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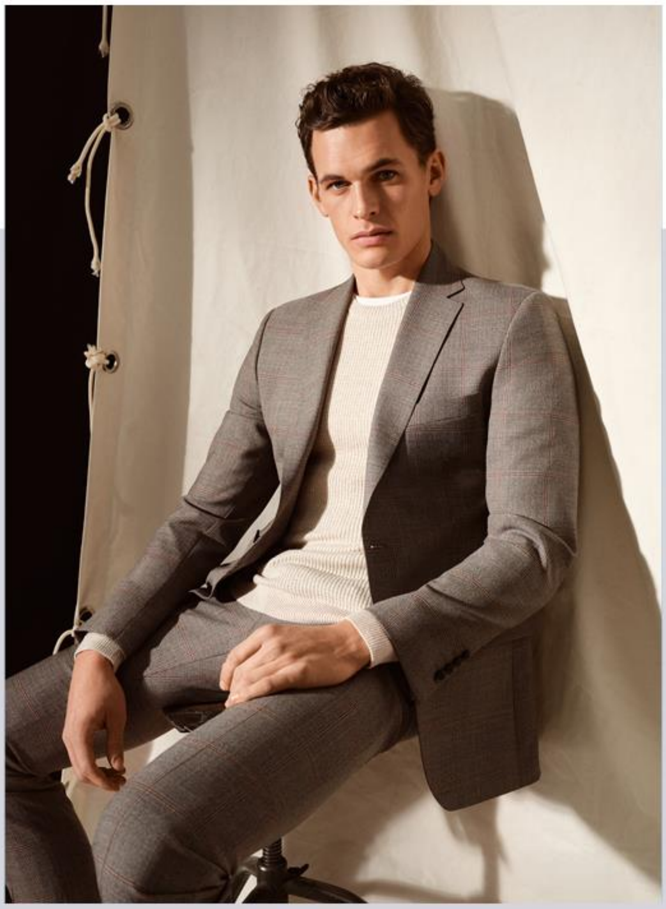

VRG
VISTULA RETAIL GROUP

CONDENSED INTERIM
FINANCIAL REPORT

of VRG S.A. Capital Group for 1Q21
prepared in accordance with IFRS
approved by the European Union

Cracow, May 27, 2021

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CONDENSED INTERIM CONSOLIDATED

FINANCIAL STATEMENTS

FOR 3 MONTHS ENDING MARCH 31, 2021

SELECTED FINANCIAL DATA TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATMENTS

	PLN ths		EUR ths	
	1Q21 January 1, 2021 to March 31, 2021	1Q20 January 1, 2020 to March 31, 2020	1Q21 January 1, 2021 to March 31, 2021	1Q20 January 1, 2020 to March 31, 2020
Revenues	172,101	197,469	37,642	44,917
Profit (loss) from operations	- 15,820	- 11,914	- 3,460	- 2,710
EBITDA	10,723	17,399	2,345	3,958
Pre-tax profit (loss)	- 22,562	- 35,097	- 4,935	- 7,983
Net profit (loss)	- 20,104	- 31,955	- 4,397	- 7,269
Net cash flows from operating activities	- 42,184	- 27,836	- 9,226	- 6,332
Net cash flows from investing activities	- 1,913	- 3,629	- 418	- 825
Net cash flows from financing activities	637	13,456	139	3,061
Total net cash flows	- 43,460	- 18,009	- 9,505	- 4,096
	31.03.2021	**31.12.2020**	**31.03.2021**	**31.12.2020**
Total assets	1,438,621	1,457,995	308,697	315,939
Liabilities and provisions	643,609	642,879	138,105	139,308
Long-term liabilities	316,852	305,988	67,990	66,306
Short-term liabilities	316,138	325,796	67,836	70,598
Total equity	795,012	815,116	170,592	176,631
Share capital	49,122	49,122	10,541	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)	- 0.09	- 0.14	- 0.02	- 0.03
Diluted earnings (loss) per share (in PLN/EUR)	- 0.08	- 0.13	- 0.02	- 0.03
Book value per share (in PLN/EUR)	3.39	3.48	0.73	0.75
Diluted book value per share (in PLN/EUR)	3.29	3.38	0.71	0.73
Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

CONDENSED INTERIM CONSOLIDATED

STATEMENT OF FINANCIAL POSITION

AS OF MARCH 31, 2021

	PLN ths			
	As at 31-03-2021 / end of 1Q21	As at 31-12-2020 / end of former quarter 2020	As at 31-03-2020 / end of 1Q20	As at 31-12-2019 / end of former quarter 2019
Non-current assets	**898,632**	**889,789**	**848,483**	**847,036**
Goodwill	302,748	302,748	302,748	302,748
Other intangible assets	196,237	196,242	196,817	196,956
Fixed assets	56,647	60,626	67,791	67,482
Investment property	874	874	874	874
Right-of-use assets (IFRS16)	320,323	312,690	268,595	270,546
Long-term receivables	295	295	677	664
Shares and stakes	27	27	27	27
Other long-term investments	4	4	4	4
Deferred tax assets	21,477	16,283	10,918	7,707
Other long-term assets	-	-	32	28
Current assets	**539,989**	**568,206**	**585,826**	**584,278**
Inventory	516,496	505,584	547,054	535,539
Trade and other receivables as well as other current assets	17,303	13,332	30,809	23,459
Corporate income tax receivables	-	-	-	-
Short-term loans granted	-	-	-	-
Cash and cash equivalents	5,384	48,839	7,271	25,280
Other short-term financial assets	806	451	692	-
Total assets	**1,438,621**	**1,457,995**	**1,434,309**	**1,431,314**

	PLN ths			
	As at 31-03-2021 / end of 1Q21	As at 31-12-2020 / end of former quarter 2020	As at 31-03-2020 / end of 1Q20	As at 31-12-2019 / end of former quarter 2019
Dominating entity's equity	**795,012**	**815,116**	**831,331**	**863,286**
Share capital	49,122	49,122	49,122	49,122
Other reserves	14,333	14,333	14,333	14,333
Retained earnings	731,557	751,661	767,876	799,831
Non-controlling interest	-	-	-	-
Long-term liabilities and provisions	**318,090**	**307,227**	**251,652**	**243,356**
Liabilities due to purchase of fixed assets	418	438	334	271
Lease liabilities	272,340	258,354	194,451	186,112
incl.: lease liabilities related to retail and office space	*271,151*	*256,974*	*192,314*	*183,915*
Loans and borrowings	44,094	47,196	55,745	55,851
Long-term provisions	1,238	1,239	1,122	1,122
Short-term liabilities and provisions	**325,519**	**335,652**	**351,326**	**324,672**
Lease liabilities	99,718	98,839	93,992	86,308
incl.: lease liabilities related to retail and office space	*98,597*	*97,510*	*92,142*	*84,424*
Trade and other liabilities	165,699	199,240	168,966	182,552
Corporate income tax liabilities	3,286	3,345	4,338	9,150
Loans and borrowings and short-term part of long-term loans and borrowings	47,435	24,372	74,350	35,568
Short-term provisions	9,381	9,856	9,680	11,094
Total liabilities and provisions	**643,609**	**642,879**	**602,978**	**568,028**
Total equity and liabilities	**1,438,621**	**1,457,995**	**1,434,309**	**1,431,314**
Book value	795,012	815,116	831,331	863,286
Number of shares	234,455,840	234,455,840	234,455,840	234,455,840
Book value per share	3.39	3.48	3,55	3,68
Diluted number of shares	241,505,840	241,505,840	241 505 840	241 505 840
Diluted book value per share	3.29	3.38	3,44	3,57

CONDENSED INTERIM CONSOLIDATED

OFF-BALANCE SHEET ITEMS

AS OF MARCH 31, 2021

	PLN ths			
	As at 31-03-2021 / end of 1Q21	As at 31-12-2020 / end of former quarter 2020	As at 31-03-2020 / end of 1Q20	As at 31-12-2019 / end of former quarter 2019
bank guarantees issued for store rental expenses	52,002	56,505	48,029	44,668
open letters of credit	30,130	23,438	24,470	42,226
bills of exchange securing lease liabilities	526	609	855	650
Total off-balance sheet items	**82,658**	**80,552**	**73,354**	**87,544**

CONDENSED INTERIM CONSOLIDATED

STATEMENT OF PROFIT OR LOSS

FOR 3 MONTHS ENDING MARCH 31, 2021

	PLN ths	
	1Q21 January 1, 2021 to March 31, 2021	1Q20 January 1, 2020 to March 31, 2020
Revenues	**172,101**	**197,469**
Cost of sales	90,418	103,505
Gross profit on sales	**81,683**	**93,964**
Selling costs	78,093	83,578
Administrative expenses	18,027	21,971
Gain from sale of non-financial non-current assets	-	-
Other operating income	207	577
Loss from sale of non-financial non-current assets	17	31
Other operating costs	1,573	875
Profit (loss) from operations	**- 15,820**	**- 11,914**
Financial income	811	857
incl.: financial income due to lease liabilities related to retail and office space	-	-
Financial costs	7,553	24,040
incl.: financial costs due to lease liabilities related to retail and office space	*4,657*	*18,214*
Pre-tax profit (loss)	**- 22,562**	**- 35,097**
Income tax	- 2,458	- 3,142
Net profit (loss) for the period	**- 20,104**	**- 31,955**
Attributed to dominating entity	- 20,104	- 31,955
Attributed to non-controlling interest	-	-
Weighted average number of ordinary shares	234,455,840	234,455,840
Diluted weighted average number of ordinary shares	241,505,840	241,505,840
- basic	- 0.09	- 0.14
- diluted	- 0.08	- 0.13

CONDENSED INTERIM CONSOLIDATED

STATEMENT OF COMPREHENSIVE INCOME

FOR 3 MONTHS ENDING MARCH 31, 2021

	PLN ths	
	1Q21 January 1, 2021 to March 31, 2021	1Q20 January 1, 2020 to March 31, 2020
Net profit (loss) for the period	**- 20,104**	**- 31,955**
Other comprehensive income, including:	-	-
That can be reclassified to net income	-	-
That cannot be reclassified to net income	-	-
Total comprehensive income	**- 20,104**	**- 31,955**
Attributed to dominating entity	- 20,104	- 31,955
Attributed to non-controlling interest	**-**	**-**

CONDENSED INTERIM CONSOLIDATED

STATEMENT OF CHANGES IN EQUITY

FOR 3 MONTHS ENDING MARCH 31, 2020

	PLN ths.			
	Share capital	Capital reserves	Retained earnings	Total equity
1Q20 period between January 1, 2020 and March 31, 2020				
Balance at 01.01.2020	**49,122**	**14,333**	**799,831**	**863,286**
Consolidation adjustment	-	-	-	-
Net profit (loss) for the period	-	-	- 31,955	- 31,955
Stock option programme valuation	-	-	-	-
Share issuance	-	-	-	-
Issued options for shares	-	-	-	-
Saldo na 31.03.2020	**49,122**	**14,333**	**767,876**	**831,331**
2020 period from January 1, 2020 to December 31, 2020				
Balance at 01.01.2020	**49,122**	**14,333**	**799,831**	**863,286**
Consolidation adjustment	-	-	-	-
Net profit (loss) for the period	-	-	- 48,170	- 48,170
Stock option programme valuation	-	-	-	-
Share issuance	-	-	-	-
Issued options for shares	-	-	-	-
Balance at 31.12.2020	**49,122**	**14,333**	**751,661**	**815,116**
1Q21 period between January 1, 2021 and March 31, 2021				
Balance at 01.01.2021	**49,122**	**14,333**	**751,661**	**815,116**
Consolidation adjustment	-	-	-	-
Net profit (loss) for the period	-	-	- 20,104	- 20,104
Stock option programme valuation	-	-	-	-
Share issuance	-	-	-	-
Issued options for shares	-	-	-	-
Balance at 31.03.2021	**49,122**	**14,333**	**731,557**	**795,012**

CONDENSED INTERIM CONSOLIDATED

STATEMENT OF CASH FLOWS

FOR 3 MONTHS ENDING MARCH 31, 2021

	PLN ths	
	1Q21 January 1, 2021 to March 31, 2021	1Q20 January 1, 2020 to March 31, 2020
Pre-tax profit (loss)	- 22,562	- 35,097
Amortization and depreciation	26,543	29,313
Profit (loss) on investing activities	17	40
Income tax paid	- 2,113	- 4,853
Interest costs	1,884	1,841
Change in provisions	- 476	- 1,414
Change in inventories	- 10,912	- 11,514
Change in receivables	- 3,971	- 7,363
Change in short-term liabilities, excluding bank loans and borrowings	- 30,366	1,649
Other adjustments	- 228	- 438
Net cash flows from operating activities	**- 42,184**	**- 27,836**
Interest received	-	19
Dividends from subsidiaries	-	-
Inflows from sale of intangibles	-	-
Inflows from sale of fixed assets	374	407
Disposal from investment property	-	-
Repayment of loans granted	-	-
Purchase of intangible assets	- 209	- 85
Purchase of fixed assets	- 2,078	- 3,970
Purchase of investment property	-	-
Net cash flows from investing activities	**- 1,913**	**- 3,629**

	PLN ths	
	1Q21 January 1, 2021 to March 31, 2021	1Q20 January 1, 2020 to March 31, 2020
Proceeds from issuance of shares and other capital instruments and additional payments to capital	-	-
Inflows from loans and borrowings	23,058	43,618
Other financial inflows	-	-
Dividends and other distributions to owners	-	-
Repayment of bank loans and borrowings	- 3,099	- 4,942
Finance lease payments	- 397	- 459
Interest paid	- 449	- 906
Interest paid due to lease liabilities related to retail and office space	- 1,435	- 935
Lease payments due to lease liabilities related to retail and office space	- 17,041	- 22,920
Other financial expenses	-	-
Net cash flows from financing activities	**637**	**13,456**
Change in cash and cash equivalents in the balance sheet	**- 43,460**	**- 18,009**
Opening balance of cash	**48,844**	**25,280**
Change in cash due to foreign currency translation	-	-
Closing balance of cash	**5,384**	**7,271**

Value shown under "Other adjustments" consists of:	PLN ths	
	1Q21 January 1, 2021 to March 31, 2021	1Q20 January 1, 2020 to March 31, 2020
capital reserves increase – valuation of stock options	-	-
fixed assets - impairment - liquidation	- 228	- 419
interest received	-	- 19
Total	**- 228**	**- 438**

INFORMATION AND EXPLANATIONS

TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR 1Q21

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 1Q21 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 1Q21 include data of the Parent Company and subsidiaries: W.KRUK S.A., DCG S.A., Wólczanka Shirts Manufacturing Sp. z o.o., VG Property Sp. z o.o.

<u>Changes in Capital Group structure in 1Q21.</u>

Between January 1, 2021 and March 31, 2021 there were no changes in VRG S.A. Capital Group structure.

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

As at March 31, 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** Vice-President of the Management Board	**Michał Zimnicki** Vice-President of the Management Board	**Ernest Podgórski** Member of the Management Board	**Olga Lipińska-Długosz** Member of the Management Board

In the period from January 1, 2021 until March 31, 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.

In the period from the balance sheet date, ie March 31, 2021 to the date of signing this report, the above composition of the parent company's Management Board did not change.

- 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.

As at March 31, 2021 the composition of the Supervisory Board of VRG S.A. was the following:

Supervisory Board				
	Jerzy Mazgaj Chair of the Supervisory Board	**Mateusz Kolański** Deputy-Chair of the Supervisory Board	**Piotr Kaczmarek** Member of the Supervisory Board	
	Jan Pilch Member of the Supervisory Board	**Piotr Stępniak** Member of the Supervisory Board	**Wacław Szary** Member of the Supervisory Board	**Jan Pilch** Member of the Supervisory Board

In the period from January 1, 2021 to March 31, 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.

In the period from the balance sheet date, i.e. March 31, 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 May 27, 2020.

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. March 31, 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.

In 2020, the Management Board of the Company took steps to limit the impact of the epidemic on the financial situation of the Group's companies. In 2020, which was burdened with closings of shopping malls several times, measures were taken to secure the Group's liquidity situation: annexes were signed to the agreements with financing banks, i.e. PKO BP and mBank for the next two years, and the available credit lines were increased, the value of orders for 2020, payment terms to commodity suppliers were extended, terms of lease agreements with shopping malls were renegotiated, salary costs were reduced and the focus was on increasing sales through the online channel. The Group also applied for a subsidy to payroll costs, which was granted in the amount of PLN 7.8m (for all companies of the Capital Group in total).

In 2021, the Capital Group once again faced the temporary closing down of shopping malls. In this period, the Group companies re-negotiated the terms of leases during the closing of the stores and reduced salaries paid for this period. The Group also applied for an exemption from paying social security contributions for November 2020 and January 2021 (a subsidiary of DCG S.A.), the exemption was granted in the total amount of PLN 2.0m in the 2nd quarter of 2021. In the opinion of the Management Board of the Company, there is no going concern risk.

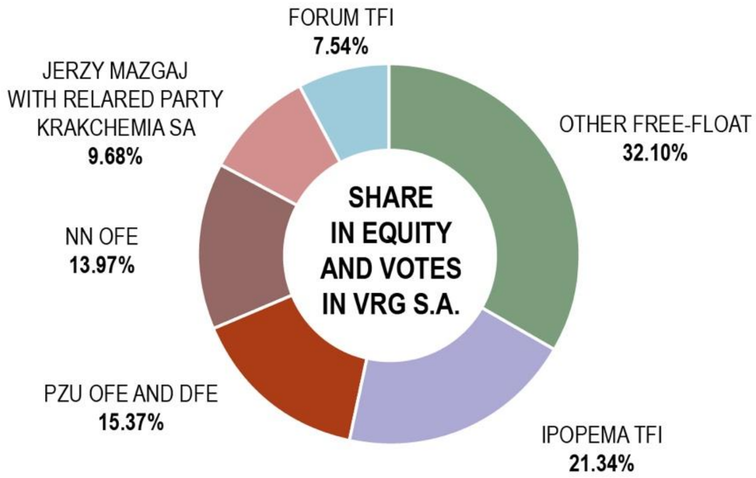
The Management Board of the Company points out that the Group's financial debt decreased significantly from PLN 142.5m (under the previously applicable IAS 17 standard) at the end of Q1 2020 to PLN 106.5m at the end of Q1 2021.

1.6. Share capital and shareholders

Shareholders owning directly or indirectly through subsidiaries at least 5% of the total number of votes at the Company's General Shareholder Meeting as at the date of publication of the consolidated quarterly report for 1Q21 and indication of changes in the ownership structure of significant stakes in VRG S.A. in the period from submitting the annual report for 2020 and the consolidated annual report for 2019 (April 16, 2021).

1) Ownership structure of the share capital, in accordance with the information possessed by the Company as at the date of signing (May 27, 2021) of the consolidated quarterly report for 1Q21

As at the date of signing of the consolidated quarterly report for the first quarter of 2021 (May 27, 2021), the share capital of VRG S.A. was divided into 234,455,840 ordinary bearer shares, which gives a total of 234,455,840 votes at the Company's General Shareholder Meeting ("Parent company").



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

No.	Shareholders	Number of shares held	Share in equity (in %)	Number of votes at the AGM	Share in the total number of votes at the AGM (in %)
1	IPOPEMA TFI S.A.[1]	50,034,306	21.34	50,034,306	21.34
2	PZU „Złota Jesień" Open Pension Fund and Voluntary Pension Fund[2]	36,042,345	15.37	36,042,345	15.37
3	Nationale-Nederlanden Open Pension Fund[3]	32,750,000	13.97	32,750,000	13.97
4	Jerzy Mazgaj with related party Krakchemia S.A. [4]	22,702,760	9.68	22,702,760	9.68
5	Forum TFI S.A.[5]	17,680,800	7.54	17,680,800	7.54

[1] *information based on the number of shares registered jointly by Ipopema 2 Non-public Assets Closed-end Fund and Ipopema 21 Non-Public Assets Closed-end Fund managed by IPOPEMA TFI S.A. at the Extraordinary General Meeting on March 17, 2021, Ipopema 2 Non-Public Assets Closed-end Fund at the Extraordinary General Meeting of March 17, 2021 held 20,289,000 shares of the Company, which constituted 8.65% of the Company's share capital and entitled to 20,289,000 votes constituting 8.65% of the total number of votes at the General Meeting of the Company. Ipopema 21 Non-public Assets Closed-end Fund at the Extraordinary General Meeting of March 17, 2021, held 29,745,306 shares of the Company, which constituted 12.69% of the share capital of the Company and entitled to 29,745,306 votes, representing 12.69% in the total number of votes at the General Meeting of the Company.*

[2] *information on the number of shares provided in accordance with the notification received by the Company on behalf of the Open Pension Fund PZU "Złota Jesień" pursuant to Art. 69 sec. 1 point 1 of the Act of July 29, 2005 on public offering and conditions for introducing financial instruments to an organized trading system and on public companies and on the basis of the number of shares registered by the PZU Voluntary Pension Fund at the Extraordinary General Meeting of the Company on March 17, 2021. According to the notification received by the Company. Open Pension Fund PZU "Złota Jesień" independently holds 35,175,632 shares of the Company, which constitutes 15.003% of the share capital of the Company and entitles to votes, 35,175,632 representing 15.003% of the total number of votes at the General Meeting of the Company .*

[3] *information provided on the basis of the number of shares registered by Nationale-Nederlanden Open Pension Fund at the Extraordinary General Meeting of the Company on March 17, 2021. At the Extraordinary General Meeting of the Company on March 17, 2021, Nationale-Nederlanden Open Pension Fund held 32,750,000 shares of the Company, which constituted 13.97% of the share capital of the Company and entitled to 32,750,000 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 Krakchemia S.A. at the Extraordinary General Meeting of the Company on March 17, 2021 and in accordance with the notifications received by the Company pursuant to Art. 19 MAR. According to the information possessed by the Company, Mr. Jerzy Mazgaj independently owns 21,702,760 shares of the Company, which constitutes 9.26% of the share capital of the Company and entitles to 21,702,760 votes, constituting 9.26% of the total number of votes at the General Meeting of the Company.*

[5] *information on the number of shares provided in accordance with the notification received by the Company pursuant to Art. 69 sec. 1 point 2 in connection with art. 87 sec. 1 point 2 lit. a) the Act of July 29, 2005 on Public Offering and Conditions for Introducing Financial Instruments to Organized Trading, and on Public Companies, and in accordance with the notifications received by the Company pursuant to Art. 19 MAR, applies to shares held jointly by the following funds managed by Forum TFI SA: (i) Forum X closed investment fund holding 8,429,760 shares of the Company constituting 3.60% of the share capital of the Company and entitling to 8,429,760 votes for At the General Meeting of the Company, constituting 3.60% of the total number of votes in the Company, and (ii) Forum XXIII Closed-End Investment Fund holding 9,251,040 shares of the Company constituting 3.95% of the share capital of the Company and entitling to 9,251,040 votes at the General Meeting of the Company , constituting 3.95% of the total number of votes in the Company.*

2) To the best of the Company's knowledge, from the date of submitting the previous financial report, i.e. the annual report for 2020 and the consolidated annual report for 2020, the following changes in the ownership structure of significant blocks of the Company's shares took place.

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 16.04.2021	22,465,760	9.58	22,465,760	9.58
As at 27.05.2021	22,702,760	9.68	22,702,760	9.68

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

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

Company’s Management Board	Number of shares held on the day of signing quarterly report for 1Q21	Number of shares held on the day of publication of annual separate and consolidated report for 2020
Andrzej Jaworski – President of the Management Board	14,351	14,351
Radosław Jakociuk – Vice-President of the Management Board	11	11
Michał Zimnicki – Vice-President of the Management Board	4,000	4,000

b) changes in the ownership by the managing persons of the first tranche of F-series subscription warrants entitling to subscribe for new P-series shares, issued in connection with the implementation of the incentive program in 2018 pursuant to Resolution No. 17/06/2018 of the Annual General Shareholder Meeting of Vistula Group S.A. of 27.06.2018 on the adoption of the assumptions of the incentive program for members of the Company's Management Board, key managers or other persons of significant significance to the Company (and companies from its capital group), issuance of subscription warrants excluding pre-emptive rights, conditional increase share capital by way of issuing new shares, excluding pre-emptive rights, amending the Company's Articles of Association, authorizing the Company's management board to conclude a contract for registration of new issue shares at the National Depository for Securities (KDPW) and authorizing the Company's management board to take all appropriate actions to admit newly issued shares to trading on a regulated market ("Resolution").

Management Board	Number of F-series subscription warrants held at the day of signing of 1Q21 report	Number of F-series subscription warrants held on the day of publication of annual separate and consolidated report for 2020
Radosław Jakociuk – Vice-President of the Management Board	175,711	175,711

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

Supervisory Board	Number of F-series subscription warrants held at the day of signing of 1Q21 report	Number of F-series subscription warrants held on the day of publication of annual separate and consolidated report for 2020
Jerzy Mazgaj – Chair of the Supervisory Board	21,702,760	21,465,760
Jan Pilch – Member of the Supervisory Board	745,000	745,000
Wacław Szary – Member of the Supervisory Board	35,000	35,000

2. Principles for preparation of the financial statements

The condensed interim financial report for 1Q21 has been prepared in accordance with the principles of International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and to the extent not regulated by the above standards in accordance with the requirements of the Accounting Act of September 29, 1994 (Official Journal of Laws from 2021, item 217, as amended) and executive regulations issued based on it.

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

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

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

The interim condensed financial statements for 1Q21 have been prepared in Polish zloty, rounded up to full thousands (ths).

The condensed interim consolidated financial statements are presented for the period from January 1, 2021 to March 31, 2021 and as of March 31, 2021. The fiscal year is the calendar year. Comparable financial data are presented for the period from January 1, 2020 to March 31, 2020 and in case of statement of financial position and statement of changes in equity also as of December 31, 2020.

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

The consolidated financial statements for 1Q21 and comparable data for the previous year include data on the Parent Company and subsidiaries as entities preparing stand-alone financial statements. Neither the Company nor its subsidiaries have business units required to prepare separate financial statements.

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

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

The consolidated financial statements are prepared for the period of the first quarter of 2021, when there was no merger of companies.

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

In the period from January 1, 2021 to March 31, 2021, the adopted accounting principles and methods of preparing financial statements were not changed in the Capital Group. The accounting principles adopted by the Capital Group were applied in a continuous manner with reference to the period presented in the financial statements. In the financial statements for 2020, the Group changed the presentation of the lease of fixed assets, therefore it makes adjustments in the statement of financial position for Q1 2021 of comparable data for Q1 2020 and 2019. As a result of the above adjustment, tangible fixed assets have decreased while right-of-use assets have increased by PLN 4,024 thousand for 1Q20 and PLN 4,141 thousand for 2019. In addition, in the statement of financial position for 2020, the Group changed the presentation of trade receivables and other receivables and current assets that were presented as one item of the statement of financial position and receivables were excluded from corporate income tax receivables, also corporate income tax liabilities were excluded from trade and other liabilities. Therefore, in the statement of financial position for the first quarter of 2021, the Group also makes appropriate adjustments to comparable data for the first quarter of 2020 and 2019.

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 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

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

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

3.6. Fixed assets

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

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

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

Buildings and structures	Machines and 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 concluded from January 1, 2019, 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 Cost 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.

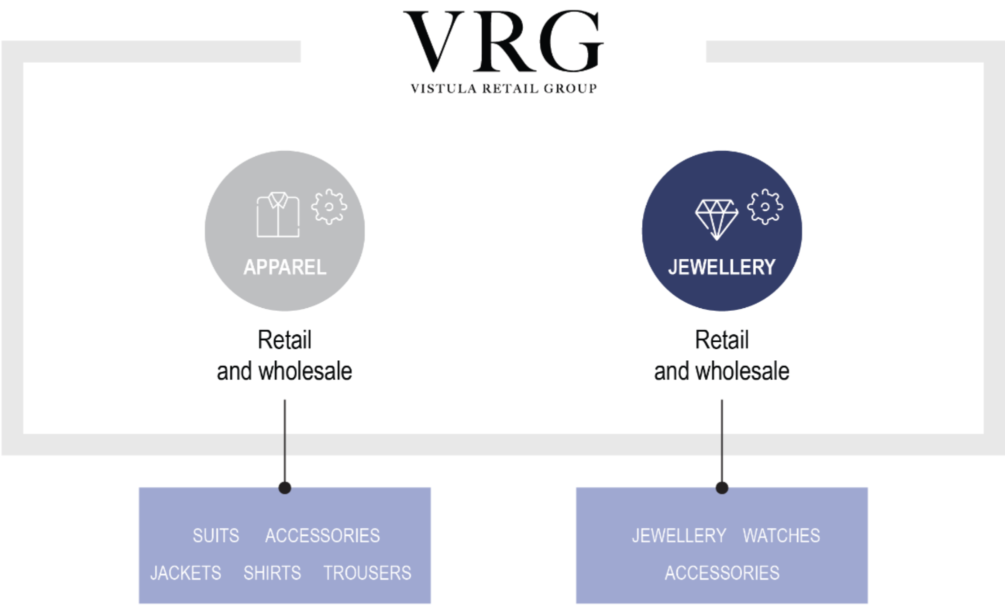
The cost of transactions settled in equity instruments is recognized along with the corresponding increase in the equity in the period to which the vesting conditions regarding the effectiveness of results refer, ending on the day when Management Board members and key managers acquire full entitlement 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 of March 31, 2021 announced by the National Bank of Poland, which was PLN 4.6603 PLN/EUR. Individual items of the profit and loss account were converted into EUR at the exchange rate of PLN 4.5721 PLN/ 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. For the calculation of 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.

Comparable data for individual items of assets and liabilities have been 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/EURO and as at 31.03.2020, which was 4.5523 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 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 31/03/2020, which amounted to 4.3963 PLN/EURO.

4. Information on significant changes in estimated values, including adjustments due to provisions, deferred income tax provisions and assets and write-downs made on the value of assets:

a)	change in deferred tax assets amounting to:	+ PLN 5,206 ths
b)	change in deferred income tax provision in the amount of:	- PLN12 ths
c)	change in the balance of receivables write-offs in the amount:	+ PLN 220 ths
d)	change in the balance of inventories write-offs to net realizable value in the amount of:	PLN 0 ths
e)	change in the balance of impairment of fixed assets and intangible assets in the amount of:	- PLN 12 ths
f)	change in provisions for costs and other liabilities:	- PLN 476 ths

5. Issuance, redemption and repayment of debt and securities

In the first quarter of 2021, the parent company did not issue, redeem or repay any equity securities.

6. Paid and declared dividends

In 1Q21, the Group did not pay or declare dividend payment. There are no preferred shares in terms of dividend payments.

7. Pending court or public administration or arbitration proceeding

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

8. Related party transactions

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

9. Guarantees and pledges granted

In the first quarter of 2021, the parent company did not grant any additional sureties to subsidiaries as compared to those described in the consolidated and separate annual report for 2020.

As at March 31, 2021, the balance of sureties granted in previous periods by the parent company to subsidiaries W.KRUK S.A., DCG S.A. and VG Property Sp. z o.o. for 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 with further amendments, transferred to W.KRUK S.A. after taking over an organized part of the Company by W.KRUK S.A. as a result of which the borrower changed the Loan Agreement B, i.e. the company was replaced by W.KRUK S.A. Group 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 Loan B under the surety 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 surety to the subsidiary W.Kruk S.A. to the multi-purpose credit limit agreement of June 25, 2015, as of later d. up to PLN 33,000,000, the surety is valid until January 6, 2024.

   However, on July 7, 2020, the subsidiary W.Kruk S.A. granted a surety to VRG S.A. to the multi-purpose credit limit agreement of June 25, 2015, as of later d. up to the amount of PLN 55,000,000, the surety is valid until January 1, 2024.

b) Multi-purpose credit limit agreement up to PLN 13,000,000.00 concluded by a subsidiary DCG S.A. on June 25, 2015 as amended. As one of the collaterals for the repayment of DCG S.A. liabilities under this agreement, there is a surety by the Company towards the bank up to a maximum amount not exceeding PLN 19,250,000, the surety is valid until July 16, 2023.

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 d. One of the collaterals for the repayment of liabilities of VG Property Sp. z o.o. the bank under this agreement is a surety 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.

10. Information on financial instruments

The parent company uses currency derivatives to hedge future cash flows against exchange rate risk. As a hedging transaction, the parent company has forward contracts for the purchase of currency. Derivative instruments are denominated in USD and EUR. As at March 31, 2021, the balance in the nominal value amounts to US$ 2,915 thousand and after conversion at the transaction exchange rate of PLN 10,760 ths. As at the balance sheet date, the Company carried out the valuation of its transactions at fair value, the difference from the valuation in the amount of PLN 806 ths was recognized in financial revenues and other short-term financial assets.

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

11. Significant risk factors

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

External risk factors

Economic risk related to the macroeconomic situation

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

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

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

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

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

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

In connection with the introduction of the retail sales tax, and in particular the provisions of the Act, which has already been adopted and suspended there is a risk of charging some of the Issuer's Capital Group revenues with this tax. The impact on the Group's financial result would be visible 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 31.03.2021, the Group held loan liabilities measured at amortized cost in the amount of PLN 91,529 ths. Therefore, the Group is exposed to interest rate risk due to a change in the debt valuation based on a variable interest rate. An increase in the level of interest rates may increase the cost of financing and, consequently, reduce the Group's profitability.

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

Risk related to effects related to the coronavirus epidemic

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

According to the current assessment, the Issuer expects that the effects of the coronavirus epidemic will have a negative impact on the Issuer's future financial results. In particular, the Issuer points out that the restrictions introduced periodically by the Minister of Health in the operation of commercial facilities with a sales area of more than 2,000 sqm, with over 95% of Vistula, W.KRUK, Bytom, Wólczanka and Deni Cler stores, impact on the financial result of the Issuer's Capital Group in the first quarter of 2021. In addition, the Issuer expects that, due to the worsening of public moods related to the epidemic and the expected decline in consumption also in the period after the opening of shopping centers, consumer demand may be lower than in the years before the pandemic, and the reconstruction of demand in stores will take several months.

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

Actions: In this situation, the Group focuses its activities on intensifying sales in on-line stores of the above-mentioned brands. The Group will continue to 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 and 2021, talks were held with banks that finance the activities of the Company and its companies from the capital group, which resulted in the extension of contracts with the main bank financing the Group, PKO BP, for two subsequent years and with ING Bank Śląski (financing VRG S.A.), which has a positive effect on the Group's liquidity situation in the current year.

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

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

Internal risk factors

Risk associated with adopting the wrong strategy

There is a risk that the adopted development strategy of the Group, the basic assumptions of which have been presented in point "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 unfavorably 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.

In the face of the recent events related to the coronavirus epidemic, which led to the temporary closure of shopping centers, and thus the Issuer's ability to sell on the leased space, there is a risk that, in the absence of the possibility of a reduction in rents for the leased space proportionate to the loss of revenue (without extending lease agreements, which results in the expiry of rent obligations for the period when stores in shopping centers are closed), the obligations contained in the lease agreements will become an additional cost burden for the Issuer and, consequently, may have a significant negative impact on its financial results.

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

Actions: The Group minimizes the risk by timely fulfillment of 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 sharp deterioration of the Group's financial results, the Company entered into negotiations with the main financing bank to adjust the level of covenants to the current situation of the Company and taking this fact into account in the coming quarters. The parent company VRG S.A. and companies from the Capital Group (W.Kruk S.A. and DCG S.A.) signed new short-term financing agreements at the beginning of July 2020 (agreements regarding the provision of an overdraft facility and a line for letters of credit and guarantees).

Risk of losing financial liquidity

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

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

Actions: The Group constantly monitors its liquidity position by analyzing the volume of sales proceeds and the required liabilities. Additionally, in the current situation, the Group has taken active measures 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 started talks with shopping centers 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 2020, the Capital Group companies increased 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 under an overdraft facility and for letters of credit and guarantees. In 2021, the parent company VRG S.A. signed an annex to the multi-product agreement concluded with ING Bank Śląski, which extended it by another two years and increased its limit. In 2020, as part of the anti-crisis shield solutions, the key companies of the Group received co-financing for wages from the Guaranteed Employee Benefits Fund, while in the second quarter of 2021, a write-off of social security contributions was received in the fashion segment companies (VRG SA and DCG SA) in the total amount of some PLN 2 million.

Risk of collateral and loss of collateral assets

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

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

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

Risk of transactions with related parties

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

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

Risk related to the shareholder structure

The Company is characterised by a fragmented shareholding structure, where the largest shareholders managed by IPOPEMA TFI S.A. have 21.34% votes at the General Shareholder Meeting, and five significant shareholders hold a total of 67.90% of votes at the General Shareholder Meeting. Most of these shareholders have owned shares of the Parent Company for several years, they participate in shaping the Company's activities through representatives in the Supervisory Board.

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

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

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

Risk related to guarantees granted to subsidiaries

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

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

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.

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

In the 3 months ended March 31, 2021, there were no other events than those described in this report, and in particular those described in Note 1.4. going concern, circumstances that may significantly affect the personnel, property, financial standing and financial result of the Company, which could threaten its ability to meet its obligations.

13. Significant events of 1Q21:

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 Code of Commercial Companies, the Management Board of the Company decided to extend the agenda of the General Meeting to include items covered by the shareholder 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 Cracow.
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.
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.

14. Significant events after the balance sheet date:

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.

MANAGEMENT COMMENTARY TO FINANCIAL INFORMATION

PRESENTED IN INTERIM CONDENSED CONSOLIDATED FINANCIAL STATMENTS FOR 1Q21

1. 1Q21 financial results

Consolidated financial results of VRG Capital Group for the first quarter of 2021 include the results of the parent company VRG S.A. and the results of subsidiaries, including, among others W.KRUK S.A. and DCG S.A.

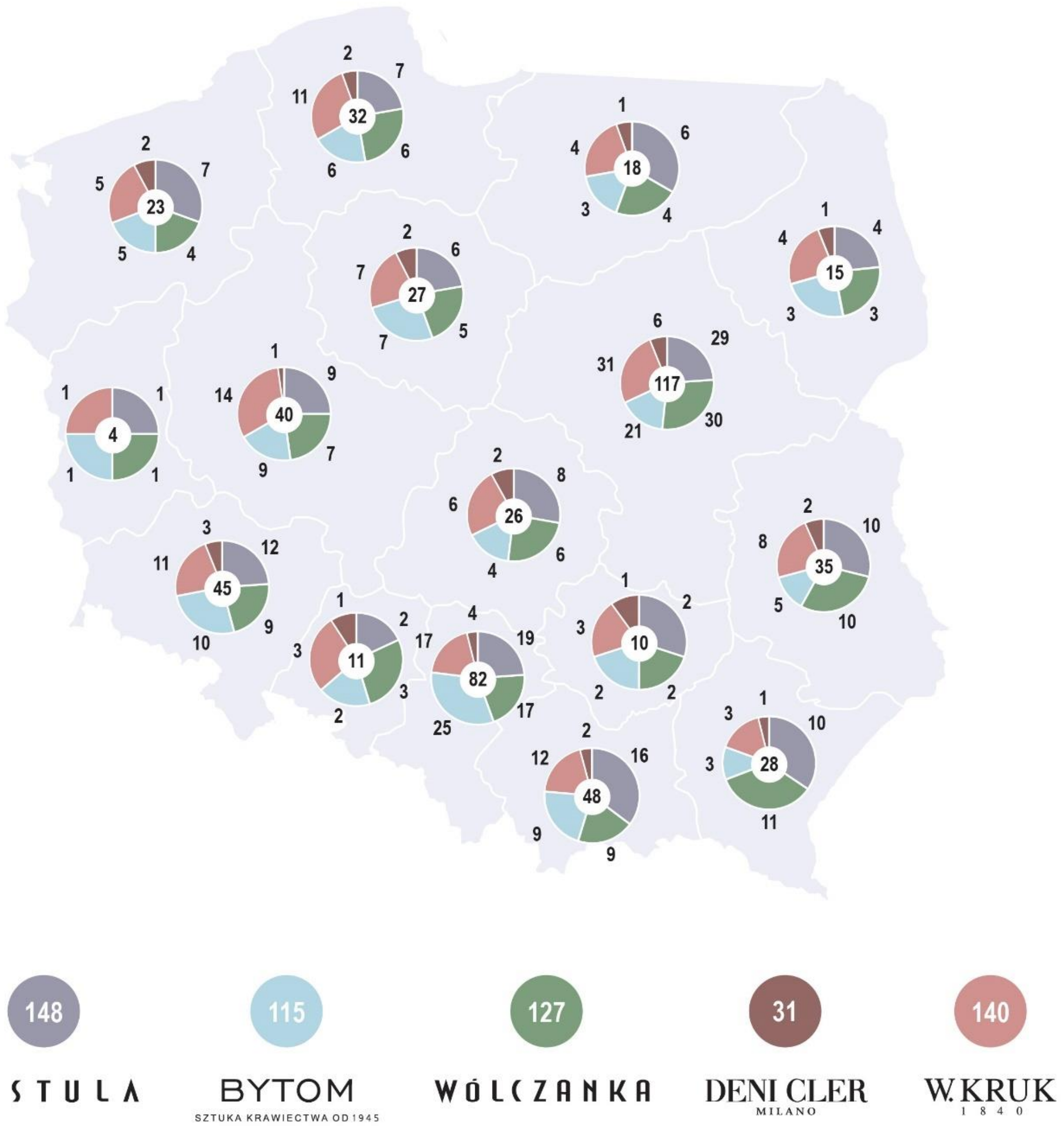
At the end of 1Q21, as compared to the corresponding period in 2020, the group's retail floorspace decreased to 52.5 ths m2 i.e. 2.3% YoY. Floorspace of the apparel segment decreased by 3.2%, while in the jewellery segment floorspace increased by some 1.7%.

Retail floorspace (end of period):

	ths m2	
	31.03.2021	31.03.2020
Apparel segment	41.6	43.0
Jewellery segment	10.9	10.7
Total floorspace	**52.5**	**53.7**

The majority of Capital Group revenues comes from a network of retail stores of individual brands belonging to the Capital Group. At the end of 1Q21, the Capital Group retail network encompasses 561 locations, including franchise stores of Vistula, Wólczanka, Bytom, Deni Cler and W.KRUK brands. Out of the operating stores, the Group only owns 2 locations. The Group uses the remaining locations on the basis of medium/long-term leases for a period of mostly 5 years, a small part of contracts is concluded for an indefinite period. The majority of the stores are located in modern shopping malls.

Below we present distribution and number of branded stores of the Capital Group at the end of 1Q21 by individual brands.



Selected financial data of VRG Group

Financial data	PLN ths			
	Q1'2021	Q1'2020	Q1'2021 (excl. IFRS 16)	Q1'2020 (excl. MSSF 16)
Revenues	172,101	197,469	172,101	197,469
EBITDA	10,723	17,399	-6,982	- 6,175
EBIT	-15,820	- 11,914	-12,301	- 12,174
Net profit	**-20,104**	**- 31,955**	**-11,929**	**- 14,001**

Revenues

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

The decisive impact on the Group's financial results in the first quarter of 2021 was the issuance 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 occurrence of an epidemic, imposing restrictions on the operation of commercial facilities, with a sales area of over 2,000 sqm. Due to this regulation, from 2 to 31 January 2021 and from 20 to 31 March 2021, a small number of the Group's brick-and-mortar stores operated.

In 1Q21, revenues of the Capital Group amounted to PLN 172.1 million and were PLN 25.4 million (-13%) lower than revenues in the same period of the previous year. The Group recorded a 16% growth in the jewellery segment revenues while a 30% fall in apparel segment.

APPAREL SEGMENT

Apparel segment	PLN ths			
	Q1'2021	Q1'2020	Q1'2021 excl. IFRS 16	Q1'2020 excl. IFRS 16
Revenues	**86,057**	**123,296**	**86,057**	**123,296**
Cost of sales	47,605	66,484	47,605	66,484
Gross profit on sales	38,452	56,812	38,452	56,812
Other operating income	191	174	131	157
Gain on sale of non-financial non-current assets	-	-	-	-
Selling costs	50,224	55,075	47,772	55,276
Administrative expenses	11,333	13,889	11,414	13,903
Other operating costs	1,492	605	1,475	605
Loss on sale of non-financial non-current assets	- 11	29	- 11	29
Profit (loss) from operations	**- 24,395**	**- 12,612**	**- 22,067**	**- 12,844**

Apparel segment	PLN ths			
	Q1'2021	Q1'2020	Q1'2021 excl. IFRS 16	Q1'2020 excl. IFRS 16
Financial income / costs	- 4,562	- 13,798	- 1,744	- 2,735
Pre-tax profit (loss)	- 28,957	- 26,410	-23,810	- 15,579
Income tax	- 4,362	- 2,868	- 4,362	- 2,868
Net profit (loss) for the period	**- 24,595**	**- 23,542**	**- 19,448**	**- 12,711**

Retail sales

Revenues from the apparel segment sales amounted to PLN 86.1 million in 1Q21 and were PLN 37.2 million (i.e. 30%) lower than revenues in 1Q20.

Apparel segment	PLN m	
	Q1’2021	Q1’2020
Revenues	**86.1**	**123.3**
Retail sales	79.8	116.9
Processing	4.9	5.0
B2B	1.4	1.4

In 1Q21, the Group recorded the following results in the following retail channels:

VISTULA PLN 28.8m (- 40.2% YoY)	BYTOM PLN 22.5m (- 34.6% YoY)	WÓLCZANKA PLN 19.7m (- 18.0% YoY)	DENI CLER MILANO PLN 8.8m (- 14.4% YoY)

Due to the lower number of trading days resulting from the restrictions set by the Council of Ministers in the operation of shopping facilities in the first quarter of 2021, there was a decrease in offline sales and an increase in online sales (12%) compared to the corresponding period of the previous year. The share of the online chain in the sales of the clothing segment amounted to 48.7% in the first quarter of 2021, compared to a 30.4% share in the first quarter of 2020.

Apparel segment	PLN m	
	Q1’2021	Q1’2020
Retail sales	**79.8**	**116.9**
off-line	37.9	79.4
on-line	41.9	37.5

Gross profit on sales margin

Gross profit on sales in the apparel segment in the first quarter of 2021 amounted to PLN 38.5 million and was 32.3% lower than the gross profit generated in the corresponding period of the previous year. The gross margin on sales decreased by 1.4 percentage points to the level of 44.7% compared to the first quarter of 2020. The decrease in the gross margin resulted from the increase in the share of the online channel sales (characterized by a lower gross margin on sales) in retail sales, closing down of traditional stores, which limited the possibility of selling the new collection (January - February is the sell-offs period, and March is the month in which the new collection is sold at high margins) and the fact that the Group's activity in the field of refining services (with a lower gross margin level) has not been significantly affected by the influence of the coronavirus. Due to the above-described trends in retail sales, the share of processing services increased to 5.6% of the segment's revenues.

Changes in individual brands' margins in Q1 2021

VISTULA	BYTOM	WÓLCZANKA	DENI CLER MILANO
46.6% (fall in margin by 1.1 pp.)	43.1% (fall in margin by 2.7 pp.)	47.8% (fall in margin by 1.4 pp.)	52.0% (fall in margin by 1.4 pp.)

Selling costs

Selling costs in the first quarter of 2021 amounted to PLN 50.2 million and were lower by PLN 4.9 million (-9%) compared to the costs incurred in the corresponding period of 2020.
The share of selling costs in revenues in the first quarter of 2021 was 58.4% compared to 44.7% in the first quarter of 2020. The increase in the share of selling costs in revenues results from a decrease in revenues in the first quarter of 2021 due to the closure of shopping malls in the period of 2-31 January and 20-31 March 2021.

General and administrative expenses

General and administrative expenses in the first quarter of 2021 amounted to PLN 11.3 million compared to PLN 13.9 million in the first quarter of 2020 (-18%). At the same time, the share of general management costs in sales revenues increased to 13.2% compared to 11.3% in the corresponding period of 2020. The increase in the share of general and administrative expenses in revenues was due to lower revenues in the offline network.

Operating result in the apparel segment

In the first quarter of 2021, loss in the apparel segment was recorded in the amount of PLN 24.4 million, which means that the result of this segment was lower by PLN 11.8 million than the operating result in the corresponding period of 2020. The drop in sales / m2 (lower number of trading days YoY) resulted in lower profitability of own stores. Despite the increase in online sales, the operating result in the apparel segment was significantly lower compared to the first quarter of 2020.

Financial income and expenses

The balance of the result on financial activities in the apparel segment amounted to PLN -4.6 million in the first quarter of 2021, compared to PLN -13.8 million in the first quarter of 2020. The IFRS16 standard had an adverse impact on the balance of the financial activity of the apparel segment both in the first quarter of 2020 (PLN -11.1 million) and in the first quarter of 2021 (PLN -2.8 million) due to the higher EUR/PLN exchange rate compared to until December 31, 2019 and December 31, 2020, respectively.

Apparel segment	PLN ths	
	Q1'2021	Q1'2020
net financial costs	-245	41
FX differences net (excl. IFRS 16)	-1,498	- 2,777
IFRS 16 impact	-2,819	- 11,062
- incl. FX losses	*-1,944*	*- 10,501*
- incl. interest	*-875*	*- 561*

Financial income/ costs	**-4,562**	**- 13,798**

Net result in the apparel segment

VRG Group in the apparel segment recorded a net loss of PLN 24.6 million in the first quarter of 2021, compared to a net loss of PLN 23.5 million in the first quarter of 2020. The lower financial result is a consequence of lower sales/ m2 in the apparel segment (lower number of trading days YoY), which directly decreased the operating result by PLN 11.8 million. Despite the more favorable YoY impact on the financial result (+9.2 million YoY), in Q1 2021, the net loss increased by 4.5% compared to the same period last year.

JEWELLERY SEGMENT

Segment Jubilerski	PLN ths			
	Q1'2021	Q1'2020	1Q21 excl. IFRS16	1Q20 excl. IFRS16
Revenues	**86,044**	**74,173**	**86,044**	**74,173**
Cost of sales	42,813	37,021	42,813	37,021
Gross profit on sales	43,231	37,152	43,231	37,152
Other operating income	16	403	12	390
Gain on sale of non-financial non-current assets	-	-	-	-
Selling costs	27,869	28,503	26,572	28,634
Administrative expenses	6,694	8,082	6,796	7,966
Other operating costs	81	270	81	270
Loss on sale of non-financial non-current assets	28	2	28	2
Profit (loss) from operations	**8,575**	**698**	**9,766**	**670**
Financial income / costs	-2,180	- 9,385	-342	- 2,234
Pre-tax profit (loss)	6,395	- 8,687	9,424	- 1,564
Income tax	1,904	- 274	1,904	- 274
Net profit (loss) for the period	**4,491**	**- 8,413**	**7,520**	**- 1,290**

Revenues

Despite the introduction by the Council of Ministers of restrictions on the operation of commercial facilities in the first quarter of 2021, the jewellery segment recorded a positive 16% growth in the first quarter of 2021. Revenues in the first quarter of 2021 amounted to PLN 86.0 million compared to PLN 74.2 million in the first quarter of 2020.

Increase in revenues in the jewellery segment was achieved through a 54% increase in on-line sales and thanks to a significant increase in sales dynamics in the segment of high-street stores offering an assortment of luxury jewellery and watches, which were not subject to retail restrictions in the first quarter of 2021.

Jewellery segment	PLN m	
	Q1'2021	Q1'2020
Revenues	**86.0**	**74.2**
B2B	0.6	1.0
Retail revenues	85.4	73.2

off-line	73.2	65.3
On-line	12.2	7.9

Gross profit margin on sales

Gross profit on sales in the jewellery segment in the first quarter of 2021 amounted to PLN 43.2 million and was PLN 6.1 million (+ 16.4%) higher than that generated in the corresponding period of the previous year. Gross profit margin on sales increased by 0.1 pp. and amounted to 50.2% in the first quarter of 2021 compared to 50.1% in the first quarter of 2020. The increase in the gross profit margin on sales resulted from the improvement in the gross profit margin on sales in both the off-line and on-line sales channels.

Selling costs

Selling costs in the first quarter of 2021 amounted to PLN 27.9 million compared to PLN 28.5 million in the corresponding period of the previous year, which means a decrease in selling costs by PLN 0.6 million. The reduction of selling costs with a simultaneous increase in revenues was possible thanks to lower costs of renting commercial space as a result of rent negotiations caused by restrictions in the operation of commercial facilities in the period in the first quarter of 2021, as well as lower marketing expenses. In the jewellery segment, the share of selling costs in total sales decreased from 38.4% in the first quarter of 2020 to 32.4% in the first quarter of 2021.

General and administrative expenses

In the first quarter of 2021, general and administrative costs amounted to PLN 6.7 million and were lower by PLN 1.4 million (-17%) compared to the first quarter of 2020. The decrease in general and administrative expenses was related to the reduction of salaries and business trips, as well as the renegotiation of rates for office space rental. The share of general and administrative costs in revenues amounted to 7.8% and was lower by 3.1 pp. compared to the first quarter of 2020.

Operating profit in the jewellery segment

VRG Group in the jewellery segment recorded operating profit in the first quarter of 2021 in the amount of PLN 8.6 million, compared to PLN 0.7 million in operating profit in the first quarter of 2020. The significant increase in the operating profit was achieved thanks to 16.4% dynamics of the gross profit (+ PLN 6.1 million) and the decrease in selling costs and general and administrative expenses by 5.5% (PLN -2.0 million).

Financial income and expenses

The balance of the result on financial activities in the jewellery segment amounted to PLN -2.2 million in the first quarter of 2021. The application of the IFRS16 standard had a negative impact on the balance of the financial activities of the jewellery segment both in the first quarter of 2021 (- PLN 1.8 million) and in the first quarter of 2020 (-PLN 7.2 million).

Jewellery segment	PLN ths	
	Q1’2021	Q1’2020
net financial costs	-350	- 676
FX differences net (excl. IFRS 16)	8	- 1,558
IFRS 16 impact	-1,838	- 7,151
- incl. FX losses	*-1,278*	*- 6,777*
- incl. interest	*-560*	*- 374*

Financial income/ costs	**-2,180**	**- 9,385**

Net profit in the jewellery segment

The net profit of the jewellery segment in the first quarter of 2021 amounted to PLN 4.5 million, compared to net loss of PLN 8.4 million in the first quarter of 2020. The application of IFRS16 decreased the financial result in the first quarter of 2021 by PLN 1.8 million and PLN 7.1 million in the first quarter of 2020.

Structure and characteristics of statement of financial position

CONSOLIDATED BALANCE SHEET	31.03.2021		31.03.2020	
	value (PLN ths)	share (%)	value (PLN ths)	share (%)
Non-current assets, including:	**898,632**	*62.5%*	**848,483**	*59.2%*
Intangible assets	*498,985*	*34.7%*	*499,565*	*34.8%*
Fixed assets	*56,647*	*3.9%*	*67,791*	*4.7%*
Right of use assets IFRS16	*320,323*	*22.3%*	*268,595*	*18.7%*
Current assets, including:	**539,989**	*37.5%*	**585,826**	*40.8%*
Inventory	*516,496*	*35.9%*	*547,054*	*38.1%*
Trade and other receivables and other current assets	*17,303*	*1.2%*	*30,809*	*2.1%*
Cash and cash equivalents	*5,384*	*0.4%*	*7,271*	*0.5%*
Total assets	**1,438,621**		**1,434,309**	
Equity	**795,012**	*55.3%*	**831,331**	*58.0%*
Share capital	*49,122*	*3.4%*	*49,122*	*3.4%*
Net profit (loss) for the current period	*-20,104*	*-2.5%*	*-31,955*	*-3.8%*
Long-term liabilities and provisions	**318,090**	*22.1%*	**251,652**	*17.5%*
Long-term loans and borrowings	*44,094*	*3.1%*	*55,745*	*3.9%*
Financial leases	*272,340*	*18.9%*	*194,451*	*13.6%*
'-incl.: lease liabilities related to retail and office space	*271,151*	*18.8%*	*192,314*	*13.4%*
Short-term liabilities and provisions, including:	**325,519**	*22.6%*	**351,326**	*24.5%*
Trade and other liabilities	*165,699*	*11.5%*	*168,966*	*11.8%*
Short-term loans and borrowings and short-term portions of long-term debt	*47,435*	*3.3%*	*74,350*	*5.2%*
Financial leases	*99,718*	*6.9%*	*93,992*	*6.6%*
'-incl.: lease liabilities related to retail and office space	*98,597*	*6.9%*	*92,142*	*6.4%*
Total equity and liabilities	**1,438,621**		**1,434,309**	

Assets

The level of assets as at March 31, 2021 is at a level similar to March 31, 2020.

Fall in fixed assets by PLN 11.1 million

Change in fixed assets was primarily the effect of depreciation in 1Q21 and lack of material investments (new store openings) in the reporting period.

Right of use assets IFRS16

The change in this item is the result of a significant increase in this right in connection with signing, extension or renegotiation of lease agreements, which was partially netted off by depreciation in Q1 2021.

Inventory

The value of inventories as at March 31, 2021 amounted to PLN 516.5 million, which means a decrease by 5.6% compared to March 31, 2020. In the apparel segment, the value of inventories decreased by 13.7% YoY, and in the jewellery segment, it increased by 5.2%. The decrease in the Group's inventories is a result of the reduction of orders for the collection for 2021.

The Group's inventories in terms of m2 amounted to PLN 9,841, down 3.4% YoY:

INVENTORY / m2	IQ21	IQ20	YoY
VRG	9,841	10,188	-3.4%
Apparel segment	6,461	7,245	-10.8%
Jewellery segment	22,708	21,971	3.4%

Equity and liabilities

Equity

In the first quarter of 2021, changes in equity result from the loss recorded in the reporting period.

Long-term and short-term debt

The debt under long-term loans as at March 31, 2021 amounted to PLN 44.1 million compared to PLN 55.7 million at the end of March 2020, which means a decrease by PLN 11.6 million. Leasing liabilities under the lease of commercial premises and office space total PLN 369.7 million, of which PLN 271.1 million is the long-term part and PLN 98.6 million is the short-term part.

The table below presents financial liabilities as at March 31, 2021 and March 31, 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 increased compared to the previous year, which is related to fall in revenues and earnings and to increase in liabilities from the leases of commercial premises.

Net debt	31.03.2021	31.03.2020
Long-term debt	316,434	250,196
Long-term loans and borrowings	44,094	55,745
Finance lease liabilities	272,340	194,451
'-incl.: lease liabilities related to retail and office space	*271,151*	*192,314*
Short-term debt	165,215	184,002

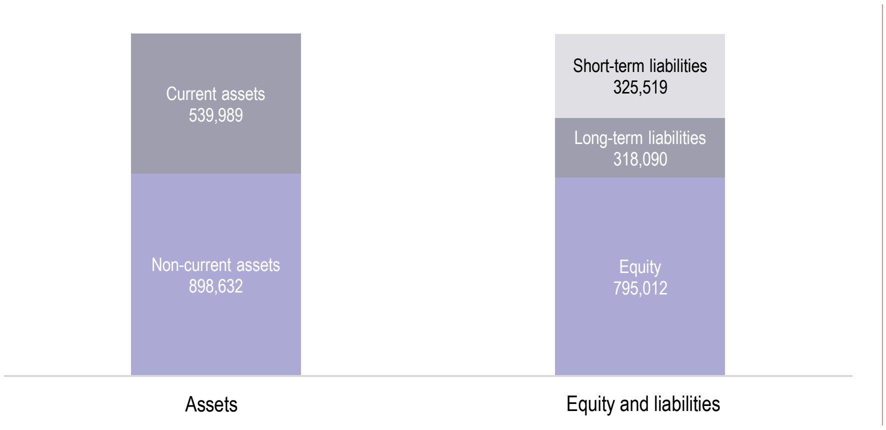
Loans and borrowings	34,348	60,313
Short-term part of long-term loans	13,087	14,037
Reverse factoring	18,062	15,660
Finance lease liabilities	99,718	93,992
'-incl.: lease liabilities related to retail and office space	*98,597*	*92,142*
Cash and equivalents	-5,384	-7,271
Net debt	**476,265**	**426,927**
EBITDA (annual, 4Q)	91,746	191,096
Net debt/EBITDA	**5.19**	**2.23**

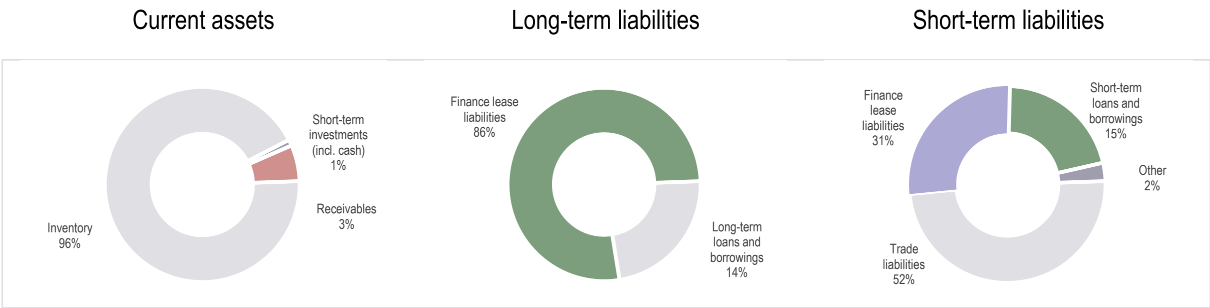
Net debt excl. IFRS16*	31.03.2021	31.03.2020
Long-term debt	45,283	57,882
Long-term loans and borrowings	44,094	55,745
Finance lease liabilities	1,189	2,137
Short-term debt	66,618	91,860
Loans and borrowings	34,348	60,313
Short-term part of long-term loans	13,087	14,037
Reverse factoring	18,062	15,660
Finance lease liabilities	1,121	1,850
Cash and equivalents	-5,384	-7,271
Net debt	**106,517**	**142,471**
EBITDA (annual, 4Q)	22,637	100,547
Net debt/EBITDA	**4.71**	**1.42**

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

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

Balance sheet analysis at the end of 1Q 2021





2. 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 will continue to apply in 2021. 2021 began with the closing down of shopping malls in January 2021 and from March 20, 2021, due to the growing number of infections in the whole country. These events, as a consequence, had a negative impact on the Group's results for the first quarter of 2021 and the entire year 2021. Traditional stores in shopping malls were reopened on May 4, 2021. The Management Board believes that restrictions on the operation of retail outlets will be smaller in the coming months, and the traffic in shopping centers will systematically increase. This is evidenced by sales data from May 2021. From May 1 to May 25, revenues of the Capital Group increased by 71% YoY. This should have a positive effect on the Group's revenues in 2021, which, in the opinion of the Management Board, should be higher than those achieved in 2020. We also assume improvement in the gross percentage margin this year compared to 2020 due to further growth in Asian sourcing, bulk discount policies in terms of suppliers and reducing the intensity of promotional activities.

The Group is well prepared for the Spring/Summer 2021 season. It has an attractive and stylistically diverse assortment of all the Group's brands, reflecting the prevailing trends and customer expectations. In the offer of the apparel brands, casual and smart casual account for a higher share, which is a response to customer demand and the market situation. 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 a broadened offer of casual products. The Vistula brand offer includes, in addition to formal and casual products, the Vistula Move line inspired by sport, the Safari line inspired by the landscape and color of the desert, as well as elements of the women's collection. In the

Bytom brand, offering men's formal fashion and a range of smart casual and casual types, in the springtime version of the collection one can find t-shirts and sweatshirts with the works of the creators of the Polish School of Poster. Deni Cler Milano brand has prepared a collection for the Spring and Summer season consisting of six capsules inspired by nature. W.KRUK has prepared a collection inspired by the hummingbird motif. The original Preludium collection is a combination of jewellery craftsmanship with the latest trends.

As regards the opening plans, the Group does not anticipate any changes in the net floorspace compared to the end of 2020. The brand's opening and closing plans have been updated. Closing down of unprofitable stores is still in the pipeline, in particular in the apparel segment, whose floorspace is to be reduced by 1% YoY, while development is planned for the jewellery segment (6% YoY increase). In the case of Wólczanka brand, new larger stores with an area of up to 150 m2, are to be opened to accommodate for a broadened product range. 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. Their increase in relation to previous plans results from the inclusion of modernization capex in the Group's stores.

The Group maintains further sales increases in the on-line channel, and the share of this channel in revenues may exceed 20%. Ongoing support for the further development of the e-commerce channel will include, among others, increase in expenditures on acquiring on-line traffic, launching a sales application for each of the brand, improving the service of salonet service and further development of functionality and logistics, as well as coherent marketing and promotions on-line and off-line.

The Management Board of the Company is prepared for any epidemic scenario. Along with the information on the introduction of new restrictions, the Management Board decided to intensify on-line marketing, which translated into an increase in sales in this channel. In addition to pro-sales activities, the Management Board took actions related to cost reductions, resulting in a 20% reduction in salaries and working time of store employees, as well as starting further negotiations with shopping malls. At the same time, the Management Board counts on support in the area of public aid in the form of suspension of rent payments and subsidies for employee salaries. The Group is also prepared for the scenario of a rebound in consumption and an increase in sales in traditional stores. Both apparel brands through their formal collections and W.KRUK are prepared for the season of weddings and communions and other celebrations in the period of May/June 2021.

The key task of the Management Board is to stabilize the operating activities and to protect the liquidity of the Group companies. The Group is currently in a safe liquidity situation, but despite this, in the face of the uncertainty as to the date of ending the restrictions on the operation of shopping malls, 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 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 on-line 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 Company maintains continuation of activities related to House of Brands strategy. Acceleration of development through acquisitions for strong and recognizable apparel and jewellery brands will be possible only after the coronavirus pandemic has subsided and the market situation has stabilized.

3. Financial forecasts

VRG S.A. has not made public any financial forecasts for 2021.

4. Statement of the Management Board

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

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

Cracow, May 27, 2021

CONDENSED INTERIM SEPARATE

FINANCIAL STATEMENTS

FOR 3 MONTHS ENDED MARCH 31, 2021

SELECTED FINANCIAL DATA
TO CONDENSED INTERIM SEPARATE FINANCIAL STATEMENTS

	PLN ths		EUR ths	
	1Q21 January 1, 2021 to March 31, 2021	1Q20 January 1, 2020 to March 31, 2020	1Q21 January 1, 2021 to March 31, 2021	1Q20 January 1, 2020 to March 31, 2020
Revenues	74,660	111,021	16,329	25,253
Profit (loss) from operations	- 23,630	- 11,484	- 5,168	- 2,612
EBITDA	- 8,436	6,156	- 1,845	1,352
Pre-tax profit (loss)	- 27,791	- 24,313	- 6,078	- 5,530
Net profit (loss)	- 23,546	- 21,605	- 5,150	- 4,914
Net cash flows from operating activities	- 48,321	- 16,958	- 10,569	- 3,857
Net cash flows from investing activities	- 981	- 1,481	- 215	- 337
Net cash flows from financing activities	5,336	4,233	1,167	963
Total net cash flows	- 43,966	- 14,206	- 9,616	- 3,231
	31.03.2021	**31.12.2020**	**31.03.2021**	**31.12.2020**
Total assets	1,008,249	1,024,515	216,349	222,006
Liabilities and provisions	345,265	337,986	74,086	73,240
Long-term liabilities	164,134	156,204	35,220	33,848
Short-term liabilities	173,893	174,193	37,314	37,747
Total equity	662,984	686,529	142,262	148,767
Share capital	49,122	49,122	10,541	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)	- 0.10	- 0.09	- 0.02	- 0.02
Diluted earnings (loss) per share (in PLN/EUR)	- 0.10	- 0.09	- 0.02	- 0.02
Book value per share (in PLN/EUR)	2.83	2.93	0.61	0.63
Diluted book value per share (in PLN/EUR)	2.75	2.84	0.59	0.62
Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

CONDENSED INTERIM SEPARATE

STATEMENT OF FINANCIAL POSITION

AS OF MARCH 31, 2021

	As at 31-03-2021 / end of 1Q21	As at 31-12-2020 / end of former quarter 2020	As at 31-03-2020 / end of 1Q20	As at 31-12-2019 / end of former quarter 2019
Non-current assets	**734,817**	**727,559**	**708,740**	**711,963**
Goodwill	120,855	120,855	120,855	120,855
Other intangibles	114,614	114,571	114,934	115,000
Fixed assets	24,608	26,480	32,296	33,359
Investment property	874	874	874	874
Right of use assets	173,799	169,120	148,033	152,790
Long-term receivables	135	134	276	322
Long-term loans granted	510	347	343	343
Shares and stakes	283,834	283,834	283,834	283,834
Other long-term investments	4	4	4	4
Deferred tax assets	15,584	11,340	7,291	4,582
Current assets	**273,432**	**296,956**	**322,743**	**323,248**
Inventory	249,642	238,222	292,805	286,515
Trade and other receivables and other current assets	17,885	9,642	23,588	16,869
Corporate income tax receivables	2,142	1,714	-	-
Short-term loans granted and short-term part of long-term loans granted	5	9	15	15
Cash and equivalents	2,952	46,918	5,643	19,849
Other current assets	806	451	692	-
Total assets	**1,008,249**	**1,024,515**	**1,031,483**	**1,035,211**

	As at 31-03-2021 / end of 1Q21	As at 31-12-2020 / end of former quarter 2020	As at 31-03-2020 / end of 1Q20	As at 31-12-2019 / end of former quarter 2019
Equity	**662,984**	**686,529**	**724,028**	**745,633**
Share capital	49,122	49,122	49,122	49,122
Capital reserves	679,121	679,121	648,066	648,066
Other reserves	17,390	17,390	17,390	17,390
Retained earnings	- 82,649	- 59,104	9,450	31,055
Long-term liabilities and provisions	**164,779**	**156,849**	**124,709**	**121,731**
Zobowiązania z tytułu leasingu	146,559	137,249	102,296	99,318
w tym: z tytułu leasingu lokali handlowych oraz powierzchni biurowych	*146,175*	*136,772*	*101,352*	*98,190*
Kredyty i pożyczki długoterminowe	17,575	18,955	21,805	21,805
Rezerwy długoterminowe	645	645	608	608
Zobowiązania krótkoterminowe razem	**180,486**	**181,137**	**182,746**	**167,847**
Finance lease liabilities	59,143	58,844	56,519	54,181
incl.: lease liabilities related to retail and office space	*58,482*	*58,009*	*55,398*	*53,014*
Trade and other liabilities	91,704	110,410	90,044	95,530
Corporate incomes tax liabilities	-	-	4,594	5,257
Loans and borrowings and short-term portion of long-term loans and borrowings	23,046	4,939	25,396	5,375
Short-term provisions	6,593	6,944	6,193	7,504
Total liabilities and provisions	**345,265**	**337,986**	**307,455**	**289,578**
Total equity and liabilities	**1,008,249**	**1,024,515**	**1,031,483**	**1,035,211**
Book value of equity	662,984	686,529	724,028	745,633
Shares outstanding	234,455,840	234,455,840	234,455,840	234,455,840
Book value per share	2.83	2.93	3.09	3.18
Diluted number of shares	241,505,840	241,505,840	241,505,840	241,505,840
Diluted book value per share	2.75	2.84	3.00	3.09

CONDENSED INTERIM SEPARATE

OFF-BALANCE SHEET ITEMS

AS OF MARCH 31, 2021

	PLN ths			
	As at 31-03-2021 / end of 1Q21	As at 31-12-2020 / end of former quarter 2020	As at 31-03-2020 / end of 1Q20	As at 31-12-2019 / end of former quarter 2019
bank guarantees issued for store rental expenses	25,638	25,668	27,192	25,351
open letters of credit	27,655	21,697	23,155	36,997
bills of exchange securing lease liabilities	-	-	-	-
Total off-balance sheet items	**53,293**	**47,365**	**50,347**	**62,348**

CONDENSED INTERIM SEPARATE

STATEMENT OF PROFIT OR LOSS

FOR 3 MONTHS ENDED 31 MARCH, 2021

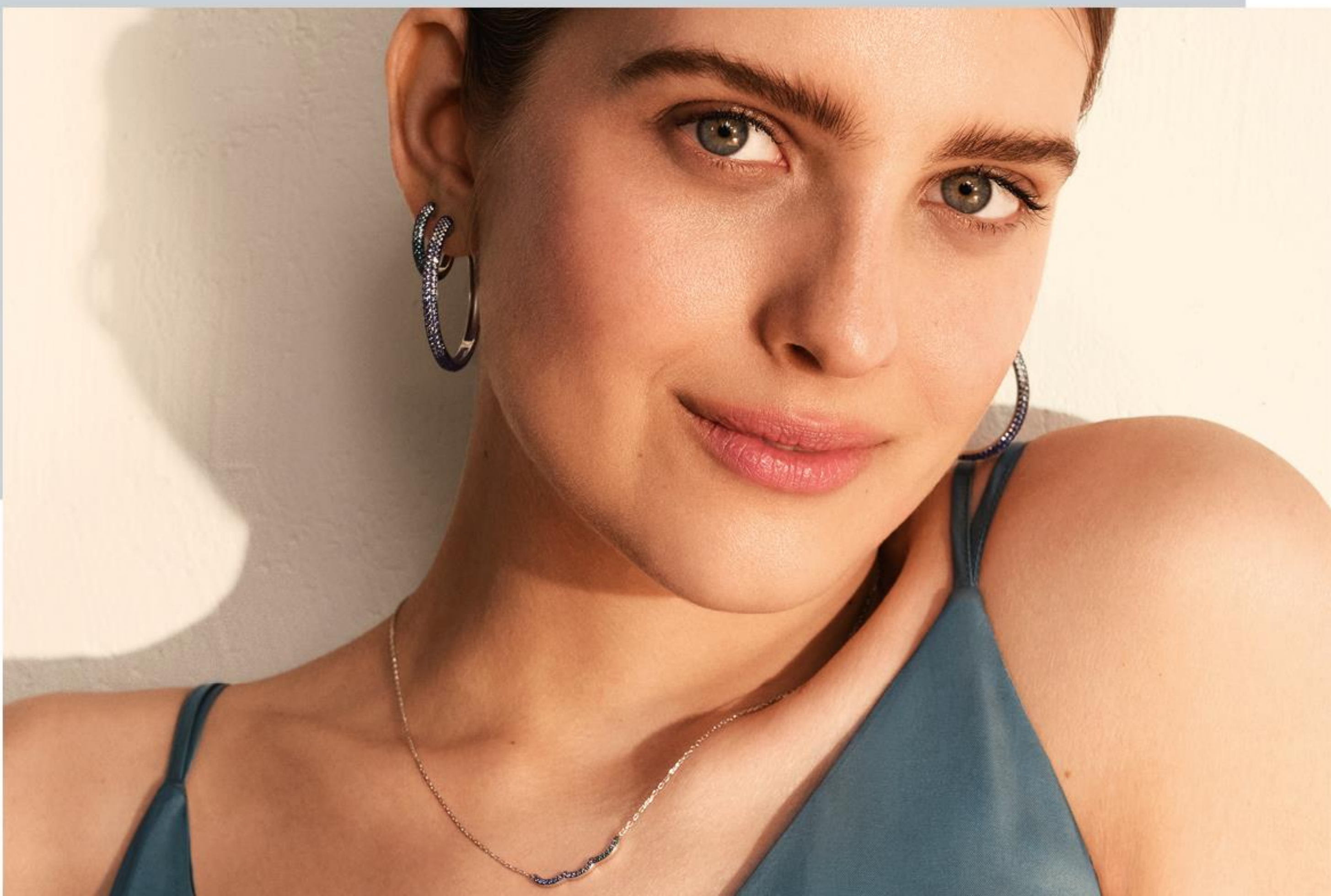
	PLN ths	
	1Q21 January 1, 2021 to March 31, 2021	1Q20 January 1, 2020 to March 31, 2020
Revenues	**74,660**	**111,021**
Cost of sales	40,563	58,800
Gross profit on sales	**34,097**	**52,221**
Selling costs	45,729	50,163
Administrative expenses	10,622	13,289
Gain on sale of non-financial non-current assets	-	-
Other operating income	127	123
Loss on sale of non-financial non-current assets	37	30
Other operating costs	1,466	346
Profit (loss) from operations	**- 23,630**	**- 11,484**
Financial income	811	810
incl.: lease liabilities related to retail and office space	-	-
Financial costs	4,972	13,639
incl.: lease liabilities related to retail and office space	*2,559*	*10,235*
Pre-tax profit (loss)	**- 27,791**	**- 24,313**
Income tax	- 4,245	- 2,708
Net profit (loss) for the period	**- 23,546**	**- 21,605**
Weighted average number of ordinary shares	234,455,840	234,455,840
Diluted weighted average number of ordinary shares	241,505,840	241,505,840
Earnings (loss) per share		
- basic	- 0.10	- 0.09
- diluted	- 0.10	- 0.09

CONDENSED INTERIM SEPARATE

STATEMENT OF COMPREHENSIVE INCOME

FOR 3 MONTHS ENDED 31 MARCH, 2021

	PLN ths	
	1Q21 January 1, 2021 to March 31, 2021	1Q20 January 1, 2020 to March 31, 2020
Net profit for the period	**- 23,546**	**- 21,605**
Other comprehensive income, including:	-	-
Revaluation of financial assets available for sale	-	-
Income tax related to other comprehensive income	-	-
Total comprehensive income	**- 23,546**	**- 21,605**



CONDENSED INTERIM SEPARATE

STATEMENT OF CHANGES IN EQUITY

FOR 3 MONTHS ENDED MARCH 31, 2021

	PLN ths				
	Share capital	Capital reserves	Other reserves	Retained earnings	Total equity
1Q20 period from January 1, 2020 to March 31, 2020					
As at 01.01.2020	**49,122**	**648,066**	**17,390**	**31,055**	**745,633**
Distribution of net profit					-
Net profit (loss) for the period				- 21,605	- 21,605
Stock-option program valuation					-
Share issuance					-
As at 31.03.2020	**49,122**	**648,066**	**17,390**	**9,450**	**724,028**
Rok 2020 / okres od 01-01-2020 do 31-12-2020					
As at 01.01.2020	**49,122**	**648,066**	**17,390**	**31,055**	**745,633**
Distribution of net profit		31,055		-31,055	-
Net profit (loss) for the period				- 59,104	- 59,104
Stock-option program valuation					-
Share issuance					-
As at 31.12.2020	**49,122**	**679,121**	**17,390**	**- 59,104**	**686,529**
1 kwartał/2021 okres od 01-01-2021 do 31-03-2021					
As at 01.01.2021	**49,122**	**679,121**	**17,390**	**- 59,104**	**686,529**
Distribution of net profit				1	1
Net profit (loss) for the period				- 23,546	-23,546
Stock-option program valuation					-
Share issuance					-
As at 31.03.2021	**49,122**	**679,121**	**17,390**	**- 82,649**	**662,984**

CONDENSED INTERIM SEPARATE

STATMENT OF CASH FLOWS

FOR 3 MONTHS ENDED MARCH 31, 2021

	PLN ths	
	1Q21 January 1, 2021 to March 31, 2021	1Q20 January 1, 2020 to March 31, 2020
Pre-tax profit (loss)	- 27,791	- 24,313
Share in equity consolidated entities		
Amortization and depreciation	15,194	17,640
Profit (loss) on investing activities	37	30
Income tax paid	- 428	- 663
Interest costs	988	840
Change in provisions	- 351	- 1,311
Change in inventories	- 11,420	- 6,290
Change in receivables	- 8,239	- 6,156
Change in short-term liabilities, excluding bank loans and borrowings	- 16,288	3,568
Other adjustments	- 23	- 303
Net cash flows from operating activities	**- 48,321**	**- 16,958**
Interest received	-	19
Inflows from sale of intangibles	-	-
Inflows from sale of fixed assets	71	256
Disposal from investment property	-	-
Repayment of loans granted	4	-
Purchase of intangible assets	- 175	- 64
Purchase of fixed assets	- 718	- 1,692
Purchase of financial assets in subsidiaries	-	-
Purchase of financial assets in other entities	-	-
Loans granted to subsidiaries	- 163	-
Net cash flows from investing activities	**- 981**	**- 1,481**
Proceeds from issuance of shares and other capital instruments (bonds) and additional payments to capital	-	-
Inflows from loans and borrowings	18,107	20,021

	PLN ths	
	1Q21 January 1, 2021 to March 31, 2021	1Q20 January 1, 2020 to March 31, 2020
Dividends and other distributions to owners	-	-
Repayment of bank loans and borrowings	- 1,380	-
Loan granted to a subsidiary	-	-
Finance lease payments	- 268	- 281
Other interest paid	- 191	- 321
Interest paid lease liabilities related to retail and office space	- 797	- 519
Finance lease payments related to retail and office space	- 10,135	- 14,667
Other financial expenses	-	-
Net cash flows from financing activity	**5,336**	**4,233**
Change in cash and cash equivalents in the balance sheet	**- 43,966**	**- 14,206**
Opening balance of cash	**46,918**	**19,849**
Change in cash due to foreign currency translation	-	-
Closing balance of cash	**2,952**	**5,643**

Value shown under "Other adjustments" consists of:	PLN ths	
	1Q21 January 1, 2021 to March 31, 2021	1Q20 January 1, 2020 to March 31, 2020
capital reserves increase – valuation of stock options	-	-
interest received	-	- 19
fixed assets - impairment - liquidation	- 23	- 284
balance sheet valuation of W.KRUK S.A. subsidiary	-	-
Total	**- 23**	**- 303**

INFORMATION AND EXPLANATIONS

TO CONDENSED INTERIM SEPARATE FINANCIAL STATEMENTS FOR 1Q21

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

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

Cracow, May 27, 2021

VISTULA

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