purpose agreement was signed for the period from April 23, 2019 to April 18, 2022 (with the annex of March 31, 2021, the agreement was extended to July 15, 2022), the limit of factoring liabilities may not exceed PLN 11,500,000. The agreement is secured with a blank promissory note, a floating charge on inventories in selected locations of the Bytom brand, assignment of receivables, assignment of rights under the insurance policy and additionally with a liquidity guarantee of Bank Gospodarstwa Krajowego in terms of the factoring limit.
- Total agreements for the amount of PLN 85 million, of which one agreement authorizing the use of an overdraft facility up to the amount of PLN 52,000 thousand and the second agreement in the form of a multi-purpose limit for the execution of orders in the field of bank guarantees up to the amount of PLN 25,000,000 and letters of credit up to the amount of PLN 8,000 thousand. The multi-purpose agreement was signed on March 9, 2015. The agreement will expire on July 6, 2022. The agreement is secured with a blank promissory note with a promissory note declaration, a fixed charge on the trademark "W.KRUK" and the company's inventory, a surety granted by VRG SA, a trilateral agreement regarding payment by credit card transactions, assignment of rights under the insurance policy, declaration of submission to enforcement and contractual right to set-off receivables, as well as a liquidity guarantee of Bank Gospodarstwa Krajowego for an overdraft and a civil law surety of VRG SA for a multi-purpose loan.
- investment loan in the amount of PLN 71,400 thousand. The agreement was signed on March 9, 2015. The agreement will expire on December 31, 2024. The agreement is secured with a blank promissory note with a promissory note declaration, a fixed charge on the trademark "W.KRUK" and the company's inventory, a surety granted by VRG SA, a trilateral agreement regarding payment by credit card transactions, assignment of rights under the insurance policy, declaration of submission to enforcement and the bank's power of attorney to the bank account, as well as other securities that can be determined at a later time.
- Two agreements in the total amount of PLN 16,000 thousand, including the agreement entitling to use the loan in the current account up to the amount of PLN 11,500 thousand and a multi-purpose limit for the execution of orders for guarantees and letters of credit up to the amount of PLN 4,500,000. The repayment will take place on July 14, 2022. The loan is secured with a mortgage, a floating charge on inventory, assignment of rights under the insurance policy and a surety of VRG S.A. (Limit for the execution of orders in the field of guarantees and letters of credit).
- investment loan in the amount of PLN 4,022 thousand. The agreement was signed on June 30, 2016. The agreement will expire on March 31, 2023. The loan was secured with a VRG surety, a mortgage and a contractual right to set off receivables, as well as an assignment of rights from an insurance policy and from real estate lease and machinery lease contracts.

As at 30.06.2021, the Capital Group conducted all due loan repayments and interest payments.

Note 16 Fair value of financial instruments

The fair value of financial assets and financial liabilities is determined as follows:

- the fair value of financial assets and financial liabilities with standard terms that are traded on active, liquid markets is determined by reference to stock prices;

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

In the period from January 1, 2021 to June 30, 2021, there was no transfer between the levels in the hierarchy of fair value used in the fair value measurement, and there was no change in the classification of financial assets due to a change in the purpose or use of these assets.

Currency derivatives

The Group uses currency derivatives to hedge future cash flows against currency risk. The Group has forward contracts as hedging transactions for the purchase of currency. Derivative instruments are denominated in USD and EUR. As at 30.06.2021, the balance in nominal value is USD 3,636 thousand and PLN 13,413 thousand once translated at the exchange rate of the transaction. As at the balance sheet date, the Group measures its transactions at fair value, the difference from the valuation in the amount of PLN 417 thousand has been included in financial costs and other short-term liabilities.

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

Note 16a Financial instruments by type

Off- balance sheet items	PLN ths					
	30.06.2021		31.12.2020		30.06.2020	
	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost
Loans granted	-	-	-	-	-	-
Trade and other receivables	14,019		13,627		17,715	
Cash and cash equivalents	14,748		48,839		50,003	
Long-term loan and lease liabilities		291,317		305,550		290,706
incl.:leases on store and office floorspace		*248,758*		*256,974*		*234,256*
Short-term loan and lease liabilities		118,159		123,211		147,600
incl.:leases on store and office floorspace		*96,328*		*97,510*		*88,300*
Trade and other liabilities		181,999		199,678		161,556
Total	**28,767**	**591,475**	**62,466**	**628,439**	**67,718**	**599,862**

Financial instruments at fair value through profit or loss amounted to PLN 417 thousand in 2021 and were charged to financial income (in 2020 these amounted to PLN 451 thousand and were charged to financial income).

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

Nota 16b Financial instruments – income and costs, gains and losses from change in value

Balance-sheet items	PLN ths					
	1H21					
	Interest income	Interest expense	Gains/losses from amortised cost recognition	Write-offs	Write-offs reversal	Profits / losses on exchange differences
Loans granted	-	-	-	-	-	1
Trade and other receivables	27			868	436	- 19
Cash and cash equivalents	-	-	-	-	-	- 16
Other current assets – Forward transactions	-	-	- 32	-	-	-
Loan and lease liabilities	-	937	- 445	-	-	-
Lease liabilities on store and office floorspace	-	2,753	-	-	-	7,558
Trade and other liabilities		146	-	-	-	1,272
Total	**27**	**3,836**	**- 477**	**868**	**436**	**8,796**

Balance-sheet items	PLN ths					
	1H20					
	Interest income	Interest expense	Gains/losses from amortised cost recognition	Write-offs	Write-offs reversal	Profits / losses on exchange differences
Loans granted	-	-	-	-	-	-
Trade and other receivables	119	-	-	1,549	675	51
Cash and cash equivalents	19	-	-	-	-	2
Other current assets – Forward transactions	-	-	90	-	-	-
Loan and lease liabilities	-	1,771	1,722	-	-	-
Lease liabilities on store and office floorspace	-	2,021	-	-	-	- 11,183
Trade and other liabilities	-	236	-	-	-	- 2,250
Total	**138**	**4,028**	**1,812**	**1,549**	**675**	**- 13,380**

Note 17 Deferred income tax

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

	PLN ths				
	Balance sheet			Profit or loss statement	
	30.06.2021	31.12.2020	30.06.2020	30.06.2021	30.06.2020
Deferred tax liabilities	**659**	**821**	**757**	**- 162**	**226**
Balance sheet valuation - positive exchange rate differences	55	126	69	- 71	- 74
Interest accrued on receivables	-	-	7	-	-
Net advances paid	72	72	70	-	- 2

	PLN ths				
	Balance sheet			Profit or loss statement	
	30.06.2021	31.12.2020	30.06.2020	30.06.2021	30.06.2020
Valuation of loans at amortized cost	360	446	531	- 86	327
Valuation of derivative transactions	79	86	-	- 7	-
Fixed assets in lease	83	83	73	-	- 28
Other	10	8	7	2	3
Allocated to financial result	**659**	**821**	**757**	**- 162**	**226**
Allocated to equity	-	**-**	-	-	-
Deferred tax assets	**28,886**	**25,342**	**15,929**	**3,544**	**5,170**
Accelerated balance sheet depreciation	2,348	2,305	2,290	44	54
Post-employment benefits (severance pay)	24	24	24	-	-
Write-offs	5,748	3,724	4,387	2,022	2,648
Provisions, wages and social security	2,015	2,287	2,540	- 271	674
Balance sheet valuation - negative exchange differences	101	190	141	- 89	123
Losses carryforward	7,407	5,634	3,078	1,773	3,078
Write-off of receivables from customers	675	597	597	78	- 11
Accrued interest	2,356	1,569	- 242	787	- 1,211
Provision for future liabilities	-	-	3	-	- 15
Provision for future returns	315	315	247	-	- 402
Forward transaction valuation	459	459	343	-	232
Valuation of the loyalty program	7,438	8,238	2,521	- 800	-
Allocated to the financial result	**28,886**	**25,342**	**15,929**	**3,544**	**5,170**
Allocated directly to equity	**-**	**-**	**-**	**-**	**-**

Creation of deferred tax asset results from the assessment of the probability that future taxable profits and tax base will be achieved allowing deduction of negative temporary differences and tax losses, which justifies the creation of deferred tax assets as at June 30, 2021.

Note 18 Finance lease liabilities

Lease liabilities by maturity	PLN ths		
	30.06.2021	31.12.2020	30.06.2020
Amounts payable in accordance with finance lease agreements relating to commercial premises and office space, including:	**345,086**	**354,484**	**322,556**
Up to 1 year	96,328	97,510	88,300
From year 2 to year 5	228,364	238,042	210,046
Above 5 years	20,394	18,932	24,210
Amounts payable in accordance with finance lease agreements relating to other contracts	**2,485**	**2,709**	**3,585**
Up to 1 year	1,060	1,329	1,775
From year 2 to year 5	1,425	1,380	1,810

Lease liabilities by maturity	PLN ths		
	30.06.2021	31.12.2020	30.06.2020
Above 5 years	-	-	-
Discounted value of finance lease liabilities	**347,571**	**357,193**	**326,141**
The amounts due for settlement within 12 months (shown as short-term liabilities)	97,388	98,839	90,075
incl.: leases on store and office floorspace	*96,328*	*97,510*	*88,300*
The value of payments after 12 months (shown under long-term liabilities)	250,183	258,354	236,066
incl.: leases on store and office floorspace	*248,758*	*256,974*	*234,256*

All finance lease liabilities related to business cars are denominated in PLN, while leases related to commercial premises and office space are denominated in EURO and PLN.

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

The table below shows the impact on the result of the Capital Group in the reporting period for the first half of 2021, i.e. 01.01.2021 to 30.06.2021, between the recognition of store and office lease agreements in accordance with IFRS16 (implemented on 1 January 2019) and in accordance with IAS17 (effective until December 31, 2018).

Item	PLN ths		
	1H21 IAS17	Impact of finance lease agreements on store and office floorspace	1H21 as published
Gross profit on sales	**212,827**	**-**	**212,827**
Selling and general administrative costs	204,806	1,045	205,851
Other operating revenues	9,011	304	9,315
Gain on sale of non-fixed assets	18	-	18
Other operating costs	15,394	20	15,414
Operating result	**1,656**	**- 761**	**895**
Financial income	1,265	7,558	8,823
Financial costs	2,754	2,753	5,507
Pre-tax profit (loss)	**167**	**4,044**	**4,211**
Income tax	564	799	1,363
Net financial result	**- 397**	**3,245**	**2,848**

In the first half of 2021, depreciation due to financial lease agreements relating to store and office space contracts amounted to PLN 42,806 thousand.

The table below shows the impact on the Capital Group's result in the reporting period in 2Q21, i.e. April 1, 2021 to June 30, 2021 between the recognition of commercial premises and office space lease agreements in accordance with IFRS16 (implemented on January 1, 2019) and in accordance with IAS17 (effective until December 31, 2018).

Item	PLN ths		
	2Q21 IAS17	Impact of finance lease agreements on store and office floorspace	2Q21 as published
Gross profit on sales	**131,144**	**-**	**131,144**
Selling and general administrative costs	112,250	- 2,519	109,731
Other operating revenues	8,868	240	9,108

Gain on sale of non-fixed assets	35	-	35
Other operating costs	13,839	2	13,841
Operating result	**13,958**	**2,757**	**16,715**
Financial income	2,727	10,779	13,506
Financial costs	2,131	1,317	3,448
Pre-tax profit (loss)	**14,554**	**12,219**	**26,773**
Income tax	3,022	799	3,821
Net financial result	**11,532**	**11,420**	**22,952**

In 2Q21, depreciation due to financial lease agreements relating to store and office space contracts amounted to PLN 21,581 thousand.

Note 19 Trade and other liabilities

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

Trade and other liabilities	PLN ths		
	30.06.2021	31.12.2020	30.06.2020
Trade liabilities from third parties	103,802	123,902	97,998
Trade liabilities from related parties (Note 28)	-	-	-
Tax, subsidies, customs, social security and other benefits liabilities	21,763	18,099	23,234
Financial liabilities (reverse factoring)	24,545	28,285	13,562
Deferred income liabilities	14,278	12,458	10,259
Other	17,220	16,496	16,123
Total short-term liabilities	**181,608**	**199,240**	**161,176**

Short-term liabilities (currency structure)	PLN ths		
	30.06.2021	31.12.2020	30.06.2020
a) PLN	131,768	148,935	128,135
b) in foreign currencies (by currency and after conversion into PLN)	49,840	50,305	33,041
b1. in EURO thousands	4,389	4,233	3,641
PLN thousands	19,828	19,532	16,101
b2. in USD thousands	6,316	6,636	3,237
PLN thousands	23,998	24,940	12,888
b3. in CHF thousands	1,176	1,087	801
PLN thousands	4,839	4,636	3,349
Other currencies in PLN thousands	1,175	1,197	703
Total short-term liabilities	**181,608**	**199,240**	**161,176**

Deferred revenue liabilities include the loyalty program valuation. The value of deferred income is determined taking into account the conversion factor of the points awarded and the probability of the reward realization. The amount of future deferred income related to the loyalty program presented in the statement of financial position amounts to PLN 1,654 thousand as at June 30, 2021 (as at December 31, 2020, PLN 1,654 thousand and as at June 30, 2020 at PLN 1,298 thousand).

The time for the fulfillment of obligations for the supply of raw materials, materials and goods is 30-150 days, for the supply of services 10-21 days.

Liabilities due to taxes, customs, social and health insurance are fulfilled within the time limits resulting from the income tax and social insurance acts, respectively, and do not exceed 30 days.

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

Note 19a. Finance liabilities by maturity

Finance liabilities by maturity	PLN ths		
	30.06.2021	31.12.2020	30.06.2020
Amounts payable in accordance with finance lease agreements relating to commercial premises and office space, including:	**362,595**	**366,229**	**341,917**
Up to 1 year	112,262	98,181	88,674
From year 2 to year 5	227,853	247,133	224,170
Above 5 years	22,480	20,915	29,073
Amounts payable in accordance with finance lease agreements relating to other contracts	**2,615**	**2,889**	**3,108**
Up to 1 year	1,129	1,419	1,081
From year 2 to year 5	1,486	1,470	2,027
Above 5 years	-	-	-
Amounts payable according to bank loan agreements	**64,221**	**76,588**	**105,837**
Up to 1 year	30,346	26,351	46,163
From year 2 to year 5	43,875	50,237	59,674
Above 5 years	-	-	-
Amount payable from trade and other liabilities according to maturity	**159,845**	**181,141**	**137,942**
Up to 1 year	159,845	181,141	137,942
From year 2 to year 5	-	-	-
Above 5 years	-	-	-

There are no other financial liabilities with a maturity period of over 12 months.

Note 20 Provisions

	Provision for employment costs	Provision for future liabilities	Provision for work in progress	Returns from customers	Other	Total
As at January 1, 2020	**6,247**	**3,877**	**1,557**	**516**	**19**	**12,216**
– consolidation adjustment	-	-	-	-	-	-
– provisions created during the financial year	529	-	-	-	-	529
– release / use of provisions	- 6	- 163	- 1,382	-	- 4	- 1,555
Balance at June 30, 2020	**6,770**	**3,714**	**175**	**516**	**15**	**11,190**
– allocated to short-term liabilities	5,648	3,714	175	516	15	10,068

	Provision for employment costs	Provision for future liabilities	Provision for work in progress	Returns from customers	Other	Total
– allocated to long-term liabilities	1,122	-	-	-	-	1,122
Balance at January 1, 2020	**6,247**	**3,877**	**1,557**	**516**	**19**	**12,216**
– provisions created during the financial year	2,861	2,582	-	893	10	6,346
– release / use of provisions	- 2,453	- 3,847	- 632	-516	- 19	- 7,467
Balance at December 31, 2020	**6,655**	**2,612**	**925**	**893**	**10**	**11,095**
– allocated to short-term liabilities	5,416	2,612	925	893	10	9,856
– allocated to long-term liabilities	1,239	-	-	-	-	1,239
Balance at January 1, 2021	**6,655**	**2,612**	**925**	**893**	**10**	**11,095**
– consolidation adjustment	-	-	-	-	-	-
– provisions created during the financial year	-	-	1,607	-	33	1,640
– release / use of provisions	- 1,200				- 5	- 1,205
Balance at June 30, 2021	**5,455**	**2,612**	**2,532**	**893**	**38**	**11,530**
– allocated to short-term liabilities	4,217	2,612	2,532	893	38	10,292
– allocated to long-term liabilities	1,238	-	-	-	-	1,238

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

The balance of provisions as at 30.06.2021 consists of:

PLN 1,239 ths long-term provision for retirement benefits	**PLN 174 ths** short-term provision for retirement benefits	**PLN 4,042 ths** short-term provision for unused holidays	**PLN 11,530 ths** **TOTAL**
PLN 2,532 ths short-term provision for sewing services	**PLN 2,612 ths** provision for future liabilities	**PLN 893 ths** provision for returns from customers	**PLN 38 ths** other provisions

Provisions for retirement benefits are calculated by an independent actuary. The main actuarial assumptions that were used for calculations were: the discount rate of 2.0%, the long-term annual growth rate of remuneration 3.0%, the probability of departing employees on the basis of historical data on employment turnover in the Capital Group.

Sensitivity analysis prepared by the actuary did not show significant deviations of the value of the provision between each of the considered scenarios. The value of the provision will be updated based on independent actuary calculations for December 31, 2021.

Note 21 Share capital

Series / issue	PLN ths							
	Type of share	Type of share preference	Type of share rights restriction	Number of shares	Issue value by nominal value	The method of capital payment	Registration date	The right to dividends (from date)
Issue "A"	common	ordinary bearer		1,000,000			1991-04-30	

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

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

As at June 30, 2021, all shares issued were fully paid up.

Equity	PLN ths		
	30.06.2021	31.12.2020	30.06.2020
Registered: 234,455,840 common shares PLN 0.20 each (year 2019:234,455,840 common shares PLN 0.20 each; 1H20 234,455,840 common shares PLN 0.20 each)	49,122	49,122	49,122
Issued: 234,455,840 common shares PLN 0.20 each (year 2019:234,455,840 common shares PLN 0.20 each; 1H19: 234,455,840 common shares PLN 0.20 each)	49,122	49,122	49,122

In accordance with the requirements of the Code of Commercial Companies, the dominating entity is obliged to create capital reserves to cover losses. At least 8% of the profit for a given financial year reported in the separate financial statements of the dominating entity is transferred to this capital category until this capital reaches at least one third of the dominating entity's share capital. The General Shareholder Meeting decides on the use of reserve capital and other capital reserves, however, part of the capital reserves in the amount of one third of the share capital may be used only to cover the loss disclosed in the dominating entity's separate financial statements and is not subject to any other purposes. Capital requirements were met in 1H21.

Note 22 Reserve capital

	PLN ths
Balance at January 1, 2020	**14,333**
Increases due to stock option program valuation	63
Decreases	-
Balance at June 30, 2020	**14,396**
Balance at January 1, 2020	**14,333**
Increases due to stock option program valuation	-
Decreases	**-**
Balance at December 31, 2020	**14,333**
Balance at January 1, 2021	**14,333**
Increases due to stock option program valuation	-
Decreases	-
Balance at June 30, 2022	**14,333**

Reserve capital is created from the valuation of the stock option incentive program in proportion to the duration of the program.

Note 23 Retained earnings

	PLN ths
Balance at January 1, 2020	**799,831**
Surplus from sale of shares above their nominal value (agio)	-
Net profit for the current year	- 31,775
Balance at June 30, 2020	**768,056**
Balance at January 1, 2020	**799,831**
Surplus from sale of shares above their nominal value (agio)	-
Net profit for the current year	- 39,932
Balance at December 31, 2020	**759,899**
Balance at January 1, 2021	**759,899**
Surplus from sale of shares above their nominal value (agio)	-
Net profit for the current year	2,848
Balance at June 30, 2021	**762,747**

This line presents the net financial result of previous financial years as well as adjustments to the financial result for previous years, and those resulting from errors in previous years or changes in accounting principles.

Retained earnings include all the reserves, retained earnings from previous years of the dominating entity and its subsidiaries.

Note 24 Contingent receivables and liabilities

OFF-BALANCE SHEET ITEMS	PLN ths		
	30.06.2021	31.12.2020	30.06.2020
– bank guarantees for store rental payments	50,041	56,505	47,868
– open letters of credit	32,736	23,438	9,128
– promissory notes to secure lease liabilities	467	609	788
Total contingent liabilities	**83,244**	**80,552**	**57,784**

There are no contingent receivables in the Group.

Note 25 Share-based payment

On June 27, 2018, the Ordinary General Meeting of Shareholders adopted an incentive program for members of the Company's Management Board, key managers or other persons significant for the Company (and companies from its capital group) based on payment in the form of the Company's shares. Detailed conditions of the incentive program (providing for the full allocation of 7,050,000 subscription warrants) are included in Current Report No. 33/2018 of June 27, 2018. The value of the incentive program estimated using the Monte Carlo model in combination amounted to PLN 2,675,618.31, ie PLN 0.48 per share and is accounted for proportionally to the duration of the program, taking into account the probability of meeting non-market conditions. The amount is calculated with the probability of 100%.
The expected volatility was established on the basis of a historical judgment supported by an analysis of the volatility of rates of return from closing prices for the company's shares listed on the WSE.
The expected life of the option was determined based on the maximum period specified in the adopted resolution.
The issue price of the N series shares was PLN 4.22.
Series F subscription warrants were allocated to program participants in 2019.

<u>Granting of tranches of subscription warrants was completed in 2020.</u>

Data necessary for stock option program valuation:

	30.06.2021	31.12.2020	30.06.2020
share price at grant date	-	4.48	4.48
exercise price	-	4.22	4.22
expected volatility	-	25%	25%
expected life of the option (in months)	-	36	36
risk free rate	-	1.7%	1.7%
expected dividend yield	-	0.00%	0.00%

In 1H21, the amount of PLN 0 thousand was charged to overheads (in 2020: PLN 0 thousand; in 1H20 PLN 63 thousand).

Note 26 Significant events in 1H21

Significant events are described Management Report on Operations.

Note 27 Significant events after the balance sheet date not reflected in financial statements

08.07.2021

Notification on a significant block of shares

In the current report No. 47/2021 of July 8, 2021, the Company informed that it had received from IPOPEMA Towarzystwo Funduszy Inwestycyjne S.A. with its registered office in Warsaw "Mutual Fund", information of July 8, 2021, pursuant to art. 69 sec. 2 point 1 letter a and art. 87 sec. 1 point 2 letter a of the Act of July 29, 2005 on the offer the public and the conditions for introducing financial instruments to the organized trading system and on public companies "The Act" that as a result of the acquisition by the IPOPEMA 21 FIZ Fund of Non-public Assets managed by "Mutual Fund", the Company's shares in a transaction carried out on the regulated market on 6 July 2021, settled on July 8, 2021, the share of the Funds managed by the Mutual Fund in the total number of votes in the Company increased by more than 2% in the total number of votes in the Company.

Before the above-mentioned event, the Funds held 51,726,678 shares of the Company, which constituted 22.06% of the share capital of the Company and gave 51,726,678 votes, which constituted 22.06% of the total number of votes at the general meeting of the Company. After the above-mentioned event, the Funds hold 52,066,678 shares of the Company, which constitutes 22.21% of the share capital of the Company and gives 52,066,678 votes and constitutes 22.21% of the total number of votes at the general meeting of the Company.

At the same time, the Mutual Fund informed that the Funds managed by the Mutual Fund did not have the financial instruments referred to in Art. 69b paragraph. 1 of the Act.

22.07.2021

Resignation of a member of the Management Board of the Company

In the current report No. 48/2021 of July 22, 2021, the Management Board of the Company informed that on July 22, 2021, Ms. Olga Lipińska-Długosz resigned from the position of a Member of the Management Board of the Company with effect on August 31, 2021.

03.08.2021

Information on making a write-off

In the current report No. 50/2021 of August 3, 2021, the Management Board of the Company informed that on August 3, 2021, a decision was made to make an impairment write-down in the amount of PLN 9,211,596.00. The decision was made after analyzing and reviewing and recognizing the impairment of inventories covering: inventories of raw materials for the production of clothing products, inventories of clothing products intended for sale in the wholesale channel, and inventories of commercial goods and finished goods. The impairment loss will be recognized in the Company's financial statements for the first half of 2021.

Note 28 Related party transactions

In the financial year, the parent company concluded the following commercial transactions with related parties:

	PLN ths											
	Sale of products, goods, materials and services			Purchase of products, goods, materials and services			Amounts due from related parties			Amounts due to related parties		
	1H21 from 01.01.2021 to 30.06.2021	2020 from 01-01-2020 to 31-12-2020	IH20 from 01.01.2021 to 30.06.2021	1H21 from 01.01.2021 to 30.06.2021	2020 from 01-01-2020 to 31-12-2020	IH20 from 01.01.2021 to 30.06.2021	Balance at 30.06. 2021	Balance at 31.12. 2020	Balance at 30.06. 2020	Balance at 30.06. 2021	Balance at 31.12. 2020	Balance at 30.06. 2020
Vistula Market Sp. z o.o.	-	-	-	-	-	-	1,983	1,983	1,983	-	-	-
DCG SA	11	35	15	-	1	-	146	164	14	-	-	-
VG Property Sp. z o.o.	24	14	3	113	280	167	99	35	1	-	82	66
W.KRUK S.A.	2,281	5,207	3,057	261	150	10	2,760	1,259	3,403	2	219	-
Wólczanka Shirts Manufacturing Sp. z o. o.	13	35	10	913	2,171	1,070	964	968	908	221	291	400
Razem	**2,329**	**5,291**	**3,085**	**1,287**	**2,602**	**1,247**	**5,952**	**4,409**	**6,309**	**223**	**592**	**466**
Balance of write-offs							- 1,983	-1,983	-1,983			
Amounts due from related parties net							**3,969**	**2,426**	**4,326**			

The costs of products, goods and services sold amounted to PLN 234 thousand (year 2020: PLN 681 thousand; 1H20 to PLN 373 thousand).

Financial income amounted to PLN 0 thousand (2020: PLN 992 thousand; 1H20: PLN 0 thousand), and financial costs amounted to PLN 0 (2020: PLN 219 thousand; 1H20: PLN 0 thousand).

Other operating income amounted to PLN 0 (2020: PLN 23 thousand; 1H20: PLN 0 thousand), while other operating expenses amounted to PLN 0 (2020: PLN 0; 1H20 PLN 0 thousand).

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

Receivables from loans granted to related parties as at 30.06.2021 amount to PLN 742 thousand (as at 31.12.2020: PLN 588 thousand; as at 30.06.2020: PLN 579 thousand), these receivables were written-off as at June 30, 2021 in the amount of PLN 227 thousand (as at 31.12.2020: PLN 227 thousand, as at 30.06.2020: PLN 227 thousand).

Other receivables from related parties as at June 30, 2021 amount to PLN 4,300 thousand (as at 31.12.2020: PLN 4,300 thousand; as at 30.06.2020 PLN 4,300 thousand), these receivables were covered by write-off as at 30.06.2021 in the amount of PLN 4,300 thousand (as at 31.12.2020: PLN 4,300 thousand; as at 30.06.2020: PLN 4,300 thousand).

Receivables are not secured and their repayment is to be made in cash. As at June 30, 2021, write-offs for receivables from related parties amounted to PLN 6,510 thousand (31.12.2020: PLN 6,510 thousand; 30.06.2020: PLN 6,510 thousand). In 1H21, write-offs were created for the amount of PLN 0 thousand, and released in the amount of PLN 0 thousand.

Parties and persons related to the Company's key managing personnel as at June 30, 2021.

- Premium Cigars Sp. z o.o.– related with President of the Management Board of W.KRUK S.A. Mr Łukasz Bernacki acting as Members of the Supervisory Board at Premium Cigars Sp. z o.o.,
- Doksa Sp. z o.o. – related with a member of the Supervisory Board, Mr. Jan Pilch; entity renting office space for VRG S.A.

In 1H21, the Group concluded transactions with parties on which it has a significant influence or to which a person who is a member of the key management staff of the company affects or holds a significant number of votes, directly or indirectly.

- Doksa Sp. z o.o. - 1H21 total gross turnover amounted to PLN 343 thousand.

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

In the first half of 2021, the parent company did not grant any guarantees to the companies.

As at June 30, 2021, the balance of guarantees granted in previous periods by the Parent Company to subsidiaries W.KRUK S.A., DCG S.A. and VG Property Sp. z o.o. for liabilities of W.KRUK S.A., DCG S.A. and VG Property Sp. z o.o. to Bank PKO BP S.A. the resulting loan agreements is:

a) Term loan agreement (Loan B) up to the amount of PLN 71,400,000.00 concluded by the Company on March 9, 2015 as later altered, transferred to W.KRUK S.A. after taking over an organized part of the Company's enterprise by W.KRUK S.A. as a result of which the borrower changed in the Loan Agreement B, i.e. the company was replaced by W.KRUK S.A. in connection with which the debt was taken over by W.KRUK S.A. After transferring the rights and obligations of the borrower to W.KRUK S.A., the Group is responsible for the repayment of the Loan B under the guarantee up to a maximum amount not exceeding PLN 107,100,000, with the possibility of releasing it after 3 years. On July 9, 2020, the parent company VRG S.A. granted an additional guarantee to the subsidiary W.Kruk S.A. to the multi-purpose credit limit agreement of June 25, 2015, as of later amended up to PLN 33,000,000, the guarantee is valid until January 6, 2024. However, on July 7, 2020, the subsidiary W.Kruk S.A. granted a guarantee to VRG S.A. to the multi-purpose credit limit agreement of June 25, 2015, as of later altered up to the amount of PLN 55,000,000, the guarantee is valid until January 1, 2024.

b) Multi-purpose credit limit agreement up to the amount of PLN 4,500,000.00 concluded by a subsidiary DCG S.A. on June 25, 2015 as amended. One of the collaterals for the repayment of DCG S.A. liabilities to the bank under this agreement there is a surety by the parent company up to a maximum amount not exceeding PLN 6,750,000, the surety is valid until July 14, 2025.

c) An investment loan agreement up to the amount of PLN 4,021,500.00 concluded by a subsidiary VG Property Sp. z o.o. on June 30, 2016 with later amendments. One of the collaterals for the repayment of liabilities of VG Property Sp. z o.o. the bank under this agreement is a guarantee by the Company up to a maximum amount not exceeding PLN 6,032,250, the surety is valid until the full repayment of the loan.

Note 29 Comparable data – previous years adjustments and presentation changes

Based on the provisions of IAS 8 "Accounting principles, changes in estimated values and correction of errors", in the financial statements for the first half of 2021, the Group created deferred tax for the lease of commercial premises and office space, therefore it corrects the comparable data for the first half of 2020 and in the statement of financial position for 2020.

The impact of the adjustments is presented below.

The impact of adjustments on the balance sheet items for the first half of 2020	PLN ths		
	Data as in 1H20 report	Adjustments in the result from previous years and presentation adjustments	Comparable 1H20 data, as in 1H21 report
Deferred tax assets	12,651	2,521	15,172
Fixed assets, total	**890,930**	**2,521**	**893,451**
Current assets, total	**552,542**	**-**	**552,542**
Assets total	**1,443,472**	**2,521**	**1,445,993**
Liabilities and provisions, total	**614,419**	**-**	**614,419**
Equity	49,122		49,122

Other reserves	14,396		14,396
Retained earnings	765,535	2,521	768,056
Equity, total	**829,053**	**2,521**	**831,574**
Equity and liabilities, total	**1,443,472**	**2,521**	**1,445,993**

Impact of the adjustments on net financial result of 1H20	PLN ths		
	Data as in 1H20 report	Adjustments in the result from previous years and presentation adjustments	Comparable 1H20 data, as in 1H21 report
Revenues	**372,342**	-	**372,342**
Cost of sales	196,299	-	196,299
Gross profit (loss) on sales	**176,043**	**-**	**176,043**
Other operating income	9,227	-	9,227
Selling costs	149,138	-	149,138
Administrative expenses	39,063	-	39,063
Other operating costs	19,126	-	19,126
Loss from sale of non-financial non-current assets	231	-	231
Profit (loss) from operations	**- 22,288**	**-**	**- 22,288**
Financial income	1,950	-	1,950
Financial costs	18,050	-	18,050
Pre-tax profit (loss)	**- 38,388**	-	**- 38,388**
Income tax	- 4,092	- 2,521	- 6,613
Net profit (loss) for the period	**- 34,296**	**- 2,521**	**- 31,775**

The impact of adjustments on the balance sheet items for 2020	PLN ths		
	Data as in 1H20 report	Adjustments in the result from previous years and presentation adjustments	Comparable 1H20 data, as in 1H21 report
Deferred tax assets	16,283	8,238	24,521
Fixed assets, total	**889,789**	**8,238**	**898,027**
Current assets, total	**568,206**	**-**	**568,206**
Assets total	**1,457,995**	**8,238**	**1,466,233**
Liabilities and provisions, total	**642,879**	**-**	**642,879**
Equity	49,122		49,122
Other reserves	14,333		14,333
Retained earnings	751,661	8,238	759,899
Equity, total	**815,116**	**8,238**	**823,354**
Equity and liabilities, total	**1,457,995**	**8,238**	**1,466,233**

In addition, in financial statements for 2020, the Group changed the presentation of trade receivables and other receivables and current assets that were presented in one item of the statement of financial position, and corporate income tax receivables were excluded from receivables. Liabilities due to corporate income tax were also excluded from the item "Tarde and other liabilities". Therefore, in the statement of financial position for the first half of 2021, the Group makes appropriate adjustments to the comparable data for the first half of 2020.

Note 30 Accounting policy

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

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

In 1H21, the Parent Company did not issue, redeem or repay equity securities.

6. PAID AND DECLARED DIVIDENDS

In 1H21, the Group did not pay or declare dividend payment. There is no preference for shares regarding dividend payments.

7. PENDING COURT OR PUBLIC ADMINISTRATION PROCEEDINGS

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

8. CREDIT OR LOAN GUARANTEES GRANTED

As at 30.06.2021, there were no other guarantees or guarantees granted to related parties, that were described in note 28.

9. REMUNERATION OF THE MANAGEMENT AND SUPERVISORY BOARD IN 1H20

Management Board

		PLN ths
Andrzej Jaworski	President of the Management Board	474
Radosław Jakociuk	Executive Vice-President of the Management Board	468
Michał Zimnicki	Executive Vice-President of the Management Board	270
Ernest Podgórski	Management Board Member	229
Olga Lipińska-Długosz	Management Board Member	151
Erwin Bakalarz	Management Board Member	23
Razem		**1,615**

Supervisory Board

		PLN ths
Jerzy Mazgaj	Chair of the Supervisory Board /until 28.06.2021/	159

Mateusz Kolański	Member of the Supervisory Board / Chair of the Supervisory Board since July 13, 2021/	76
Jan Pilch	Member of the Supervisory Board / Deputy-Chair of the Supervisory Board since July 13, 2021/	101
Piotr Kaczmarek	Member of the Supervisory Board	86
Ernest Podgórski	Member of the Supervisory Board	5
Piotr Stępniak	Member of the Supervisory Board	101
Wacław Szary	Member of the Supervisory Board	93
Andrzej Szumański	Member of the Supervisory Board	86
Marcin Gomoła	Member of the Supervisory Board	1
Razem		**708**

The managing and supervising persons obtained remuneration for performing functions in the authorities of the subsidiaries. In 1H21 this remuneration amounted to:

		PLN ths
Jerzy Mazgaj	Chair of the Supervisory Board	71
Andrzej Jaworski	Member of the Supervisory Board	54
Ernest Podgórski	Member of the Supervisory Board	36
Jan Pilch	Member of the Supervisory Board	62
Razem		**223**

Mr. Erwin Bakalarz was a Member of the Management Board of VRG S.A. from January 1 to 11, 2021, during this period he received remuneration for performing the function of the President of a subsidiary, the remuneration for this period was PLN 0.4 thousand.

Managing persons are entitled to benefits specified in employment or appointment contracts.

Apart from the benefits listed above, there were no other benefits for managing and supervising persons, including post-employment benefits, termination benefits, other long-term benefits.

10. SIGNIFICANT RISK FACTORS

Below 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.

Risk related to effects related to the coronavirus epidemic

In extraordinary situations, such as an epidemic, there may be state orders regarding the functioning of business entities, as well as changes in consumer behaviour and preferences. In order to counteract the effects of such phenomena, actions may be taken by government administration, local governments or other social groups that will have an impact on the Company's operations.

According to the current assessment, the Company expects that the effects related to the coronavirus epidemic and potential restrictions may have a negative impact on the Company's future financial results. It may be caused by further restrictions introduced by the Minister of Health in the operation of retail facilities with a sales area of more than 2,000 sq m, where over 95% of Vistula, Bytom, Wólczanka, Deni Cler and W.KRUK stores are located. Additionally, the Company expects that the demand after the next lockdown period will be lower than before the introduction of possible trade restrictions. It may take several months for him to rebuild.

The above assessment is based on the Company's best knowledge as at the date of the semi-annual report. The impact of the spread of coronavirus in the conditions of an epidemic on the financial results depends on a number of factors that are beyond the direct influence and control of the Issuer. However, any restrictions introduced in the opening of stores in shopping centers will undoubtedly translate into lower sales revenues and deterioration of the Group's financial situation.

Actions: In this situation, the Group will carry out activities initiated in 2020 to improve the Group's working capital and maintain a stable level of the Group's net debt. In 2020, talks were held with banks that finance the operations of the Company and its companies from the capital group, which was completed with the extension of contracts with the main bank financing the Group, PKO BP, for two consecutive years and positively influencing the Group's liquidity situation in the current year. In the first half of 2021, the Company extended its contract with ING bank for another two years. In the opinion of the Management Board, the current situation is sufficiently monitored and controlled.

The Management Board of the Company, bearing in mind the actions taken, is convinced of the positive results of the above-mentioned actions.

Foreign exchange risk and risk related to hedging policy

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

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

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

Based on the sensitivity analysis carried out (IAS17):

- an average annual increase of USD to PLN by 1.0% will result in a decrease in the financial result by 17.3%.
- an average annual increase of EUR to PLN by 1.0% will reduce the financial result by 98.4%.

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

Interest rate risk

As at June 30, 2021, the Group had liabilities measured at amortized cost of PLN 61,905 thousand due to loans taken. Therefore, the Group is exposed to interest rate risk due to a change in the valuation of debt based on a variable interest rate. An increase in the level of interest rates may increase the cost of financing and thus reduce the Group's profitability.

Based on the sensitivity analysis performed, the average annual increase in the base interest rate by 1 pp. (100 basis points) will reduce the financial result by 16.2%.

Based on the sensitivity analysis, the average annual increase in the base interest rate by 10% will reduce the financial result by 0.04%.

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

Liquidity risk

The Group has liabilities under loan and agreements and trade liabilities (versus suppliers and employees). Consequently, collateral covering a significant portion of the property was established. The above obligations are handled primarily using current operating revenues.

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

Actions: The Group constantly monitors its liquidity position by analyzing the volume of proceeds from sales and the required liabilities. In addition, in the current situation, the Group has taken active steps to improve financial liquidity and cash protection in individual Group companies. The Group took steps to extend the payment terms for the purchased goods, which will positively affect the Group's financial flows, and entered into talks with shopping centers in order to obtain no rents or reduction of rents for the period when shopping centers are closed, without the need to extend contracts on this account. Moreover, talks were held with banks that finance the activities of the Company and its companies from the Capital Group. In April, the Capital Group companies increased their financing under current loans and annexes were signed to extend the repayment of long-term loan installments. In July 2020, the Capital Group signed agreements with the main financing bank, PKO BP, extending the cooperation for another two years. These agreements concerned the provision of lines as part of an overdraft facility and for letters of credit and guarantees. In the first half of 2021, the Company extended its contract with ING bank for the next years. As part of the solutions of the anti-crisis shield, the key companies of the Group received co-financing for wages from the Guaranteed Employee Benefits Fund as well as were periodically exempted from Social Security contributions.

One of the key goals for 2021, which is closely related to the current activities aimed at securing the Group's financial liquidity, will be to further improve the efficiency of working capital use, which is to be achieved through a further decrease in the level of inventories year on year and the introduction of longer payment terms. Assuming that the period of the epidemic will be longer or in a situation with negative effects after the end of the epidemic, further solutions will be prepared to reduce the liquidity risk.

In the opinion of the Management Board of the parent company, the current situation is sufficiently monitored and controlled. The Management Board of the parent company, having in mind the actions taken, is convinced of the positive results of the above-mentioned actions. Information on due liabilities and their maturity dates is presented in note 19a of the Consolidated Financial Statements. Information on credit lines from which these liabilities will be settled is described in note 19 Credits and loans.

Risk of termination of bank loan agreement

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

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

In addition, the parent company has at Bank PKO BP a Multi-product Agreement and an Overdraft Agreement for the total amount of PLN 92 million (extended for 2 years on 5 July 2020) and a Multi-product Agreement with mBank for PLN 19 million and a factoring line (11 PLN, 5 million). Along with the merger with Bytom S.A., the Company took over multi-product agreements regarding current financing by ING Bank Śląski S.A. for the amount of PLN 40 million (as a result of the signed annexes, the amount increased to PLN 55 million). These agreements contain covenants which the Company is obliged to implement. In the event of an economic downturn, weakening demand for the Company's products, the implementation of the covenants may be jeopardized, which entails the risk of termination of contracts by the financing banks.

Actions: The Group minimizes the risk by timely fulfillment of obligations towards banks and monitoring of compliance with the covenants, at the same time in the current extraordinary situation related to the coronavirus epidemic and the objective, sharp deterioration of the Group's financial results, the Company entered into negotiations with the main bank financing the Capital Group and with other banks financing the parent company, in terms of adjusting the level of covenants to the current situation of the Group companies and taking this fact into account in subsequent quarters.

Other significant risk factors are listed and described in the Capital Group Report of Operations.

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

In the first half of 2021, there were no other circumstances that could materially affect the personnel, property, financial standing and financial result of the Group, or that could threaten its ability to meet its obligations.

Andrzej Jaworski	**Radosław Jakociuk**	**Michał Zimnicki**	**Olga Lipińska-Długosz**
....	....	....	....
President of the Management Board	**Executive Vice-President of the Management Board**	**Executive Vice-President of the Management Board**	**Management Board Member**

Signature of the person entrusted

with bookkeeping

Alicja Weber

....
Chief Accountant

Cracow, August 25, 2021

W.KRUK 1840

DENI CLER MILANO

WÓLCZANKA

BYTOM SZTUKA KRAWIECTWA OD 1945

VISTULA

VRG
VISTULA RETAIL GROUP

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

VRG
VISTULA RETAIL GROUP

REPORT OF THE MANAGEMENT BOARD ON OPERATIONS

of VRG S.A. Capital Group
for 6 months ended June 30, 2021

Cracow, August 25, 2021

1. GENERAL INFORMATION

1.1. Name, registered office, business activity

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

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

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

The Company's key corporate milestones

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

The lifespan of the Issuer is indefinite.

As at the end of 2Q21 VRG S.A. Capital Group consisted of the following entities:

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

   The company specialises is design, manufacturing and retail sales of brand luxury products such as jewellery, watches and accessories.
   Share in equity: 100.0%. Share in votes at the General Shareholder Meeting: 100.0%.
3. **DCG S.A.** based in Warsaw, Bystrzycka 81a St., post code 04-907. The company was registered in the District Court for Warsaw, the XXI Commercial Division of the National Court Register (KRS) under number KRS 0000285675.

   The company specialises in retail sale of clothing.
   Share in equity: 100.0%. Share in votes at the General Shareholder Meeting: 100.0%.
4. **Wólczanka Shirts Manufacturing Sp. z o.o**. based in Cracow, Pilotów 10 St., post code: 31-462. The company was registered in the District Court for Cracow Śródmieście, XI Commercial Division of the National Court Register (KRS) under number KRS 0000538836.

   The company specialises in confectioning of clothing at the request of the parent company, in particular including shirts branded Wólczanka, Lambert, Vistula and Lantier. The company also conducts confectioning of women's shirts and blouses under export contracts concluded by VRG S.A.
   Share in equity: 100.0%. Share in votes at the General Meeting: 100.0%.
5. **VG Property Sp. z o.o.** based in Cracow, Pilotów 10 St., post code: 31-462. The company was registered in the District Court for Cracow Śródmieście, XI Commercial Division of the National Court Register (KRS) under number KRS 0000505973.

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

The consolidated financial statements for 1H21 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 1H21.

Between January 1, 2021 and June 30, 2021 there were no changes in VRG S.A. Capital Group structure.

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

Management Board

As at June 30, 2021 the composition of the Management Board of VRG S.A. was as the following:

Management Board	**Andrzej Jaworski** President of the Management Board	**Radosław Jakociuk** Executive Vice-President of the Management Board	**Michał Zimnicki** Executive Vice-President of the Management Board	**Olga Lipińska-Długosz** Member of the Management Board

In the period from January 1, 2021 until June 30, 2021, the composition of the Management Board has undergone the following changes:

- on January 11, 2021, Mr. Erwin Bakalarz resigned from the position of a Member of the Company's Management Board, effective January 11, 2021.

- On January 11, 2021, the Supervisory Board of the parent company appointed two members to the Management Board of the Company for the current joint term of office. In accordance with the adopted resolutions of the Supervisory Board, the following were appointed to the Management Board of the Company:

Mr. Ernest Podgórski, PhD for the position of the Member of the Management Board responsible for IT and e-commerce;

Mrs Olga Lipińska-Długosz, PhD for the position of a Member of the Management Board.

- on May 19, 2021, Mr Ernest Podgórski, PhD resigned from the position of a Member of the Management Board of the Company, effective on the date of the Ordinary General Meeting of VRG S.A. approving the Company's financial statements for 2020. Therefore, the resignation of Mr Ernest Podgórski, PhD took effect with effect on the date of the Ordinary General Meeting of VRG S.A. on June 28, 2021 In the period from the balance sheet date, i.e. June 30, 2021 to the date of signing this report, the following changes were made to the composition of the Management Board of the parent company:

- on July 22, 2021, Dr. Olga Lipińska-Długosz resigned from the position of a Member of the Management Board of the Company, effective August 31, 2021.

Supervisory Board

As at June 30, 2021 the composition of the Supervisory Board of VRG S.A. was the following:

Supervisory Board				
	Mateusz Kolański Chair of the Supervisory Board	**Jan Pilch** Deputy-Chair of the Supervisory Board	**Piotr Kaczmarek** Member of the Supervisory Board	
	Marcin Gomoła Member of the Supervisory Board	**Piotr Stępniak** Member of the Supervisory Board	**Wacław Szary** Member of the Supervisory Board	**Andrzej Szumański** Member of the Supervisory Board

In the period from January 1, 2021 to June 30, 2021, the following changes were made to the composition of the Supervisory Board:

- on January 11, 2021, Mr. Ernest Podgórski resigned from the position of a Member of the Supervisory Board of the Company with effect on January 11, 2021.
- on January 19, 2021, the Supervisory Board of Company adopted a resolution to supplement the composition of the Supervisory Board by co-option provided for in paragraph 22 sec. 3 of the Company's Articles of Association. The Supervisory Board appointed Mr. Mateusz Kolański to the Supervisory Board of the parent company of the current joint term of office. Mr. Mateusz Kolański was appointed Vice-Chair of the Supervisory Board with effect from February 17, 2021. Extraordinary General Meeting of the parent company on March 17, 2021, acting pursuant to paragraph 22 sec. 3 of the Company's Articles of Association, approved the above-mentioned co-option of Mr. Mateusz Kolański to the Supervisory Board of the Company, in connection with the resignation submitted by Mr Ernest Podgórski, PhD.
- On June 28, the Annual General Meeting of the Company adopted resolutions according to which the following were appointed to the composition of the 7-person Supervisory Board of the parent company for a new term in office:

  1. Prof. Andrzej Szumański
  2. Mr Piotr Kaczmarek
  3. Mr Piotr Stępniak
  4. Mr Mateusz Kolański
  5. Mr Jan Pilch

6. Mr Wacław Szary
7. Mr Marcin Gomoła.

At the meeting on July 13, 2021, the Supervisory Board of the new term of office in the above composition, appointed Mr. Mateusz Kolański to the position of Chairman of the Supervisory Board and appointed Mr. Jan Pilch to the position of Deputy Chairman of the Supervisory Board.

In the period from the balance sheet date, i.e. June 30, 2021 to the date of signing this report, the above composition of the parent company's Supervisory Board did not change.

1.3. Approval of the financial statements

These consolidated financial statements have been approved for publication and signed by the Management Board of the Parent Company on August 25, 2021.

1.4. Going concern

Interim condensed consolidated financial statements of the VRG S.A. Capital Group (hereinafter also referred to as the "Capital Group" or "VRG Group") has been prepared on the assumption that the Group companies will continue as a going concern in an unchanged form and scope for a period of at least 12 months from the date on which the financial statements were prepared, i.e. June 30, 2021 year. In the opinion of the Management Board of the Company, as at the date of approval of these interim consolidated financial statements, there are no circumstances or circumstances that would indicate a threat to the continued operations of the Group companies in the foreseeable future.

From 2020, the Management Board of the parent company took steps to limit the impact of the epidemic on the financial situation of the companies within the Group. In 2021, which, like 2020, was burdened with closings of shopping centers, measures were taken to secure the Group's liquidity situation: an annex was signed to the agreement with the bank financing the parent company, ING Bank Śląski for the next two years, and the value of orders for the year 2021. The Group also applied for a subsidy to the costs of remuneration, which was granted in the amount of PLN 4.5 million (in total for all companies of the Capital Group). In addition, the Group also applied for an exemption from paying social security contributions for November 2020 and January 2021 (a subsidiary of DCG S.A.) and April 2021 (W.Kruk S.A.), the exemption was granted in the total amount of PLN 3.4 million in the second quarter of 2021. In the opinion of the Management Board of the parent company, there is no risk of a threat to the going concern status.

The Management Board of the parent company underlines that the financial indebtedness of the Capital Group is at a safe level and decreased from PLN 79.3 million (under the previously applicable IAS 17 standard) at the end of 2Q20 to PLN 74.2 million at the end of 2Q21.

2. PRINCIPLES FOR PREPARATION OF FINANCIAL STATEMENTS

The basis for preparation of these interim consolidated financial statements is the Ordinance of Minister of Finance from March 29, 2018 on current and periodical reports provided by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Official Journal of Laws of 2018, item 757).

These separate and consolidated condensed interim financial statements of VRG S.A. for the first half of 2021 have been prepared in accordance with IAS 34 Interim Financial Reporting and other applicable IAS/IFRS, and in the scope not regulated by the above standards in accordance with the requirements of the Accounting Act of September 29, 1994 (Official Journal of Laws of 2019, item 351, as amended) and the executive regulations issued on its basis and present the financial situation of VRG SA as at June 30, 2021, December 31, 2020 and June 30, 2020, the results of its operations for the 6 and 3 months ended June 30, 2021 and June 30, 2020 and cash flows for the 6-month period ended June 30, 2021 and June 30, 2020.

These separate and consolidated condensed interim financial statements have been prepared on the basis of the fair value concept, except for the items:

- tangible fixed assets, investment property and intangible assets, valued at purchase prices or costs incurred for their creation, taking into account possible depreciation and impairment write-offs,
- inventories valued at purchase prices or costs incurred for their creation, taking into account possible write-offs,
- liabilities due to loans, borrowings and financial leases carried at amortized cost.

The accounting principles applied for the preparation of the separate and consolidated interim condensed financial statements are consistent with those applied to the preparation of the annual financial statements of the Company and the Group for the financial year ended December 31, 2020.

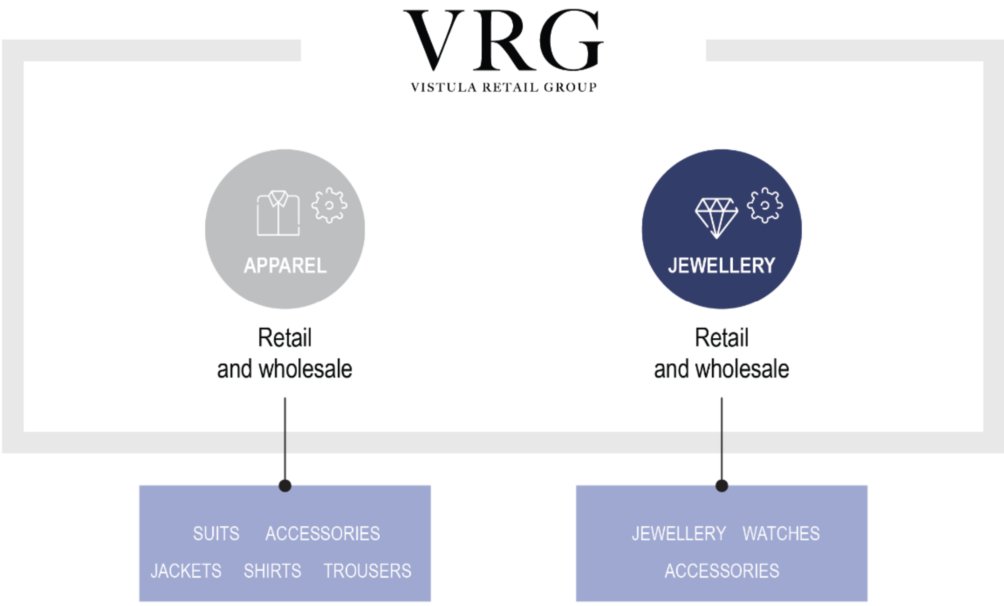
In the period from January 1, 2021 to June 30, 2021, the Company and the Group did not change the adopted accounting principles and methods of drawing up financial statements. The accounting principles adopted by the Company and the Group were applied in a continuous manner to all periods presented in the financial statements.

Amendments to the published Standards and Interpretations are presented in point 2 of the interim consolidated financial statements.

Operating segments

The VRG Group specialises in design and retail sales of branded clothing for men and women in the medium segment and up-market as well as luxury jewellery and watches. Currently, it is building its revenue base on following brands: Vistula, Lantier, Vistula Red, Vesari, Wólczanka, Lambert, Bytom, Intermoda, W.KRUK (via a subsidiary) and Deni Cler (via a subsidiary). From the second quarter of 2015, following a divesture of an organised business unit related to W.KRUK brand, the jewellery activities are carried out by Issuer's a subsidiary, i.e. W.KRUK S.A. based in Cracow. From November 30, 2018, i.e. merger with Bytom S.A., the Group also possesses the Bytom and Intermoda brands.

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



Leading brands of the Vistula business line:

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

Leading brands of the Bytom business line:

Bytom	BYTOM	BYTOM is a Polish brand with a history dating back to 1945, in which tradition meets the modern vision of tailoring and men's fashion. Basing on a dozen of years long heritage, the brand offers men formalwear with a flagship product in the form of suits, made from finest Italian fabrics in Polish sewing facilities. BYTOM is not just the art of tailoring. The brand refers to the Polish cultural heritage by creating limited collections inspired by the work of outstanding personalities, inviting people with a significant influence on the development of Polish culture and art.

Leading brands of the Wólczanka business line:

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

Other own brands in the apparel segment:

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

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

Own brands in jewellery segment:

Jewellery segment	W.KRUK 1840	The scope of activity of VRG Group in the area of W.KRUK brand, currently managed by the subsidiary W.KRUK S.A. in Cracow, includes design, manufacturing and retail sales of branded luxury products such as jewellery, watches and accessories. W.KRUK has one of the highest brand recognition in comparison to other competitors operating on the jewellery market in Poland. Every year, under the brand name of W.KRUK, new original jewellery collections are introduced to the market. The main sales market for the W.KRUK brand remains Poland. W.KRUK's offer includes gold and platinum jewellery, in which the basic category of products is jewellery with diamonds and natural stones. The W.KRUK brand also sells jewellery made of silver and other metals. The assortment of this brand is additionally supplemented with gifts and accessories, e.g. cuff links, key rings, etc. In addition to classic jewellery, W.KRUK offers collections under the brand KRUK Fashion following the latest fashion trends. Introduction of the KRUK Fashion collection in 2001 was a breakthrough of many stereotypes prevailing on the Polish jewellery market. At least several times a year, unique brand collections, designed and manufactured by W.KRUK, are launched. The use of innovative solutions in the field of material selection and form distinguishes the brand on the Polish market. In 2019, W.KRUK as the first jewellery chain on the Polish market introduced to its sales offer a new category of diamonds – lab-grown ones – under its 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 assessment standards as mine diamonds. The collection decorated with New Diamond by W.KRUK includes rings under the name Perfect®, earrings and pendants with lab-grown diamonds in white and, for the first time on the Polish market, pink and blue.
	ZEGARKI	W.KRUK offers watches of luxury Swiss brands like Rolex (as the only distributor of this brand in Poland), Cartier, Jaeger-LeCoultre, Hublot, Panerai, Chopard, Breitling, Girard-Perregaux, Omega, Tudor, Tag Heuer, Longines, Rado, Frédérique Constant, Tissot, Certina, Doxa, Gucci, Swatch and many others. Watches of renowned brands sold in W.KRUK stores occupy a strong position on the Polish market, and their sales value is systematically increasing.

Manufacturing operations:

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

Seasonality and cyclicality of operations

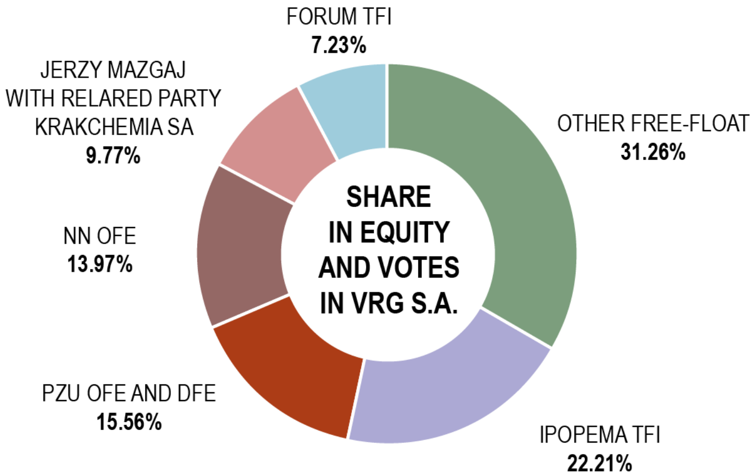
Retail sales both in the fashion sector and in the jewellery industry are characterized by significant seasonality of sales. For the apparel market, the most favourable period from the point of view of the generated financial result is the period of the second and fourth quarter, while in the jewellery segment, the period of the fourth quarter (especially the month of December).
In the area of geographical segments, all of the Capital Group's operations are carried out in the Republic of Poland.

3. SHARE CAPITAL AND SHAREHOLDERS

Shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total number of votes at the General Meeting of Shareholders of VRG S.A. as at the date of the consolidated semi-annual report and indication of changes in the ownership structure of significant blocks of VRG S.A. shares in the period from the submission of the last consolidated quarterly report.

1) Ownership structure of the share capital, in accordance with the information held by the Company as at the date of the consolidated semi-annual report for the first half of 2021

As at the date of the consolidated semi-annual report for the first half of 2021, the share capital of VRG S.A. is divided into 234,455,840 ordinary bearer shares, which gives a total of 234,455,840 votes at the General Meeting of Shareholders of VRG S.A. ("Parent Company").



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

No.	Shareholders	Number of shares held	Share in equity (in %)	Number of votes at the AGM	Share in the total number of votes at the AGM (in %)
1	IPOPEMA TFI[1]	52,066,678	22.21	52,066,678	22.21
2	PZU „Złota Jesień" Open Pension Fund and Voluntary Pension Fund [2]	36,470,100	15.56	36,470,100	15.56
3	Nationale-Nederlanden Open Pension Fund and Voluntary Pension Fund [3]	32,750,487	13.97	32,750,487	13.97
4	Jerzy Mazgaj with related party Krakchemia S.A [4]	22,900,000	9.77	22,900,000	9.77
5	Forum TFI S.A.[5]	16,946,800	7.23	16,946,800	7.23

[1] information provided in accordance with the notification received by the Company pursuant to Art. 69 sec. 2 point 1 lit. a and art. 87 sec. 1 point 2 lit. a of the Act of July 29, 2005 on public offering and the conditions for introducing financial instruments to an organized trading system and on public companies, applies to the Company's shares held jointly by all funds managed by IPOPEMA TFI S.A. According to the information in the possession of the Company, the Ipopema 2 FIZ Non-Public Assets fund managed by IPOPEMA TFI S.A. at the Ordinary General Meeting on June 28, 2021, he held 20,289,000 shares of the Company, which constituted 8.65% of the share capital of the Company and entitled to 20,289,000 votes representing 8.65% of the total number of votes at the General Meeting of the Company. According to the information possessed by the Company, the Ipopema 21 Closed-End Fund of Non-Public Assets, managed by IPOPEMA TFI SA, holds 31,658,785 shares of the Company, which constitutes 13.50% of the share capital of the Company and entitles to 31,658,785 votes, constituting 13.50% of the total number of votes at the General Meeting of the Company.
[2] information provided on the basis of the number of shares registered jointly by the Open Pension Fund PZU "Złota Jesień" and the PZU Volunteer Pension Fund PZU at the Ordinary General Meeting on June 28, 2021. Open Pension Fund PZU "Złota Jesień" at the Ordinary

General Meeting on June 28 .2021, he independently held 35,603,400 shares of the Company, which constituted 15.56% of the share capital of the Company and entitled to 35,603,400 votes, representing 15.56% of the total number of votes at the General Meeting of the Company.
[3] information based on the number of shares registered by Nationale-Nederlanden Open Penison Fund at the Ordinary General Meeting on June 28, 2021. Nationale-Nederlanden Open Penison Fund at the Ordinary General Meeting of June 28, 2021 held 32,750,487 shares of the Company, which constituted 13.97% of the share capital of the Company and entitled to 32,750,487 votes, constituting 13.97% of the total number of votes at the General Meeting of the Company.
[4] information provided on the basis of the number of shares registered jointly by Mr. Jerzy Mazgaj with a related entity Krakche-mia S.A. at the Ordinary General Meeting on June 28, 2021, Mr. Jerzy Mazgaj at the Ordinary General Meeting on June 28, 2021, held independently 21,900,000 shares of the Company, which constituted 9.34% of the share capital of the Company and entitled to 21,900,000 votes, representing 9.34% of the total number of votes at the General Meeting of the Company.
[5] information provided on the basis of the number of shares registered jointly by the fund Forum X Closed Investment Fund and Forum XXIII Closed Investment Fund managed by Forum TFI SA at the Ordinary General Meeting on June 28, 2021. Fund-dusz Forum X Closed Investment Fund at the Ordinary General Meeting of on June 28, 2021, he owned 6,951,760 shares of the Company, which constituted 2.97% of the share capital of the Company and entitled to 6,951,760 votes constituting 2.97% of the total number of votes at the General Meeting of the Company. Fund Forum XXIII Closed-end Investment Fund at the Ordinary General Meeting on June 28, 2021 held 9,995,040 shares of the Company, which constituted 4.26% of the share capital of the Company and entitled to 9,995,040 votes, representing 4.26% of the total number of votes at the General Meeting of the Company.

2) Changes in the ownership structure of significant blocks of the Company's shares from the date of publication of the last consolidated quarterly report for the first quarter of 2020 (May 27, 2021)

To the best knowledge of the Company, from the date of publication of the last consolidated quarterly report for the first quarter of 2020 (May 27, 2021), the following changes took place in the ownership structure of significant blocks of the Company's shares:

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 27.05.2021	50,034,306	21.34	50,034,306	21.34
	As at 25.08.2021	52,066,678	22.21	52,066,678	22.21

B	PZU „Złota Jesień" Open Pension Fund and PZU Voluntary Pension Fund	Number of shares held	Share in equity (in %)	Number of votes at the AGM	Share in the total number of votes at the AGM (in %)
	As at 27.05.2021	36,042,345	15.37	36,042,345	15.37
	As at 25.08.2021	36,470,100	15.56	36,470,100	15.56

C	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 27.05.2021	22,702,760	9.68	22,702,760	9,68
	As at 25.08.2021	22,900,000	9.77	22,900,000	9,77

D	Nationale – Nederlanden Open Pension Fund	Number of shares held	Share in equity (in %)	Number of votes at the AGM	Share in the total number of votes at the AGM (in %)
	As at 27.05.2021	32,750,000	13.97	32,750,000	13.97
	As at 25.08.2021	32,750,487	13.97	32,750,487	13.97

E	FORUM TFI S.A.	Number of shares held	Share in equity (in %)	Number of votes at the AGM	Share in the total number of votes at the AGM (in %)
	As at 27.05.2021	17,680,800	7.54	17,680,800	7.54
	As at 25.08.2021	16,946,800	7.23	16,946,800	7.23

3) Changes in the ownership of VRG S.A. shares and rights to them by managing and supervising persons

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

Zarząd Spółki	Number of shares held at the date of publication of 1H21 report	Number of shares held at the date of publication of 1Q21 report
Andrzej Jaworski – President of the Management Board	14,351	14,351
Radosław Jakociuk – Executive Vice-President of the Management Board	11	11
Michał Zimnicki – Executive Vice-President of the Management Board	4,000	4,000

b) changes in the possession by the managing persons of series F subscription warrants of the first tranche entitling them to take up new issuance P-series shares, issued in connection with implementation of the incentive program in 2018 pursuant to Resolution No. 17/06/2018 of the Annual General Meeting of VRG SA of June 27, 2018 on adopting the assumptions of the incentive program for members of the Company's Management Board, key managers or other persons significant for the Company (and companies from its capital group), issuance of subscription warrants with the exclusion of subscription rights, conditional share capital increase by issuing new shares, excluding pre-emptive rights, amending the Company's Articles of Association, authorizing the Management Board of the Company to conclude an agreement for the registration of new issuance shares with the National Depository for Securities and authorizing the Management Board of the Company to take all appropriate steps to admit the new issuance shares to trading on the regulated market ("Resolution").

Management Board	Number of series F subscription warrants on the date of publication of consolidated report for the first half of 2021	Number of series F subscription warrants on the date of publication of consolidated report for 1Q21
Radosław Jakociuk – Executive Vice-President of the Management Board	175,711	175,711

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

Supervisory Board	Number of shares on the date of publication of consolidated report for the first half of 2021	Number of shares on the date of publication of consolidated report for 1Q21
Jan Pilch – Deputy-Chair of the Supervisory Board	86,000	745,000
Wacław Szary – Supervisory Board Member	0	35,000

4. REMUNERATION OF THE MANAGEMENT AND SUPERVISORY BOARD FOR 1H21

Management Board

		PLN ths
Andrzej Jaworski	President of the Management Board	474
Radosław Jakociuk	Executive Vice-President of the Management Board	468
Michał Zimnicki	Executive Vice-President of the Management Board	270
Ernest Podgórski	Member of the Management Board	229

Olga Lipińska-Długosz	Member of the Management Board	151
Erwin Bakalarz	Member of the Management Board	23
Total		**1,615**

Supervisory Board

		PLN ths
Jerzy Mazgaj	Chair of the Supervisory Board / until 28.06.2021/	159
Mateusz Kolański	Member of the Supervisory Board / Chair of the Supervisory Board since July, 13, 2021/	76
Jan Pilch	Member of the Supervisory Board / Deputy-Chair of the Supervisory Board since July, 13, 2021/	101
Piotr Kaczmarek	Member of the Supervisory Board	86
Ernest Podgórski	Member of the Supervisory Board	5
Piotr Stępniak	Member of the Supervisory Board	101
Wacław Szary	Member of the Supervisory Board	93
Andrzej Szumański	Member of the Supervisory Board	86
Marcin Gomoła	Member of the Supervisory Board	1
Total		**708**

Managing and supervising persons received remuneration for performing functions in the governing bodies of subsidiaries. These salaries in total for the first half of 2021 amounted to:

		PLN ths
Jerzy Mazgaj	Chair of the Supervisory Board	71
Andrzej Jaworski	Member of the Supervisory Board	54
Ernest Podgórski	Member of the Supervisory Board	36
Jan Pilch	Member of the Supervisory Board	62
Total		**223**

Mr. Erwin Bakalarz was a Member of the Management Board of VRG S.A. from 1 to 11 January 2021; during this period he received remuneration for performing the function of the President of a subsidiary. The remuneration for this period was PLN 0.4 thousand.

Managing persons are entitled to benefits specified in employment or appointment contracts.

Apart from the benefits listed above, there were no other benefits for managing and supervising persons, including post-employment benefits, termination benefits, other long-term benefits.

5. SIGNIFICANT EVENTS IN 1H21 AND AFTER THE BALANCE SHEET DATE

11.01.2021

Changes in the composition of the Management Board and Supervisory Board of the Company

In the current report No. 3/2021 of January 11, 2021, the Management Board of VRG S.A. informed that on January 11, 2021, Mr. Erwin Bakalarz resigned from the position of a Member of the Management Board of the Company, effective January 11, 2021. In the current report No. 4/2021 of January 11, 2021, the Management Board of VRG S.A. informed that on January 11, 2021, Mr. Ernest Podgórski resigned from the position of a Member of the Supervisory Board of the Company. The resignation took effect on January 11, 2021. In the current report No. 5/2021 of January 11, 2021, the Management Board of VRG S.A. informed that the Supervisory Board of the Company, at the meeting held on January 11, 2021, elected two members of the Management Board of the Company for the current joint term of office. Pursuant to the resolutions of the Supervisory Board, the following were appointed to the Management Board of the Company: Mr Ernest Podgórski, PhD, Member of the Management Board responsible for IT and e-commerce, and Olga Lipińska-Długosz, PhD, Member of the Management Board.

19.01.2021

Appointment to the Supervisory Board of VRG S.A. member of the Supervisory Board by co-option

In the current report No. 7/2021 of January 19, 2021, the Management Board of VRG S.A. informed that on January 19, 2021, the Supervisory Board of the Company adopted a resolution to supplement the composition of the Supervisory Board by co-option provided for in paragraph 22 sec. 3 of the Company's Articles of Association. The Supervisory Board appointed Mr. Mateusz Karol Kolański to the Supervisory Board of the current joint term of office.

19.01.2021

Withdrawal of a shareholder's request to convene an Extraordinary General Meeting of VRG S.A. and announcement on the cancellation of the Extraordinary General Meeting of VRG S.A. convened on March 1, 2021.

In the current report No. 8/2021 of January 19, 2021, the Management Board of VRG S.A. informed that on January 19, 2021, it received a letter from the shareholder of IPOPEMA 21 Closed-end Fund of Non-Public Assets with its seat in Warsaw ("Fund") about the withdrawal of the request submitted by the Fund on October 28, 2020 to convene an Extraordinary General Meeting of the Company, about which the Company informed in the current report No. 69/2020. In connection with the receipt by the Company of the letter of the Fund referred to in point 1 above, the Management Board of the Company announced that pursuant to the resolution of the Management Board adopted on January 19, 2021, the Extraordinary General Meeting of the Company convened for March 1, 2021 is canceled.

03.02.2021

Notification on a significant block of shares

In the current report No. 11/2021 of February 3, 2021, the Company announced that it had received from IPOPEMA Mutual Fund with its seat in Warsaw ("the Fund"), the information sent pursuant to Art. 69 sec. 2 point 1 lit. a of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies (the "Act"), that as a result of the acquisition by the IPOPEMA 21 Closed-end Fund of Non-Public Assets managed by the Fund ("Closed-end Fund"), the Company's shares in transaction carried out on the regulated market on January 28, 2021, settled on February 1, 2021, the share of the Fund in the total number of votes in the Company increased by more than 2% in the total number of votes in the Company. Before the above-mentioned event, the Fund owned 28,492,901 shares of the Company, which constituted 12.15% of the share capital of the Company and gave 28,492,901 votes, which constituted 12.15% of the total number of votes at the General Meeting of the Company. After the above-mentioned event, the Fund owned 28,793,943 shares of the Company, which constituted 12.28% of the share capital of the Company and gave 28,793,943 votes and constituted 12.28% of the total number of votes at the General Meeting of the Company. At the same time, the Fund informed that the funds managed by the Society did not have the financial instruments referred to in Art. 69b paragraph. 1 of the Act.

17.02.2021

Convening of the Extraordinary General Meeting of the Company convened for March 17, 2021

In the current report No. 12/2021 of February 17, 2021, the Management Board of VRG S.A. announced the convening of the Extraordinary General Meeting of the Company on March 17, 2021 at 12.00 in Cracow in the conference room in the building MKS Cracovia SSA,. Józefa Kałuży 1 St., 30-111 Cracow, with the agenda including:

1. Opening of the General Meeting.
2. Election of the Chair of the General Meeting.
3. Confirmation that the General Meeting has been properly convened and is capable of adopting resolutions.
4. Adoption of a resolution on the approval of the co-option to the Supervisory Board of Mr. Mateusz Kolański in accordance with the resolution of the Supervisory Board of January 19, 2021.
5. Changes in the composition of the Supervisory Board of the Company.
6. Adoption of a resolution on changing the Remuneration Policy for Members of the Management Board and Supervisory Board of VRG S.A. based in Cracow.
7. Closing of the General Meeting.

The full text of the announcement on convening the Extraordinary General Meeting of the Company together with draft resolutions were, respectively, Appendix No. 1 and No. 2 to the current report No. 12/2021.

25.02.2021

Shareholder's request to include certain matters on the agenda of the Extraordinary General Meeting of the Company convened for March 17, 2021, supplementing the agenda of the Extraordinary General Meeting of the Company convened for March 17, 2021 and draft resolutions in connection with supplementing the agenda

In the current report No. 13/2021 of February 25, 2021, the Management Board of VRG SA informed that on February 24, 2021, the shareholder IPOPEMA 21 FIZAN, representing not less than 1/20 of the Company's share capital, had received an application based on art. 401 par. 1 of the Commercial Companies Code to include on the agenda of the Extraordinary General Meeting of the Company convened on March 17, 2021 at 12:00 (hereinafter: the "General Meeting") the following matter: changes in the Company's Articles of Association and extension of the agenda of the General Meeting by the following items:

1. Adoption of a resolution on amendments to the Articles of Association with regard to the resolution appointing a member of the Supervisory Board.
2. Adoption of a resolution on amendments to the Company's Articles of Association with regard to the obligation to convene a meeting of the Company's Supervisory Board.
3. Adoption of a resolution on amendments to the Company's Articles of Association with regard to the lack of return of the vote by a member of the Company's Supervisory Board in a ordered vote.
4. Adoption of a resolution on amendments to the Company's Articles of Association with regard to voting using means of direct remote communication.
5. Adoption of a resolution on amendments to the Company's Articles of Association with regard to the adoption of the regulations of the Supervisory Board of the Company.
6. Adoption of a resolution on amendments to the Company's Articles of Association in the scope of extending the catalogue of activities for which the consent of the Company's Supervisory Board is required.
7. Adoption of a resolution on amendments to the Company's Articles of Association with regard to the management of the budget specified by the General Meeting.
8. Adoption of a resolution to amend the Articles of Association in the scope of extending the competences of the General Meeting of Shareholders.
9. Adoption of a resolution authorizing the Supervisory Board to adopt the consolidated text of the Company's Articles of Association.

Taking into account the shareholder's request pursuant to Art. 401 par. 2 of the Commercial Companies Code, the Management Board of the Company decided to extend the agenda of the General Meeting to include items included in the shareholder's request. In connection with the above, the Management Board of the Company announced an extended agenda for the General Meeting.

1. Opening of the General Meeting.
2. Election of the Chairman of the General Meeting.
3. Confirmation that the General Meeting has been properly convened and is capable of adopting resolutions.
4. Adoption of a resolution on the approval of the co-option to the Supervisory Board of Mr. Mateusz Kolański in accordance with the resolution of the Supervisory Board of January 19, 2021.
5. Changes in the composition of the Supervisory Board of the Company.
6. Adoption of a resolution on changing the Remuneration Policy for Members of the Management Board and Supervisory Board of VRG S.A. based in Krakow.
7. Adoption of a resolution on amendments to the Company's Articles of Association with regard to the resolution appointing a member of the Supervisory Board.
8. Adoption of a resolution on amendments to the Company's Articles of Association with regard to the obligation to convene a meeting of the Company's Supervisory Board.
9. Adoption of a resolution on amendments to the Company's Articles of Association with regard to the lack of return of the vote by a member of the Company's Supervisory Board in a ordered vote.
10. Adoption of a resolution on amending the Company's Articles of Association with regard to voting using means of direct remote communication.
11. Adoption of a resolution on amendments to the Company's Articles of Association with regard to the adoption of the Company's Supervisory Board regulations.
12. Adoption of a resolution on amending the Articles of Association in the scope of extending the catalog of activities for which the consent of the Company's Supervisory Board is required.
13. Adoption of a resolution on amendments to the Company's Articles of Association with regard to the management of the budget specified by the General Meeting.
14. Adoption of a resolution to amend the Articles of Association in the scope of extending the competences of the General Meeting of Shareholders.
15. Adoption of a resolution authorizing the Supervisory Board to adopt the uniform text of the Company's Articles of Association.
16. Closing of the General Meeting.

The current report no. 13/2021 and appendix no. 1 hereto present amendments to the Articles of Association of the Company along with draft resolutions proposed by the shareholder.

10.03.2021

Submission by a shareholder of draft resolutions for the Extraordinary General Meeting of the Company convened for March 17, 2021 pursuant to Art. 401 par. 4 of the Code of Commercial Companies.

In the current report No. 15/2021 of March 10, 2021, the Management Board of VRG S.A. informed that on March 10, 2021, the shareholder Jerzy Mazgaj had received a notification of draft resolutions for the Extraordinary General Meeting of the Company convened for March 17, 2021. at 12:00 to points 8, 9, 12 and 14 of the extended agenda on February 25, 2021, about which the Company informed in the current report No. 13/2021 of February 25, 2021. Draft resolutions proposed by the shareholder were presented in Appendix No. 1 to the current report No. 15/2021.

17.03.2021

Resolutions adopted by the Extraordinary General Meeting of the Company on March 17, 2021

In the current report no. 16/2021 of March 17, 2021, the Company informed about the content of the resolutions of the Extraordinary General Meeting of the Company on March 17, 2021 regarding amendments to the Company's Articles of Association regarding § 20 sec. 3, §20 section 5, §21 section 3, §21 section 4, §22 section 6, §30 section 1. Detailed information on the above-mentioned changes to the Company's Articles of Association is presented in the appendix to the current report no. 16/2021.

07.04.2021

Notification on a significant block of shares

In the current report no. 21/2021 of April 7, 2021, the Company informed that on April 7, 2021, it had received from Open Pension Fund PZU S.A. with its seat in Warsaw ("Mutual Fund") acting on behalf of the Open Pension Fund PZU "Złota Jesień" (hereinafter: "OFE PZU") notifications pursuant to Art. 69 sec. 1 point 1 of the Act of July 29, 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies, that as a result of a purchase transaction of 30,000 shares of the Company, concluded on the regulated market on the Warsaw Stock Exchange on April 1 2021, as of the settlement date of April 7 this year, OFE PZU achieved and exceeded the share of 15% of the total number of votes in the Company. Before the above-mentioned event, OFE PZU owned 35,145,632 shares of the Company, which constituted 14.999% of the share capital of the Company and gave 35,145,632 votes, which constituted 14.990% of the total number of votes at the General Meeting of the Company. After the above-mentioned event, OFE PZU z owned 35,175,632 shares of the Company, which constituted 15.003% of the share capital of the Company and gave 35,175,632 votes and constituted 15.003% of the total number of votes at the General Meeting of the Company. At the same time, the Pension Fund informed that OFE PZU did not have any subsidiaries holding the Company's shares, the situation indicated in Art. 69 sec. 4 point 6 of the above-mentioned of the Act, also does not have the financial instruments referred to in Art. 69b paragraph. 1 point 1) and point 2) of the above-mentioned the law.

27.04.2021

Registration in the register of entrepreneurs of the National Court Register of amendments to the Company's Articles of Association

In the current report No. 25/2021 of April 27, 2021, the Company informed that on April 27, 2021, the District Court for Cracow-Śródmieście in Cracow, 11th Commercial Division of the National Court Register, entered in the register of entrepreneurs amendments to the Company's Articles of Association resulting from the provisions of resolutions adopted during the Extraordinary General Meeting of VRG SA of March 17, 2021 on amendments to the Company's Articles of Association. Description of changes in the Company's Articles of Association resulting from the above resolutions of the Extraordinary General Meeting of VRG S.A. of March 17, 2021, along with the uniform text of the Company's Articles of Association, are included in the current report No. 25/2021.

29.04.2021

Conclusion of a loan agreement

In the current report No. 26/20201, the Company announced that it had received, on April 29, 2021, an annex to the multi-product agreement with ING Bank Śląski S.A. signed on April 28, 2021. based in Katowice (hereinafter: the "Bank") regarding the renewal and increase of the credit limit for the multi-product line, including: working capital loans in bank accounts and other services including: bank guarantees, letters of credit and discount transactions (redemption of receivables reverse) up to the total limit of PLN 55,000 thousand the period until November 29, 2022, and then with its reduction by PLN 2,000 thousand each time from November 30, 2022, December 31, 2022, January 31, 2023, February 28, 2023, March 31, 2023 with the final deadline until April 20, 2023.

The collateral for the above-mentioned limit is: a guarantee of Bank Gospodarstwa Krajowego up to 80% of the granted loan amount, a declaration of submission to enforcement in the form of a notarial deed pursuant to Art. 777 of the Code of Civil Procedure, registered pledge on the BYTOM (word and word and figurative) trademarks, INTERMODA word and figurative trademark, registered pledges on the BYTOM brand inventories together with the assignment of insurance policies for these inventories and the assignment of proceeds from payment cards servicing BYTOM stores. In addition, a working capital loan in the form of a revolving line up to 110% of the credit limit is used as security for servicing the repayment of the Company's liabilities under the products available under the multi-product line. The financing documents provide for information obligations towards the Bank, as well as the obligation to maintain certain financial ratios and other obligations. The terms of the financing documents do not differ from those commonly used for this type of agreement.

19.05.2021

Resignation of a member of the Management Board of the Company

In the current report No. 28/2021 of May 19, 2021, the Company informed that on May 19, 2021, Mr. Ernest Podgórski resigned from the position of a Member of the Management Board of the Company, effective as of the date of the Ordinary General Meeting of VRG S.A. based in Cracow approving the Company's financial statements for 2020.

19.05.2021

Selection of an audit firm for the purpose of carrying out the statutory audit of VRG S.A.'s financial statements and the VRG S.A. Capital Group in 2021, 2022 and 2023

In the current report No. 36/2021 of May 31, 2021, the Company informed that on May 31, 2021, the Supervisory Board of the Company, after becoming acquainted with the recommendation of the Company's Audit Committee, adopted a resolution on the selection of an audit firm for the purpose of conducting statutory audit of VRG SA financial statements and the VRG S.A.Capital Group in 2021, 2022 and 2023. Pursuant to the above resolution, the Supervisory Board of the Company selected the auditing company Grant Thornton Polska Sp. z o.o. sp.k. with its registered office in Poznań, entered into the list of auditing companies kept by the Polish Audit Oversight Agency under No. 4055 for the statutory audit of the separate annual financial statements of the Company and the consolidated annual financial statements of the Company's Capital Group for the years 2021-2023 and the review of the individual half-yearly the Company's financial statements and the consolidated semi-annual financial statements of the Company's Capital Group for the first half of the years 2021-2023.

28.06.2021

Resolutions adopted at the Ordinary General Meeting of VRG S.A. on June 28, 2021; Appointment of the Supervisory Board for a new term

In the current report No. 43/2021 of June 28, 2021, the Management Board of the Company informed that the Ordinary General Meeting of VRG S.A. on June 28, 2021, adopted the resolutions indicated in Appendix No. 1 to the current report. Annex 1 also contained draft resolutions submitted to voting and not adopted by the Ordinary General Meeting of VRG S.A. At the same time, the Management Board of the Company announced that the 7-person Supervisory Board of VRG S.A. of the new term of office were appointed:

1. Prof. Andrzej Szumański - biographical note and information specified in § 10. point 4-6 of the Regulation of the Minister of Finance of March 29, 2018 on current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by the law of a non-member state, "Regulation" - were published in the current report No. 31 / 2021 of May 26, 2021.
2. Piotr Kaczmarek - biographical note and information specified in § 10. point 4-6 of the Regulations were published in the current report No. 32/2021 of May 27, 2021.
3. Piotr Stępniak - biographical note and information specified in § 10. point 4-6 of the Regulations were published in the current report No. 33/2021 of May 27, 2021.
4. Mateusz Kolański - biographical note and information specified in § 10. point 4-6 of the Regulations were published in the current report No. 33/2021 of May 27, 2021.
5. Jan Pilch - biographical note and information indicated in § 10. point 4-6 of the Regulations were published in the current report No. 34/2021 of May 27, 2021.
6. Wacław Gray - biographical note and information specified in § 10. point 4-6 of the Regulations were published in the current report No. 41/2021 of June 22, 2021.
7. Marcin Gomoła - biographical note and information specified in § 10. point 4-6 of the Regulations were published in the current report No. 41/2021 of June 22, 2021.

08.07.2021

Notification on a significant block of shares

In the current report No. 47/2021 of July 8, 2021, the Company informed that it had received from IPOPEMA Towarzystwo Funduszy Inwestycyjne S.A. with its registered office in Warsaw "Mutual Fund", information of July 8, 2021, pursuant to art. 69 sec. 2 point 1 letter a and art. 87 sec. 1 point 2 letter a of the Act of July 29, 2005 on the offer the public and the conditions for introducing financial instruments to the organized trading system and on public companies "The Act" that as a result of the acquisition by the IPOPEMA 21 FIZ Fund of Non-public Assets managed by "Mutual Fund", the Company's shares in a transaction carried out on the regulated market on 6 July 2021, settled on July 8, 2021, the share of the Funds managed by the Mutual Fund in the total number of votes in the Company increased by more than 2% in the total number of votes in the Company. Before the above-mentioned event, the Funds held 51,726,678 shares of the Company, which constituted 22.06% of the share capital of the Company and gave 51,726,678 votes, which constituted 22.06% of the total number of votes at the general meeting of the Company. After the above-mentioned event, the Funds hold 52,066,678 shares of the Company, which constitutes 22.21% of the share capital of the Company and gives 52,066,678 votes and constitutes 22.21% of the total number of votes at the general meeting of the Company. At the same time, the Mutual Fund informed that the Funds managed by the Mutual Fund did not have the financial instruments referred to in Art. 69b paragraph. 1 of the Act.

22.07.2021

Resignation of a member of the Management Board of the Company

In the current report No. 48/2021 of July 22, 2021, the Management Board of the Company informed that on July 22, 2021, Ms. Olga Lipińska-Długosz resigned from the position of a Member of the Management Board of the Company with effect on August 31, 2021.

03.08.2021

Information on making a write-off

In the current report No. 50/2021 of August 3, 2021, the Management Board of the Company informed that on August 3, 2021, a decision was made to make an impairment write-down in the amount of PLN 9,211,596.00. The decision was made after analyzing and reviewing and recognizing the impairment of inventories covering: inventories of raw materials for the production of clothing products, inventories of clothing products intended for sale in the wholesale channel, and inventories of commercial goods and finished goods. The impairment loss will be recognized in the Company's financial statements for the first half of 2021.

6. FINANCIAL RESULTS OF VRG S.A. GROUP IN 1H21

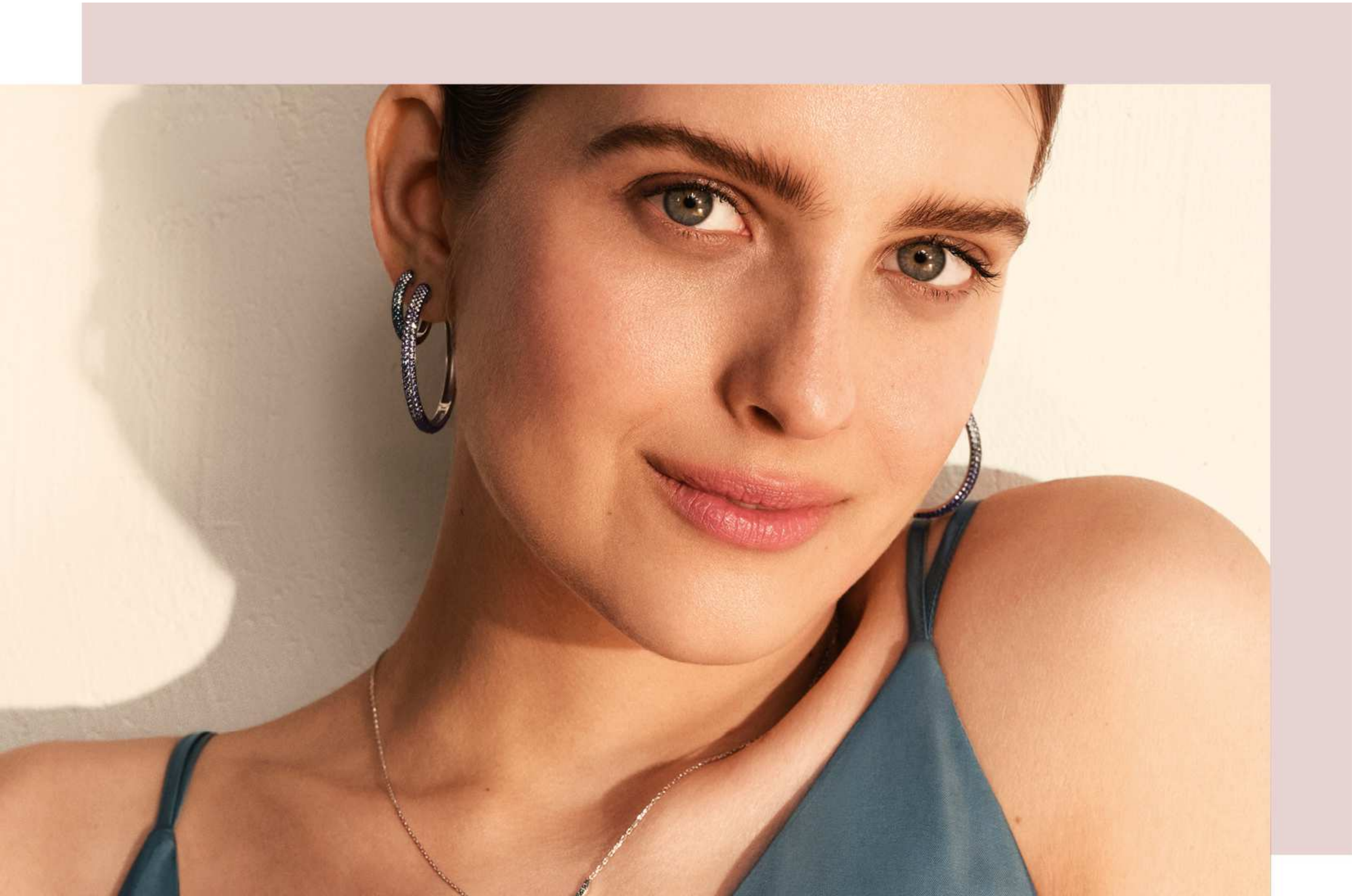
The consolidated financial results of the VRG Capital Group for the first half of 2021 include the results of the parent company VRG S.A. and the results of subsidiaries, including W.KRUK S.A. and DCG S.A.

At the end of the first half of 2021, compared to the corresponding period of 2020, retail floorspace decreased to 52.4 thousand m2, i.e. by 0.6% YoY. The fall in floorspace in the apparel segment amounted to 1.5%, while in the jewellery segment, floorspace increased by some 2.9%.

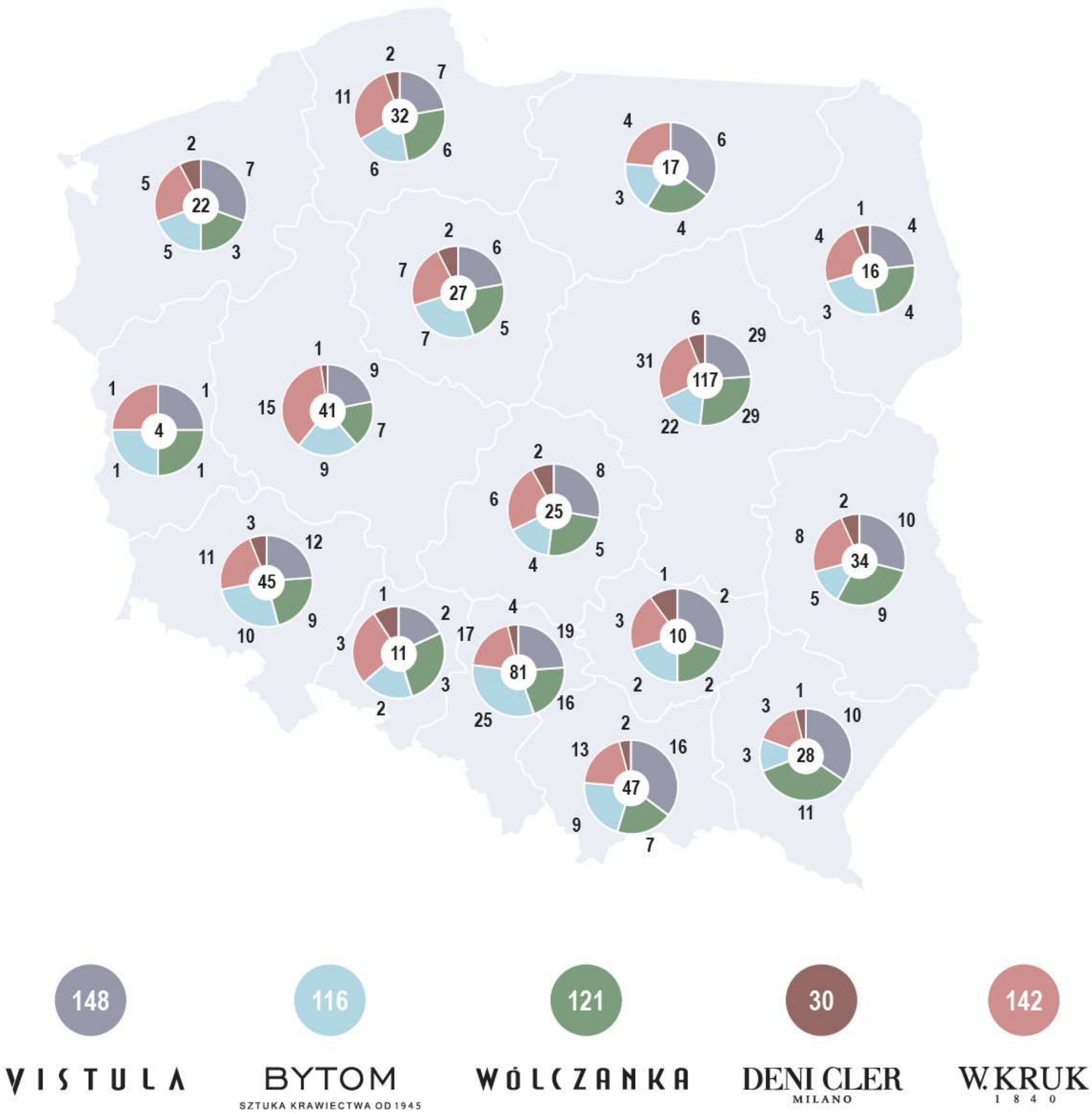
Retail floorspace (end of period):

	PLN ths	
	30.06.2021	30.06.2020
Apparel segment	41.3	42.0
Jewellery segment	11.1	10.7
Total floorspace	**52.4**	**52.7**

As at the date of this report, the majority of revenues came from a network of retail stores of individual brands belonging to the Capital Group. As at the date of this report, the Capital Group retail network encompasses 590 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 leases is concluded for an indefinite period. The majority of the stores are located in modern shopping malls.



Below we present distribution and number of branded stores of the Capital Group at the end of 1H21 by individual brands.



Selected financial data of VRG Group

	PLN ths			
	1H21 from January 1, 2021 to June 30,-2021	1H20 from January 1, 2020 to June 30,-2020	2Q21 from January 1, 2021 to March 31,-2021	2Q20 from January 1, 2020 to March 31,-2020
Revenues	416,114	372,342	244,013	174,873
EBITDA	54,233	35,813	43,510	18,514
EBIT	895	-22,288	16,715	-10,374
Net result	**2,848**	**-31,775**	**22,952**	**180**

IAS17*	PLN ths			
	1H21 from January 1, 2021 to June 30,-2021	1H20 from January 1, 2020 to June 30,-2020	2Q21 from January 1, 2021 to March 31,-2021	2Q20 from January 1, 2020 to March 31,-2020
Revenues	416,114	372,342	244,013	174,873
EBITDA	12,198	-11,860	19,179	-5,582
EBIT	1,656	-23,515	13,957	-11,338
Net result	**-397**	**-22,319**	**11,531**	**-8,314**

** The table above presents the main financial items of the Group, showing the impact of IAS 17 as the previous standard*

Revenues

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

The decisive impact on the financial results of the Group in the first half of 2021 was the issue of regulations on December 21, 2020 and March 19, 2021 by the Council of Ministers on the establishment of certain restrictions, orders and bans in connection with the outbreak of an epidemic, imposing restrictions on the operation of commercial facilities, with a sales area of over 2,000m2. Due to this regulation, a small number of the Group's traditional stores operated from 2 to 31 January 2021 and from 20 March to 4 May 2021. In the same period of 2020, the above bans on the operation of stores were in force in the period from March 14 to May 4, 2020.

The sales revenues of the Capital Group in the first half of 2021 amounted to PLN 416.1 million and were by PLN 43.8 million (12%) higher than revenues achieved in the corresponding period of the previous year. In the apparel segment in the first half of 2021, the Group recorded a 5% decrease in revenues YoY, while in the jewellery segment, an increase by 40% compared to last year was recorded.

APPAREL SEGMENT

Apparel segment	PLN ths			
	1H21 from January 1, 2021 to June 30,-2021	1H20 from January 1, 2020 to June 30,-2020	2Q21 from January 1, 2021 to March 31,-2021	2Q20 from January 1, 2020 to March 31,-2020
Revenues	**226,442**	**237,292**	**140,385**	**113,996**
Cost of sales	109,869	128,348	62,264	61,864
Gross profit on sales	**116,573**	**108,944**	**78,121**	**52,132**
Other operating income	110,554	99,996	60,330	44,921
Profit from sale of non-financial non-current assets	23,558	24,487	12,225	10,598
Selling costs	7,511	4,658	7,320	4,484
Administrative expenses	22	-	11	-
Other operating costs	14,487	17,152	12,995	16,547
Loss from sale of non-financial non-current assets	-	150	-	121
Profit (loss) from operations	**-24,493**	**-28,183**	**-98**	**-15,571**
Financial income / costs	2,287	-9,909	6,849	3,890
Pre-tax profit (loss)	**-22,206**	**-38,092**	**6,751**	**-11,681**
Income tax	-3,821	-6,898	541	-4,030
Net profit (loss) for the period	**-18,385**	**-31,194**	**6,210**	**-7,651**

IAS 17* Apparel segment	PLN ths			
	1H21 from January 1, 2021 to June 30,-2021	1H20 from January 1, 2020 to June 30,-2020	2Q21 from January 1, 2021 to March 31,-2021	2Q20 from January 1, 2020 to March 31,-2020
Revenues	**226,442**	**237,292**	**140,385**	**113,996**
Cost of sales	109,869	128,348	62,264	61,864
Gross profit on sales	**116,573**	**108,944**	**78,121**	**52,132**
Other operating income	109,436	101,004	61,664	45,728
Profit from sale of non-financial non-current assets	23,720	24,356	12,306	10,453
Selling costs	7,339	4,607	7,208	4,453
Administrative expenses	22	-	11	-
Other operating costs	14,467	17,152	12,993	16,547
Loss from sale of non-financial non-current assets	-	150	-	121
Profit (loss) from operations	**-23,689**	**-29,111**	**-1,623**	**-16,264**
Financial income / costs	-611	-2,015	1,133	722

IAS 17* Apparel segment	PLN ths			
	1H21 from January 1, 2021 to June 30,-2021	1H20 from January 1, 2020 to June 30,-2020	2Q21 from January 1, 2021 to March 31,-2021	2Q20 from January 1, 2020 to March 31,-2020
Pre-tax profit (loss)	**-24,300**	**-31,125**	**-490**	**-15,542**
Income tax	-4,249	-5,491	113	-2,623
Net profit (loss) for the period	**-20,051**	**-25,634**	**-602**	**-12,919**

******The table above presents the basic financial items of the Group's apparel segment, showing the impact of IAS17 as the previously applicable standard*

Retail sales

Revenues from sales in the apparel segment in the first half of 2021 amounted to PLN 226.4 million and were by PLN 10.9 million (i.e. 5%) lower than revenues for the first half of 2020. In 2Q21, sales in this segment amounted to PLN 140.4 million, which means an increase compared to 2Q20 by 23%

Apparel segment	PLN m			
	1H21 from January 1, 2021 to June 30,-2021	1H20 from January 1, 2020 to June 30,-2020	2Q21 from January 1, 2021 to March 31,-2021	2Q20 from January 1, 2020 to March 31,-2020
Revenue	**226.4**	**237.3**	**140.4**	**114.0**
Retail sales	213.6	226.1	133.7	109.2
Processing	9.5	9.4	4.7	4.4
B2B	3.3	1.7	2.0	0.3

In 1H21, the Group recorded the following results in the following retail channels:

VISTULA Revenues PLN 86.0m (- 7%)	BYTOM Revenues PLN 61.4m (-10%)	WÓLCZANKA Revenues PLN 47.5m (-2%)	DENI CLER MILANO Revenues 18,7 mln PLN (+8%)

The sales results for the first half of 2021 were significantly affected by the epidemiological condition introduced throughout the country, which resulted in the exclusion of stationary stores located in shopping centers from trade in January and from March 20 to the beginning of May 2021.

In the first half of 2021, there was a decrease in sales both in the offline network (by 2.5% YoY) and in online sales (by 10% YoY) compared to the same period last year. The share of online in revenues of the apparel segment was 34% in the first half of 2021, compared to the 36% share of online sales in the first half of 2020. The decrease in sales in the first half of 2021 is mainly due to sales results in the first quarter of 2021. The loss in sales in the reporting period was significantly reduced thanks to its increases in the second quarter of 2021.

In the second quarter of 2021, there was a significant increase in offline sales, i.e. by 63% YoY, and a decrease in online sales by 27% compared to the same period last year. The share of online in revenues of the apparel segment was 25% in the second quarter of 2021, compared to 43% of online sales in the second quarter of 2020.

There was a noticeable return of customers to traditional stores after the opening of stores in early May and redirection of traffic from the online to the offline channel. We observed an increase in store entries compared to last year and the interest in purchasing products from the formal collection.

In the second quarter, the Group recorded the following sales dynamics in retail channels:

VISTULA Revenues PLN 57.2m (+30%)	BYTOM Revenues PLN 39.0m (+14%)	WÓLCZANKA Revenues PLN 27.8m (+14%)	DENI CLER MILANO Revenues PLN 9.8m (+40%)

Gross profit margin

Gross profit on sales in the apparel segment in the first half of 2021 amounted to PLN 116.6 million and was 7% higher than that generated in the corresponding period of the previous year. Gross margin on sales increased to 51.5% and was higher by 5.6 pp. compared to the first half of 2020. The increase in the gross margin resulted from the increase in the share of offline channel sales (characterized by a higher gross margin on sales) in retail sales and changes in the promotional policy (limitation of promotional campaigns).

VRG gross margin in H1 2021 by brand

VISTULA 54.2% (gross margin up 6.2 pp.)	BYTOM 51.4% (gross margin up 4.6 pp.)	WÓLCZANKA 52.9% (gross margin up 6.8 pp.)	DENI CLER MILANO 57.5% (gross margin up 6.3 pp.)

Gross profit on sales in the apparel segment in 2Q20 amounted to PLN 78.1 million and was 50% higher than that generated in 2Q20. The gross margin for 2Q21 was 55.6% (2Q20: 45.7%).

VRG gross margin in 2Q21 by brand

VISTULA 58.1% (gross margin up 9.7 pp.)	BYTOM 56.2% (gross margin up 8.4 pp.)	WÓLCZANKA 56.5% (gross margin up 13.5 pp.)	DENI CLER MILANO 62.3% (gross margin up 10.3 pp.)

Selling costs

Selling costs in 1H121 amounted to PLN 110.6 million and were higher by PLN 10.6 million (+ 11%) compared to the costs incurred in the corresponding period of 2020. Selling costs in 2Q20 amounted to PLN 60.3 million and were higher by PLN 15.4 million compared to the cost in 2Q20 (+ 34%).
The share of selling costs in revenues in the first half of 2021 was 48.8% compared to 42.1% in the first half of 2020. In the second quarter of 2021, the share of selling costs increased to 43% compared to 39.4% in the same period last year. The increase in the share of selling costs in revenues results from a decrease in revenues in the first half of 2021 due to a longer period of stores being closed than in the first half of 2021 and is a result of an increase in payroll costs (last year, a longer period of reducing FTEs to 4/5 , no bonuses) and rentals.

G&A costs

General and administrative costs in the first half of 2021 amounted to PLN 23.6 million compared to PLN 24.5 million, which means a decrease by PLN 0.9 million compared to the first half of 2020. The share of general and administrative expenses in sales revenues is at a stable level: in the first half of 2021, 10.4% as compared to 10.3% in the corresponding period of 2020. In 2Q21, general and administrative expenses amounted to PLN 12.2 million compared to PLN 10.6 million (an increase by 15%), and their share in revenues was 8.7% in 2Q21 compared to 9.3% in 2Q20. Last year, a significant impact on the value of costs was the reduction of remuneration costs as a result of the use by the companies of the apparel segment of the government program of assistance for employers related to preventing, counteracting and combating Covid-19.

Operating profit in the apparel segment

In the first half of 2021, there was a loss in the apparel segment in the amount of PLN 24.5 million, compared to a PLN 28.2 million loss in the first half of 2020 (decrease of the loss by PLN 3.7 million). The operating loss in this segment was PLN 0.1m in 2Q21, compared to the loss in 2Q20 of PLN 15.6m. In other operating income, co-financing from COVID-19 from the Guaranteed Employee Benefits Fund and redemption of Social Security contributions in the total amount of PLN 6.3 million in the first half of 2021 (in the first half of 2020: PLN 4.2 million) was recognized, while in other operating costs, write-offs on inventories in the amount of PLN 9.4 million (H1 2020: PLN 13.9 million in write-offs on inventories) and a write-off at VRG SA of buildings and real estate in the amount of PLN 1.9 million (of which PLN 1.3 million related to property, plant and equipment and PLN 0.6 million to real estate). The write-off for inventories concerned mainly wholesale finished goods as well as goods and finished products from older collections. The better year-on-year operating result is mainly the result of an improvement in the gross margin and a more favourable balance of other operating income / expenses.

Financial income and costs

The net financial activities in the apparel segment amounted to PLN 2.3 million in the first half of 2021, compared to PLN -9.9 million in the first half of 2020. The introduction of the IFRS16 standard to financial reporting from January 1, 2019, in the first half of 2021, had a positive effect on the balance of the financial activities of the apparel segment in the amount of PLN 2.9 million (in the first half of 2020, the impact was negative and amounted to PLN 7.9 million) .

Apparel segment	PLN ths			
	1H21 from January 1, 2021 to June 30,-2021	1H20 from January 1, 2020 to June 30,-2020	2Q21 from January 1, 2021 to March 31,-2021	2Q20 from January 1, 2020 to March 31,-2020
Financial costs net	-1,655	-644	-1,409	-684
FX differences net (excl. IFRS16)	1,044	-1,371	2,542	1,406
IFRS 16 impact	2,898	-7,894	5,716	3,168
'- incl. FX differences	*4,567*	*-6,678*	*6,510*	*3,823*
'- incl. interest	*-1,669*	*-1,216*	*-794*	*-655*
Financial income/ costs	**2,287**	**-9,909**	**6,849**	**3,890**

Net result in the apparel segment

Within the apparel segment, the VRG Capital Group reported a net loss of PLN 18.4 million in the first half of 2021, compared to a PLN 31.2 million net loss in the first half of 2020. The Group in this segment generated a net profit of PLN 6.2 million in 2Q21, compared to a loss of PLN 7.7 million in 2Q20. The higher financial result is a consequence of higher sales per m2 in the apparel segment, a significant improvement in the gross margin as well as a more favorable balance of other operating income and expenses as well as financial activities

JEWELLERY SEGMENT

Jewellery segment	PLN ths			
	1H21 from January 1, 2021 to June 30,-2021	1H20 from January 1, 2020 to June 30,-2020	2Q21 from January 1, 2021 to March 31,-2021	2Q20 from January 1, 2020 to March 31,-2020
Revenues	**189,672**	**135,050**	**103,628**	**60,877**
Cost of sales	93,418	67,951	50,605	30,930
Gross profit on sales	**96,254**	**67,099**	**53,023**	**29,947**
Selling costs	58,511	49,142	30,642	20,639
Administrative expenses	13,228	14,576	6,534	6,494
Other operating income	1,804	4,569	1,788	4,166
Gain from sale of non-fixed assets	-	-	24	-
Other operating costs	927	1,974	846	1,704
Loss from sale of non-financial non-current assets	4	81	-	79
Profit (loss) from operations	**25,388**	**5,895**	**16,813**	**5,197**
Financial income / costs	1,029	-6,191	3,209	3,193
Pre-tax profit (loss)	**26,417**	**-296**	**20,022**	**8,390**
Income tax	5,184	285	3,280	559
Net profit (loss) for the period	**21,233**	**-581**	**16,742**	**7,831**

IAS 17* Jewellery segment	PLN ths			
	1H21 from January 1, 2021 to June 30,-2021	1H20 from January 1, 2020 to June 30,-2020	2Q21 from January 1, 2021 to March 31,-2021	2Q20 from January 1, 2020 to March 31,-2020
Revenues	**189,672**	**135,050**	**103,628**	**60,877**
Cost of sales	93,418	67,951	50,605	30,930
Gross profit on sales	**96,254**	**67,099**	**53,023**	**29,947**
Selling costs	58,182	49,717	31,611	21,083
Administrative expenses	13,466	14,288	6,670	6,321
Other operating income	1,671	4,556	1,659	4,166
Gain from sale of non-fixed assets	-	-	24	-
Other operating costs	927	1,974	846	1,704
Loss from sale of non-financial non-current assets	4	81	0	79
Profit (loss) from operations	**25,346**	**5,595**	**15,580**	**4,926**
Financial income / costs	-879	-881	-537	1,352

IAS 17* Jewellery segment	PLN ths			
	1H21 from January 1, 2021 to June 30,-2021	1H20 from January 1, 2020 to June 30,-2020	2Q21 from January 1, 2021 to March 31,-2021	2Q20 from January 1, 2020 to March 31,-2020
Pre-tax profit (loss)	**24,467**	**4,715**	**15,043**	**6,277**
Income tax	4,813	1,399	2,909	1,673
Net profit (loss) for the period	**19,653**	**3,316**	**12,134**	**4,604**

∗The table above presents the basic financial items of the jewellery segment, showing the impact of IAS17 as the previously applicable standard

Revenues

Revenues in the Group in the first half of 2021 in the jewellery segment amounted to PLN 189.7 million and were higher than the segment's sales in the first half of 2020 by PLN 54.6 million (+ 40%). In 2Q221, revenues in this segment amounted to PLN 103.6 million and were higher than those achieved in 2Q20 by PLN 42.8 million (+ 70%). Higher sales are the result of significant increases in the offline channel and a much faster recovery of demand after opening the stores than in 2020.

Gross profit margin

Gross profit on sales in the jewellery segment in the first half of 2021 amounted to PLN 96.3 million and was 43% higher than that generated in the corresponding period of the previous year. Gross margin increased by 1.0 pp. and amounted to 50.7% in the first half of 2021 compared to 49.7% in the first half of 2020. The gross margin in 2Q21 was 51.2%, which means an increase in the margin by 2.0 pp. compared to 2Q20. The increase in gross margin was influenced by the decline in the share of online sales (characterized by a lower level of gross margin on sales) in retail sales.

Selling costs

Selling costs in the first half of 2021 amounted to PLN 58.5 million compared to PLN 49.1 million in the corresponding period the period of the previous year, which means an increase in selling costs by PLN 9.4 million (+ 19%). In the jewellery segment, the share of selling costs in total sales decreased from 36.4% in the first half of 2020 to 30.8% in the first half of 2021. Selling costs in 2Q21 amounted to PLN 30.6 million, which means an increase compared to 2Q20 by PLN 10.0 million (+ 48%). Their share in revenues amounted to 29.6% in 2Q21, compared to 33.9% in 2Q20. It should also be noted that the lower selling costs in the first half of 2020 resulted in a significant part from the reduction of salary costs (reduction of full-time jobs to 4/5) and lower rental costs.

G&A costs

In the first half of 2021, general and administrative costs amounted to PLN 13.2 million and were lower by PLN 1.3 million compared to the first half of 2020. The share of general and administrative costs in sales amounted to 7.0% and was lower by 3.8 pp. compared to the first half of 2020. In 2Q21, these costs amounted to PLN 6.5m, which means they were at the last year's level. Their share in sales amounted to 6.3% in 2Q21 compared to 10.7% in 2Q20. The decrease in the share of costs in sales revenues is related to a significant increase in sales YoY with a stable level of general and administrative expenses.

Operating EBIT in the jewellery segment

VRG in the jewellery segment recorded an increase in operating profit in the first half of 2021 to PLN 25.4 million, i.e. by PLN 19.5 million compared to the first half of 2020. The operating profit margin was 13.4% compared to the operating profit margin of 4.4% in the same period last year.
VRG in this segment recorded an operating profit of PLN 16.8 million in 2Q21, compared to PLN 5.2 million in 2Q20. Operating profit margin increased from 8.5% in 2Q20 to 16.2% in 2Q21. In other operating income, PLN 1.5 million was recognized due to the redemption of Social Security contributions (in the first half of 2020, PLN 3.6 million of co-financing from the Guaranteed Employee Benefits Fund was recognized). The increase in sales per m2 and the improvement in the margin contributed to an increase in the operating result of the jewellery segment both in the second quarter and in the first half of 2021.

Financial income and costs

The net financial activities in the jewellery segment amounted to PLN +1.0 million in the first half of 2021. The recognition of the IFRS16 standard for financial reporting had a positive effect on the balance of the financial activity of the jewellery segment in the first half of 2021, as it resulted in a reduction of financial costs by PLN 1.9 million. In the first half of 2020, the introduction of the IFRS16 had a negative effect on the balance of financial activities in the amount of PLN 5.3 million.

Jewellery segment	PLN ths			
	1H21 from January 1, 2021 to June 30,-2021	1H20 from January 1, 2020 to June 30,-2020	2Q21 from January 1, 2021 to March 31,-2021	2Q20 from January 1, 2020 to March 31,-2020
Financial costs net	-1,087	-102	-737	573
FX differences net (excl. IFRS16)	209	-779	200	779
IFRS 16 impact	1,908	-5,310	3,746	1,841
'- incl. FX differences	*2,991*	*-4,506*	*4,269*	*2,272*
'- incl. interest	*-1,084*	*-805*	*-523*	*-431*
Financial income/ costs	**1,029**	**-6,191**	**3,209**	**3,193**

Net result in the jewellery segment

The net profit of the jewellery segment in the first half of 2021 amounted to PLN 21.2 million, compared to the PLN 0.6 million net loss in the first half of 2020. The jewellery segment's net profit in 2Q21 amounted to PLN 16.7 million compared to PLN 7.8 million in 2Q20. This is the effect of significant increases in sales revenues with improved margins and a lower dynamics of cost growth than revenues.

Structure and characteristics of statement of financial position

Consolidated balance sheet	30.06.2021		30.06.2020	
	value (PLN ths)	share (%)	value (PLN ths)	share (%)
Non-current assets, including:	**888,844**	**62.0%**	**893,451**	**61.8%**
Intangible assets	*499,436*	*34.8%*	*499,363*	*34.5%*
Fixed assets	*53,421*	*3.7%*	*65,329*	*4.5%*
Right-of-use asset (IFRS16)	*307,159*	*21.4%*	*312,129*	*21.6%*
Current assets, including:	**544,699**	**38.0%**	**552,542**	**38.2%**
Inventory	*515,790*	*36.0%*	*485,345*	*33.6%*
Receivables	*13,744*	*1.0%*	*17,194*	*1.2%*
Cash and cash equivalents	*14,748*	*1.0%*	*50,003*	*3.5%*
Total assets	**1,433,543**		**1,445,993**	
Equity attributable to dominating entity, including:	**826,202**	**57.6%**	**831,574**	**57.5%**
Share capital	*49,122*	*3.4%*	*49,122*	*3.4%*
Net profit (loss) for the current period	*2,848*	*0.2%*	*-31,775*	*n/d*
Long-term liabilities and provisions:	**292,946**	**20.4%**	**292,208**	**20.2%**
Long-term loans and borrowings	*41,134*	*2.9%*	*54,640*	*3.8%*
Lease liabilities	*250,183*	*17.5%*	*236,066*	*16.3%*
‘ incl. leases in shopping malls and office floorspace	*248,758*	*17.4%*	*234,256*	*16.2%*
Short-term liabilities and provisions, including:	**314,395**	**22.0%**	**322,211**	**22.3%**
Trade liabilities	*181,608*	*12.7%*	*161,176*	*11.1%*
Short-term loans and borrowings	*20,771*	*1.4%*	*57,525*	*4.0%*
Lease liabilities	*97,388*	*6.8%*	*90,075*	*6.2%*
‘ incl. leases in shopping malls and office floorspace	*96,328*	*6.7%*	*88,300*	*6.1%*
Total equity and liabilities	**1,433,543**		**1,445,993**	

The characteristics and description of the most important balance sheet items were presented as at June 30, 2021 compared to June 30, 2020. The analysis compared to the comparative period better reflects the current situation of the Capital Group and explains the changes in individual balance sheet items.

Assets

The value of assets at the end of June 2021 slightly increased compared to the end of June 2020.

Decrease in property, plant and equipment by PLN 11.9 million

Change in tangible fixed assets is mainly the result of the accrual of depreciation in the first half of 2021, the lack of significant investments (new openings of own stores) and the fact that a building impairment write-off was made in the amount of PLN 1.3 million in the reporting period. .

Right-of-use assets

The change in this item results from the accrual of depreciation for the reported period of the right to use under lease contracts, partially netted off by increasing this right in connection with signing, extending or renegotiating lease contracts (details are presented in the consolidated financial statements).

Inventory

The value of inventories as at June 30, 2021 amounted to PLN 515.8 million, which means an increase by 6% compared to June 30, 2020. In the apparel segment, the value of inventories remained at a level similar to the end of June 2020. In the reporting period, a write-off of PLN 9.4 million was created in this segment for: wholesale goods in the amount of PLN 5.5 million, goods from collections older than Autumn Winter 2020 in the amount of PLN 3.5 million and raw materials in the amount of PLN 0.4 million. In the jewellery segment, the value of inventories increased by + 14.5%, which is the result of an increase in the inventory of the range of watches (mainly luxury watches) and faster stocking up for sale in the third quarter than last year. .

The Group's inventories per m2 amounted to PLN 9,844, which means an increase by 7% YoY:

INVENTORY / [PLN/m2]	1H21	1H20	YoY
VRG	9,844	9,209	+7%
Apparel segment	6,257	6,215	+1%
Jewellery segment	23,248	20,896	+11%

Receivables

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

Equity and liabilities

Equity

In the first half of 2021, changes in equity result from PLN 2,848 thousand net income recorded.

Long-term and short-term debt

The debt under long-term loans as at June 30, 2021 amounted to PLN 41.1 million compared to PLN 54.6 million at the end of June 2020, which means a decrease by PLN 13.5 million. Leasing liabilities under the lease of commercial premises and office space total PLN 345.1 million, of which PLN 248.8 million is the long-term part and PLN 96.3 million the short-term part.

The table below presents financial liabilities as at June 30, 2021 and June 30, 2020, as well as net debt. Moreover, data on net debt are presented, also without the impact of IFRS 16, which significantly changes its value.

The amount of net debt (under IAS 17) decreased compared to last year. The net debt / EBITDA ratio (under IAS 17) is at a relatively low level of 1.6, well below the levels defined in the loan agreements concluded by the companies of the Capital Group.

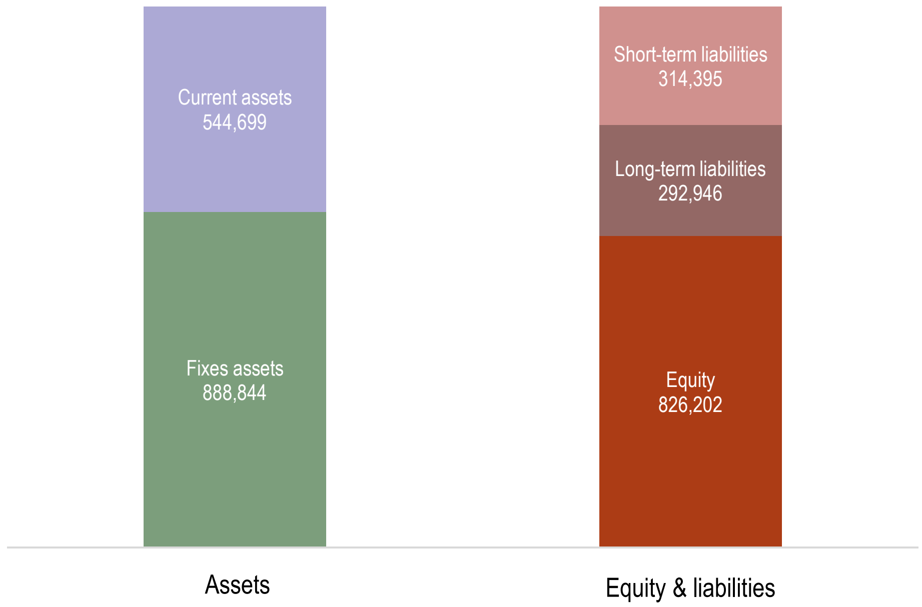
Net debt	30.06.2021	30.06.2020
Long-term debt	291,317	290,706
Long-term loans and borrowings	41,134	54,640
Finance lease liabilities	250,183	236,066
'-incl. leases in shopping malls and office floorspace	*248,758*	*234,256*
Short-term debt	142,704	161,162
Loans and borrowings and short-term part of long-term loans	20,771	57,525
Reverse factoring	24,545	13,562
Finance lease liabilities	97,388	90,075
'-incl. leases in shopping malls and office floorspace	*96,328*	*88,300*
Cash	14,748	50,003
Net debt	**419,273**	**401,865**
EBITDA annualised	116,843	152,834
Net debt/EBITDA	**3.6**	**2,6**

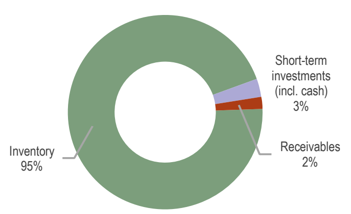
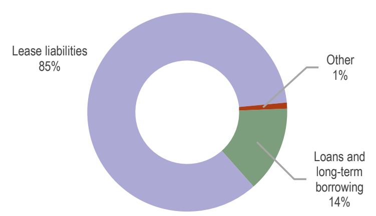
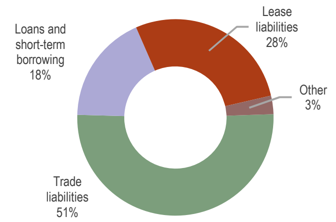
Net debt IAS17	30.06.2021	30.06.2020
Long-term debt	42,559	56,450
Long-term loans and borrowings	41,134	54,640
Finance lease liabilities	1,425	1,810
Short-term debt	46,376	72,862
Loans and borrowings	20,771	57,525
Short-term part of long-term loans	24,545	13,562
Reverse factoring	1,060	1,775
Finance lease liabilities	14,748	50,003
Cash	**74,187**	**79,309**
EBITDA annualised	47,502	59,866
Net debt/EBITDA	**1.6**	**1,3**

** The table above shows the net debt calculation showing the impact of IAS17 as the previous standard*

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

Balance sheet analysis at the end 1H21



Current assets	Long-term liabilities	Short-term liabilities
		

Significant off-balance sheet items

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

Significant risk factors

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

External risk factors

Economic risk related to the macroeconomic situation

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

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

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

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

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

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

In connection with the introduction of the retail sales tax, and in particular the provisions of the Act, which has already been adopted and suspended there is a risk of charging some of the Issuer's Capital Group revenues with this tax. The impact on the Group's financial result would be visible in 2021.

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

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

Risk related to increased competition

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

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

Foreign exchange risk and risk related to hedging policy

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

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

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

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

Interest rate risk

As at 30.06.2021, the Group held loan liabilities measured at amortized cost in the amount of PLN 61,905 ths. Therefore, the Group is exposed to interest rate risk due to changes in the valuation of debt based on a variable interest rate. An increase in interest rates may increase the cost of financing and thus lower the Group's profitability. Based on the sensitivity analysis performed, the average annual increase (decrease) in the base interest rate by 1 percentage point (100 basis points) will result in a decrease (increase) in the financial result by 16.2%.

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

Risk related to effects related to the coronavirus epidemic

In extraordinary situations, such as an epidemic, there may be state orders regarding the functioning of business entities, as well as changes in consumer behaviour and preferences. In order to counteract the effects of such phenomena, actions may be taken by government administration, local governments or other social groups that will have an impact on the Company's operations.

According to the current assessment, the Company expects that the effects related to the coronavirus epidemic and potential restrictions may have a negative impact on the Company's future financial results. It may be caused by further restrictions introduced by the Minister of Health in the operation of retail facilities with a sales area of more than 2,000 sq m, where over 95% of Vistula, Bytom, Wólczanka, Deni Cler and W.KRUK stores are located. Additionally, the Company expects that the demand after the next lockdown period will be lower than before the introduction of possible trade restrictions. It may take several months for him to rebuild.

The above assessment is based on the Company's best knowledge as at the date of the semi-annual report. The impact of the spread of coronavirus in the conditions of an epidemic on the financial results depends on a number of factors that are beyond the direct influence and control of the Issuer. However, any restrictions introduced in the opening of stores in shopping centers will undoubtedly translate into lower sales revenues and deterioration of the Group's financial situation.

Actions: In this situation, the Group will carry out activities initiated in 2020 to improve the Group's working capital and maintain a stable level of the Group's net debt. In 2020, talks were held with banks that finance the operations of the Company and its companies from the capital group, which was completed with the extension of contracts with the main bank financing the Group, PKO BP, for two consecutive years and positively influencing the Group's liquidity situation in the current year. In the first half of 2021, the Company extended its contract with ING bank for another two years. In the opinion of the Management Board, the current situation is sufficiently monitored and controlled.
The Management Board of the Company, bearing in mind the actions taken, is convinced of the positive results of the above-mentioned actions.

Internal risk factors

Risk associated with adopting the wrong strategy

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

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

Risk of changing the tastes and behaviours of buyers

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

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

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

Risk related to lease agreements

The Group's operations are mainly based on retail sales of goods through its own chain of stores. The risk of losing one or more locations cannot be ruled out, e.g. due to the intention to modernize the entire shopping mall or a change in the landlord's pricing policy. The risk of termination of the lease agreement cannot be ruled out if the Company breaches the provisions of the lease agreement or if the lease agreement is not extended in locations showing 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 differ unfavourably from the terms and conditions in a given location.

The loss of existing locations may result in the necessity to temporarily limit the activity in a given area or the acquisition of attractive locations will be associated with increased costs.

Activities: constant monitoring of owned and potential locations is carried out in order to achieve an optimal portfolio in line with the Group's expectations. At the same time, the Issuer took steps to avoid charging rent for the period when shopping centers were closed.

Risk related to inventory management

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

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

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

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

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

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

Risk of cost of external services

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

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

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

Risk of termination of bank loan agreement

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

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

In addition, the parent company has at Bank PKO BP a Multi-product Agreement and an Overdraft Agreement for the total amount of PLN 92 million (extended for 2 years on 5 July 2020) and a Multi-product Agreement with mBank for PLN 19 million and a factoring line (11 PLN, 5 million). Along with the merger with Bytom S.A., the Company took over multi-product agreements regarding current financing by ING Bank Śląski S.A. for the amount of PLN 40 million (as a result of the signed annexes, the amount increased to PLN 55 million). These agreements contain covenants which the Company is obliged to implement. In the event of an economic downturn, weakening demand for the Company's products, the implementation of the covenants may be jeopardized, which entails the risk of termination of contracts by the financing banks.

Actions: The Group minimizes the risk by timely fulfillment of obligations towards banks and monitoring of compliance with the covenants, at the same time in the current extraordinary situation related to the coronavirus epidemic and the objective, sharp deterioration of the Group's financial results, the Company entered into negotiations with the main bank financing the Capital Group and with other banks financing the parent company, in terms of adjusting the level of covenants to the current situation of the Group companies and taking this fact into account in subsequent quarters.

Risk of losing financial liquidity

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

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

Actions: The Group constantly monitors its liquidity position by analyzing the volume of proceeds from sales and the required liabilities. In addition, in the current situation, the Group has taken active steps to improve financial liquidity and cash protection in individual Group companies. The Group took steps to extend the payment terms for the purchased goods, which will positively affect the Group's financial flows, and entered into talks with shopping centers in order to obtain no rents or reduction of rents for the period when shopping centers are closed, without the need to extend contracts on this account. Moreover, talks were held with banks that finance the activities of the Company and its companies from the Capital Group. In April, the Capital Group companies increased their financing under current loans and annexes were signed to extend the repayment of long-term loan installments. In July 2020, the Capital Group signed agreements with the main financing bank, PKO BP, extending the cooperation for another two years. These agreements concerned the provision of lines as part of an overdraft facility and for letters of credit and guarantees. In the first half of 2021, the Company extended its contract with ING bank for the next years. As part of the solutions of the anti-crisis shield, the key companies of the Group received co-financing for wages from the Guaranteed Employee Benefits Fund as well as were periodically exempted from Social Security contributions.

One of the key goals for 2021, which is closely related to the current activities aimed at securing the Group's financial liquidity, will be to further improve the efficiency of working capital use, which is to be achieved through a further decrease in the level of inventories year on year and the introduction of longer payment terms. Assuming that the period of the epidemic will be longer or in a situation with negative effects after the end of the epidemic, further solutions will be prepared to reduce the liquidity risk.

In the opinion of the Management Board of the parent company, the current situation is sufficiently monitored and controlled. The Management Board of the parent company, having in mind the actions taken, is convinced of the positive results of the above-mentioned actions. Information on due liabilities and their maturity dates is presented in note 19a of the Consolidated Financial Statements. Information on credit lines from which these liabilities will be settled is described in note 15 Credits and loans.

Risk of collateral and loss of collateral assets

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

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

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

Risk of transactions with related parties

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

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

Risk related to the shareholder structure

The company is characterized by a dispersed shareholding structure, with the largest shareholders being funds managed by IPOPEMA TFI S.A. they hold 22.21% of votes at the General Meeting, and five significant shareholders hold a total of 68.74% of votes at the General Meeting. Most of the above-mentioned shareholders have held shares of the parent company for many years, and they participate in shaping the Company's operations through representatives on the Supervisory Board.

However, the risk cannot be ruled out that one or more of the significant shareholders will reduce the ownership of their shares or terminate their investment in the Company's shares. It cannot be ruled out that making decisions significant from the point of view of the Company regarding its strategy and operating activities will be delayed or even blocked. It cannot be ruled out that despite the cooperation to date, the interests of significant shareholders will be divergent/ contradictory. The above-mentioned factors may have a significant negative impact on the Company's development prospects, results and financial standing.

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

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

Risk related to guarantees granted to subsidiaries

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

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

In connection with the extension of the Multi-product Agreements of the subsidiaries with Bank PKO BP, the parent company granted an additional surety to the subsidiary W.KRUK S.A. for the amount of PLN 33 million, and the subsidiary W.KRUK S.A. granted a surety to the parent company VRG S.A. for the amount of PLN 55 million.

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

Risk related to disruptions in the functioning of information systems

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

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

Risk related to the EU GDPR Directive

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

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

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

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

Ryzyka związane z płynnością współpracy z zewnętrznym operatorem logistycznym

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

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

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

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

- negotiations on increasing the available storage space at an external operator, regarding guaranteeing the possibility of implementing daily minimum goods releases for traditional stores and daily minimum deliveries to customers of on-line stores.

However, it is not possible to completely exclude the risk of incidents related to disruption of the aforementioned logistics processes, which could cause the Company additional negative consequences related to fall in sales as a result of late replenishment of a network of traditional stores or loss of some on-line store customers as a result of delays in paid deliveries.

One cannot completely rule out the negative effects of deterioration of the image of the Company's brands as a result of the appearance on the Internet and social media of critical comments from customers of on-line stores who do not receive the purchased goods within the required period.

Risk related to the quality of customer service in individual stores

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

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

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

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

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

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

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

Markets

The Group offers its products mainly to retail customers through a network of branded stores. The dominant market for companies from the Group is the domestic market.

Sourcing

For production on the domestic market in 1H21, the Company used mainly raw materials of foreign origin. Domestic sources of raw materials used for the production of products constituted a minority. Supply sources for fabrics, jewellery and accessories were diversified - none of the suppliers exceeded the threshold of 10% share in total purchases.

Organizational or capital relations

Organizational or capital relations are presented in point 1.2 information and explanations to the consolidated financial statements.

Transactions with related parties

Transactions with related parties are presented in Note No. 28 to the consolidated financial statements.

Bank loans

Information on bank loans is included in Note No. 15 to the consolidated financial statements.

Loans granted

There were no changes compared to December 31, 2020 and March 31, 2021.

Proceedings pending in a court or a public administration authority

Information on proceedings pending in a court or a public administration authority is included in point 7 of the information and explanations to the consolidated financial statements.

Guarantees for credit or loans and guarantees granted

Information on loan or credit sureties granted and guarantees granted is included in note 8 of the supplementary information and explanations to the consolidated financial statements.

Financial resources management

As a result of budgetary management of financial resources, the Group has the ability to meet its obligations. In the opinion of the Management Board of the Parent Company, there are no threats as regards servicing and repayment of liabilities.

Implementation of published forecasts

VRG S.A. it did not publish the forecast of financial results for 2021.

7. PLANNED DEVELOPMENT ACTIVITIES

The Group's development prospects in 2021 will be largely determined by the circumstances related to the ongoing coronavirus pandemic. Like the entire retail industry and many other sectors of the economy, the Group faced the challenges of the COVID-19 epidemic in 2020, which are still relevant in 2021. 2021 began with the closing down of shopping centers in January 2021 and from March 20, 2021 until May 4, 2021 due to the growing number of cases throughout the country. As a consequence, these events had a negative impact on the Group's results for the first half of 2021. Traditional stores in shopping malls were reopened on May 4, 2021. Based on the sales results for the period May - July 2021, a greater increase in sales and faster return of customers to shopping centers is noticeable than after the opening of stores in May 2020. This had a positive effect on the Group's revenues achieved in the second quarter of 2021. This trend is maintained in the current month. From August 1 to August 21, the sales of the Capital Group increased by 27% YoY. In the opinion of the Management Board, sales increases may continue in the coming months, and revenues in 2021 should be higher than those achieved in 2020. This should also be influenced by the slow return of employees to offices and greater interest in the formal offer. We also assume an improvement in the gross margin this year compared to 2020 due to further growth in Asian sourcing, common supplier policies and a reduction in the intensity of promotional activities, which has already been seen in recent months.

The Group is well prepared for the Autumn/Winter 2021 season. It has an attractive and stylistically diverse assortment of all brands of the Group, reflecting the prevailing trends and customer expectations. In the offer of apparel brands, casual and smart casual account for a greater share, which is a response to customer demand and the market situation. The collection also includes a significant part of the formal offer, for which we have noticed an increase in interest in recent months. Significant changes are noticeable in the collection of the Wólczanka brand, which includes new assortments for both men and women creating a "total look", and the share of casual products has been increased. The Vistula brand offer includes, in addition to formal and casual products, the Vistula Red line (classic in new forms with typically casual models), as well as Vistula Woman - the first full women's collection. In the Bytom brand, offering men's formal fashion and a range of smart casual and casual types, we can find a continuation of the retro Future style, combining vintage style with modern forms. The Deni Cler Milano brand for the Autumn/Winter season has prepared the "La Vita e bella" collection consisting of six capsules. W.KRUK will start the presentation of the new jewellery campaign in mid-September.

As regards the opening plans, the Group does not anticipate any significant changes in the net commercial space it has compared to the end of 2020. The brand opening and closing plans have been updated. It is still planned to close unprofitable stores, in particular in the apparel segment, which will reduce its floorspace by 1% YoY and development in the jewellery segment (space increase by 6% YoY). For the Wólczanka brand, new larger stores will be opened, stores with an area of up to 150 m2, which will allow you to show the extended range of this brand. The capital expenditure planned for the current year in the amount of PLN 28 million will be mainly allocated to the opening of new stores, primarily W.KRUK brand, and the development of infrastructure and IT systems.

The Group continues to focus on the development of sales in the on-line channel, and the share of this channel in total sales may exceed 20% in 2021. Ongoing support for the further development of the e-commerce channel will concern, inter alia, increase in expenditure on acquiring on-line traffic, launching a sales application for each of the brands, improving the service of salons and further development of functionality and logistics, as well as consistent marketing and promotions on-line and off-line.

The parent company's management board adjusts its actions depending on the pandemic situation. In the periods when shopping centers are closed, decisions are made to intensify on-line marketing in order to increase sales in this channel. In addition to pro-sales activities, actions are taken related to cost reductions, including consisting in a 20% reduction in salaries and working time of employees in stores during the times when stores were closed. The Group uses the available forms of support for entrepreneurs due to COVID-19. In 1H21, support was received in the form of co-financing of employee salaries and redemption of Social Security contributions in the total amount of PLN 7.9 million. The Group is also prepared for the scenario of a rebound in consumption and an increase in sales in traditional stores.

The key task of the Management Board is to stabilize the operating activities and protect the liquidity of the Group companies. The Group is currently in a safe liquidity situation, but despite this, in the face of uncertainty about possible further restrictions in the operation of shopping centers, it is taking a number of steps to prevent it from deteriorating significantly. These activities include, first of all, improving the use of working capital, prudent investment policy and keeping operating costs under control with ongoing response in the event of unfavorable sales and cost trends.

In addition to the activities securing the Group's liquidity, the main goal for 2021 is to achieve significantly better financial results than in 2020, e.g. through the following activities:
- maximization of sales activities (including in the e-commerce channel) by adapting the offer to the current market trends and customer expectations;
- increase in sales in the online channel YoY; omnichannel-oriented activities, i.e. joint management of the channel of traditional stores and e-commerce;
- improvement of gross percentage margin thanks to significant share of Asian sourcing and reduction of promotion;
- further optimization of the existing retail network, including closing unprofitable stores;
- further improvement in the efficiency of working capital use, which we intend to achieve by reducing the level of inventories year on year, adapting the level of inventories to the changing situation and further work on financing purchases (extending cooperation with suppliers offering longer payment terms);
- maintaining a safe liquidity situation;

The Management Board of the parent company still maintains that the continuation of activities related to strategy of the House of Brands and acceleration of development through acquisition activities for strong and recognizable apparel and jewellery brands will only be possible after the coronavirus pandemic has subsided and the market situation has stabilized.

8. MANAGEMENT STATEMENT

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

The Management Board declares that the entity authorized to audit financial statements that reviewed the financial statements was selected in accordance with the provisions of law, and that this entity and the statutory auditors who carried out this review met the conditions for expressing an impartial and independent report on the review in accordance with applicable regulations and professional standards. .

Andrzej Jaworski	**Radosław Jakociuk**	**Michał Zimnicki**	**Olga Lipińska - Długosz**
....	....	....	....
President of the Management Board	**Executive Vice-President of the Management Board**	**Executive Vice-President of the Management Board**	**Management Board Member**

Cracow, August 25, 2021

VISTULA

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VRG
VISTULA RETAIL GROUP

Report on Review of the Condensed Interim Consolidated Financial Statements

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For the Shareholders of VRG Spółka Akcyjna

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of a Group (the Group), in which the parent entity is VRG Spółka Akcyjna (the Parent) with its registered office in Cracow, 10 Pilot Street, which comprise the condensed consolidated statement of financial position as of June 30, 2021, the condensed consolidated statement of profit or loss, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows for the period from January 1, 2021 to June 30, 2021 and selected explanatory notes.

The Management Board of the Parent is responsible for the preparation and presentation of these condensed interim consolidated financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting* published in the form of European Commission regulations.

Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with National Standard on Review Engagements 2410 consistent with International Standard on Review Engagements 2410 *Review of Interim Information Performed by the Independent Auditor of the Entity* adopted by the National Council of Statutory Auditors' resolution No. 3436/52e/2019 of April 8, 2019, as amended. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than audit conducted in accordance with National Standards on Auditing consistent with International Standards on Auditing adopted by the National Council of Statutory Auditors' resolution No. 3430/52a/2019 of March 21, 2019 (as amended), and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Renata Art-Franke

Statutory Auditor No. 10320
Key Audit Partner performing the review on behalf of

Grant Thornton Polska Spółka z ograniczoną odpowiedzialnością sp. k.,
Poznań, ul. Abpa Antoniego Baraniaka 88 E, Audit Firm No. 4055

Poznań, August 25, 2021.

THIS IS TRANSLATION ONLY. The Polish language version of the report is the only valid and legally binding version. This translation into English is provided to facilitate understanding of the report.