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SZTUKA KRAWIECTWA OD 1945

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CONDENSED INTERIM FINANCIAL REPORT

of VRG S.A. Capital Group for 3Q21
prepared in accordance with IFRS
approved by the European Union

Cracow, November 16, 2021

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CONDENSED INTERIM CONSOLIDATED

FINANCIAL STATEMENTS

FOR 9 MONTHS ENDING SEPTEMBER 31, 2021

SELECTED FINANCIAL DATA TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

| | PLN ths | | EUR ths | |
|--|--|--|--|--|
| | 9M21 January 1, 2021 to September 31, 2021 | 9M20 January 1, 2020 to September 31, 2020 | 9M21 January 1, 2021 to September 31, 2021 | 9M20 January 1, 2020 to September 31, 2020 |
| Revenues | 721,132 | 621,710 | 158,159 | 139,960 |
| Profit (loss) from operations | 43,917 | - 9,030 | 9,632 | - 2,033 |
| EBITDA | 121,932 | 75,617 | 26,742 | 16,071 |
| Pre-tax profit (loss) | 33,998 | - 31,354 | 7,456 | - 7,058 |
| Net profit (loss) | 26,522 | - 26,033 | 5,817 | - 5,861 |
| Net cash flows from operating activities | 86,055 | 87,159 | 18,874 | 19,621 |
| Net cash flows from investing activities | - 8,778 | - 13,566 | - 1,925 | - 3,054 |
| Net cash flows from financing activities | - 75,224 | - 49,620 | - 16,498 | - 11,171 |
| Total net cash flows | 2,053 | 23,973 | 450 | 5,397 |
| | 30.09.2021 | 31.12.2020 | 30.09.2021 | 31.12.2020 |
| Total assets | 1,460,669 | 1,466,233 | 315,282 | 317,724 |
| Liabilities and provisions | 610,793 | 642,879 | 131,838 | 139,308 |
| Long-term liabilities | 296,152 | 305,988 | 63,924 | 66,306 |
| Short-term liabilities | 304,076 | 325,796 | 65,634 | 70,598 |
| Total equity | 849,876 | 823,354 | 183,444 | 178,416 |
| Share capital | 49,122 | 49,122 | 10,603 | 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) | 0.11 | - 0.11 | 0.02 | - 0.03 |
| Diluted earnings (loss) per share (in PLN/EUR) | 0.11 | - 0.11 | 0.02 | - 0.03 |
| Book value per share (in PLN/EUR) | 3.62 | 3.51 | 0.78 | 0.76 |
| Diluted book value per share (in PLN/EUR) | 3.52 | 3.41 | 0.76 | 0.74 |
| Declared or paid dividend per share (in PLN/EUR) | - | - | - | - |

CONDENSED INTERIM CONSOLIDATED

STATEMENT OF FINANCIAL POSITION

AS OF SEPTEMBER 31, 2021

| | As at 30-09-2021 / end of 3Q21 | As at 30-06-2021 / end of former quarter 2021 | As at 31-12-2020 / end of former year 2020 | As at 30-09-2020 / end of quarter 2020 | As at 30-06-2020 / end of former quarter 2020 |
|---|--------------------------------------|--|---|---|--|
| Non-current assets | 881,523 | 888,844 | 898,027 | 872,648 | 893,451 |
| Goodwill | 302,748 | 302,748 | 302,748 | 302,748 | 302,748 |
| Other intangible assets | 196,736 | 196,688 | 196,242 | 196,424 | 196,615 |
| Fixed assets | 51,774 | 53,421 | 60,626 | 63,967 | 65,329 |
| Investment property | 295 | 295 | 874 | 874 | 874 |
| Right-of-use assets (IFRS16) | 301,962 | 307,159 | 312,690 | 291,722 | 312,129 |
| Long-term receivables | 275 | 275 | 295 | 289 | 521 |
| Shares and stakes | 27 | 27 | 27 | 27 | 27 |
| Other long-term investments | 4 | 4 | 4 | 4 | 4 |
| Deferred tax assets | 27,702 | 28,227 | 24,521 | 16,563 | 15,172 |
| Other long-term assets | - | - | - | 30 | 32 |
| Current assets | 579,146 | 544,699 | 568,206 | 561,717 | 552,542 |
| Inventory | 509,604 | 515,790 | 505,584 | 493,098 | 485,345 |
| Trade and other receivables as well as other current assets | 18,645 | 13,744 | 13,332 | 18,828 | 17,194 |
| Cash and cash equivalents | 50,897 | 14,748 | 48,839 | 49,253 | 50,003 |
| Other short-term financial assets | - | 417 | 451 | 538 | - |
| Total assets | 1,460,669 | 1,433,543 | 1,466,233 | 1,434,365 | 1,445,993 |

Condensed interim financial report of VRG Capital Group for 3Q21

| | As at 30-09-2021 / end of 3Q21 | As at 30-06-2021 / end of former quarter 2021 | As at 31-12-2020 / end of former year 2020 | As at 30-09-2020 / end of quarter 2020 | As at 30-06-2020 / end of former quarter 2020 |
|--|--------------------------------------|--|---|---|--|
| Dominating entity's equity | 849,876 | 826,202 | 823,354 | 837,316 | 831,574 |
| Share capital | 49,122 | 49,122 | 49,122 | 49,122 | 49,122 |
| Other reserves | 14,333 | 14,333 | 14,333 | 14,396 | 14,396 |
| Retained earnings | 786,421 | 762,747 | 759,899 | 773,798 | 768,056 |
| Long-term liabilities and provisions | 297,390 | 292,946 | 307,227 | 279,291 | 292,208 |
| Liabilities due to purchase of fixed assets | 416 | 391 | 438 | 465 | 380 |
| Lease liabilities | 257,662 | 250,183 | 258,354 | 226,004 | 236,066 |
| <i>incl.: lease liabilities related to retail and office space</i> | <i>256,346</i> | <i>248,758</i> | <i>256,974</i> | <i>224,460</i> | <i>234,256</i> |
| Loans and borrowings | 38,074 | 41,134 | 47,196 | 51,700 | 54,640 |
| Long-term provisions | 1,238 | 1,238 | 1,239 | 1,122 | 1,122 |
| Short-term liabilities and provisions | 313,403 | 314,395 | 335,652 | 317,758 | 322,211 |
| Lease liabilities | 99,799 | 97,388 | 98,839 | 83,761 | 90,075 |
| <i>incl.: lease liabilities related to retail and office space</i> | <i>98,899</i> | <i>96,328</i> | <i>97,510</i> | <i>82,301</i> | <i>88,300</i> |
| Trade and other liabilities | 178,092 | 181,608 | 199,240 | 162,862 | 161,176 |
| Corporate income tax liabilities | 5,872 | 4,336 | 3,345 | 3,705 | 3,367 |
| Loans and borrowings and short-term part of long-term loans and borrowings | 20,313 | 20,771 | 24,372 | 57,503 | 57,525 |
| Short-term provisions | 9,327 | 10,292 | 9,856 | 9,927 | 10,068 |
| Total liabilities and provisions | 610,793 | 607,341 | 642,879 | 597,049 | 614,419 |
| Total equity and liabilities | 1,460,669 | 1,433,543 | 1,466,233 | 1,434,365 | 1,445,993 |
| Book value | 849,876 | 826,202 | 823,354 | 837,316 | 831,574 |
| Number of shares | 234,455,840 | 234,455,840 | 234,455,840 | 234,455,840 | 234,455,840 |
| Book value per share | 3.62 | 3.52 | 3.51 | 3.57 | 3.55 |
| Diluted number of shares | 241,505,840 | 241,505,840 | 241,505,840 | 241,505,840 | 241,505,840 |
| Diluted book value per share | 3.52 | 3.42 | 3.41 | 3.47 | 3.44 |

CONDENSED INTERIM CONSOLIDATED
OFF-BALANCE SHEET ITEMS

AS OF SEPTEMBER 30, 2021

| | PLN ths | | | | |
|--|--------------------------------------|--|---|---|--|
| | As at 30-09-2021 / end of 3Q21 | As at 30-06-2021 / end of former quarter 2021 | As at 31-12-2020 / end of former year 2020 | As at 30-09-2020 / end of quarter 2020 | As at 30-06-2020 / end of former quarter 2020 |
| bank guarantees issued for store rental expenses | 51,706 | 50,041 | 56,505 | 49,122 | 47,868 |
| open letters of credit | 19,832 | 32,736 | 23,438 | 15,144 | 9,128 |
| bills of exchange securing lease liabilities | 495 | 467 | 609 | 720 | 788 |
| Total off-balance sheet items | 72,033 | 83,244 | 80,552 | 64,986 | 57,784 |



CONDENSED INTERIM CONSOLIDATED

STATEMENT OF PROFIT OR LOSS

FOR 9 MONTHS ENDING SEPTEMBER 30, 2021

| | PLN ths | | | |
|--|--|---|--|---|
| | 3Q21 July 1, 2021 to September 30, 2021 | 9M21 January 1, 2021 to September 30, 2021 | 3Q20 July 1, 2020 to September 30, 2020 | 9M20 January 1, 2020 to September 30, 2020 |
| Revenues | 305,018 | 721,132 | 249,368 | 621,710 |
| Cost of sales | 141,684 | 344,971 | 126,957 | 323,256 |
| Gross profit on sales | 163,334 | 376,161 | 122,411 | 298,454 |
| Selling costs | 98,285 | 267,350 | 88,997 | 238,135 |
| Administrative expenses | 20,905 | 57,691 | 17,756 | 56,819 |
| Gain from sale of non-financial non-current assets | 1,384 | 10,699 | 152 | 9,379 |
| Other operating income | 105 | 123 | - | - |
| Loss from sale of non-financial non-current assets | 2,611 | 18,025 | 2,462 | 21,588 |
| Other operating costs | - | - | 90 | 321 |
| Profit (loss) from operations | 43,022 | 43,917 | 13,258 | - 9,030 |
| Financial income | 22 | 37 | 641 | 2,591 |
| <i>incl.: financial income due to lease liabilities related to retail and office space</i> | - | - | - | - |
| Financial costs | 13,257 | 9,956 | 6,865 | 24,915 |
| <i>incl.: financial costs due to lease liabilities related to retail and office space</i> | 9,743 | 4,938 | 4,407 | 17,611 |
| Pre-tax profit (loss) | 29,787 | 33,998 | 7,034 | - 31,354 |
| Income tax | 6,113 | 7,476 | 1,292 | - 5,321 |
| Net profit (loss) for the period | 23,674 | 26,522 | 5,742 | - 26,033 |
| Attributed to dominating entity | 23,674 | 26,522 | 5,742 | - 26,033 |
| Attributed to non-controlling interest | - | - | - | - |
| Weighted average number of ordinary shares | 234,455,840 | 234,455,840 | 234,455,840 | 234,455,840 |
| Diluted weighted average number of ordinary shares | 241,505,840 | 241,505,840 | 241,505,840 | 241,505,840 |
| Diluted weighted average number of ordinary shares | | | | |
| - basic | 0.10 | 0.11 | 0.02 | - 0.11 |
| - diluted | 0.10 | 0.11 | 0.02 | - 0.11 |

CONDENSED INTERIM CONSOLIDATED

STATEMENT OF COMPREHENSIVE INCOME

FOR 9 MONTHS ENDING SEPTEMBER 30, 2021

| | PLN ths | | | |
|---|--|---|--|---|
| | 3Q21 July 1, 2021 to September 30, 2021 | 9M21 January 1, 2021 to September 30, 2021 | 3Q20 July 1, 2020 to September 30, 2020 | 9M20 January 1, 2020 to September 30, 2020 |
| Net profit (loss) for the period | 23,674 | 26,522 | 5,742 | - 26,033 |
| Other comprehensive income, including: | - | - | - | - |
| That can be reclassified to net income | - | - | - | - |
| That cannot be reclassified to net income | - | - | - | - |
| Total comprehensive income | 23,674 | 26,522 | 5,742 | - 26,033 |
| Attributed to dominating entity | 23,674 | 26,522 | 5,742 | - 26,033 |
| Attributed to non-controlling interest | - | - | - | - |



CONDENSED INTERIM CONSOLIDATED

STATEMENT OF CHANGES IN EQUITY

FOR 9 MONTHS ENDING SEPTEMBER 31, 2020

| | PLN ths | | | |
|---|---------------|------------------|-------------------|----------------|
| | Share capital | Capital reserves | Retained earnings | Total equity |
| 3Q20 / period between July 1, 2020 and September 30, 2020 | | | | |
| Balance at 01.07.2020 | 49,122 | 14,396 | 768,056 | 831,574 |
| Consolidation adjustment | - | - | - | - |
| Net profit (loss) for the period | - | - | 5,742 | 5,742 |
| Stock option programme valuation | - | - | - | - |
| Share issuance | - | - | - | - |
| Balance at 30.09.2020 | 49,122 | 14,396 | 773,798 | 837,316 |
| 9M20 / period between January 1, 2020 to September 30, 2020 | | | | |
| Balance at 01.01.2020 | 49,122 | 14,333 | 799,831 | 863,286 |
| Consolidation adjustment | - | - | - | - |
| Net profit (loss) for the period | - | - | - 26,033 | - 26,033 |
| Stock option programme valuation | - | 63 | - | 63 |
| Share issuance | - | - | - | - |
| Balance at 30.09.2020 | 49,122 | 14,396 | 773,798 | 837,316 |
| 2020 / period between 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 | - | - | - 39,932 | - 39,932 |
| Stock option programme valuation | - | - | - | - |
| Share issuance | - | - | - | - |
| Balance at 31.12.2020 | 49,122 | 14,333 | 759,899 | 823,354 |
| 9M21 / period between od 01-07-2021 to September 30, 2021 | | | | |
| Balance at 01.07.2021 | 49,122 | 14,333 | 762,747 | 826,202 |
| Consolidation adjustment | - | - | - | - |
| Net profit (loss) for the period | - | - | 23,674 | 23,674 |
| Stock option programme valuation | - | - | - | - |
| Share issuance | - | - | - | - |
| Balance at 30.09.2021 | 49,122 | 14,333 | 786,421 | 849,876 |
| 3Q21 / period between January 1, 2021 to September, 30, 2021 | | | | |
| Balance at 01.01.2021 | 49,122 | 14,333 | 759,899 | 823,354 |
| Consolidation adjustment | - | - | - | - |
| Net profit (loss) for the period | - | - | 26,522 | 26,522 |
| Stock option programme valuation | - | - | - | - |
| Share issuance | - | - | - | - |
| Balance at 30.09.2021 | 49,122 | 14,333 | 786,421 | 849,876 |

CONDENSED INTERIM CONSOLIDATED

STATEMENT OF CASH FLOWS

FOR 9 MONTHS ENDING SEPTEMBER 30, 2021

| | PLN ths | | | |
|---|--|---|--|---|
| | 3Q21 July 1, 2021 to September 30, 2021 | 9M21 January 1, 2021 to September 30, 2021 | 3Q20 July 1, 2020 to September 30, 2020 | 9M20 January 1, 2020 to September 30, 2020 |
| Operating cash flows | | | | |
| Pre-tax profit (loss) | 29,787 | 33,998 | 7,034 | - 31,354 |
| Adjustments: | | | | |
| Amortization and depreciation | 24,677 | 78,015 | 26,546 | 84,647 |
| Profit (loss) on investing activities | - 135 | - 153 | 116 | 349 |
| Income tax paid | - 6,131 | - 10,201 | - 2,392 | - 9,025 |
| Interest costs | 1,815 | 5,506 | 1,912 | 5,518 |
| Change in provisions | - 965 | - 530 | - 141 | - 1,167 |
| Change in inventories | 6,186 | - 4,020 | - 935 | 49,259 |
| Change in receivables | - 4,901 | - 5,293 | - 7,875 | - 2 350 |
| Change in short-term liabilities, excluding bank loans and borrowings | 9,525 | - 12,892 | 1,561 | - 7,603 |
| Other adjustments | - 38 | 1,625 | - 726 | - 1,115 |
| Net cash flows from operating activities | 59,820 | 86,055 | 25,100 | 87,159 |
| Investing cash flows | | | | |
| Interest received | - | - | - | 18 |
| Dividends from subsidiaries | - | - | - | - |
| Inflows from sale of intangibles | 184 | 710 | 72 | 598 |
| Inflows from sale of fixed assets | - | - | - | - |
| Disposal from investment property | - | - | - | - |
| Repayment of loans granted | - 316 | - 1,215 | - 27 | - 132 |
| Purchase of intangible assets | - 3,809 | - 8,273 | - 5,575 | - 14,050 |
| Purchase of fixed assets | - | - | - | - |
| Purchase of investment property | - | - | - | - |
| Net cash flows from investing activities | - 3,941 | - 8,778 | - 5,530 | - 13,566 |
| Financing cash flows | | | | |

Condensed interim financial report of VRG Capital Group for 3Q21

| | PLN ths | | | |
|---|--|---|--|---|
| | 3Q21 July 1, 2021 to September 30, 2021 | 9M21 January 1, 2021 to September 30, 2021 | 3Q20 July 1, 2020 to September 30, 2020 | 9M20 January 1, 2020 to September 30, 2020 |
| Proceeds from issuance of shares and other capital instruments and additional payments to capital | - | - | - | - |
| Inflows from loans and borrowings | 338 | 855 | - | 27,346 |
| Repayment of bank loans and borrowings | - 3,857 | - 14,482 | - 2,962 | - 7,840 |
| Lease payments due to other lease liabilities | - 409 | - 1,145 | - 725 | - 1,544 |
| Interest paid | - 493 | - 1,318 | - 894 | - 2,366 |
| Interest paid due to lease liabilities related to retail and office space | - 1,322 | - 4,188 | - 1,018 | - 3,152 |
| Lease payments due to lease liabilities related to retail and office space | - 13,987 | - 54,946 | - 14,721 | - 62,064 |
| Due to other financial liabilities | - | - | - | - |
| Net cash flows from financing activities | - 19,730 | - 75,224 | - 20,320 | - 49,620 |
| Change in cash and cash equivalents in the balance sheet | 36,149 | 2,053 | - 750 | 23,973 |
| Opening balance of cash | 14,748 | 48,844 | 50,003 | 25,280 |
| Change in cash due to foreign currency translation | - | - | - | - |
| Closing balance of cash | 50,897 | 50,897 | 49,253 | 49,253 |

Value shown under "Other adjustments" consists of:

| | PLN ths | |
|--|--|--|
| | 9M21 January 1, 2021 to September 30, 2021 | 9M20 January 1, 2020 to September 30, 2020 |
| capital reserves increase – valuation of stock options | - | 63 |
| fixed assets - impairment - liquidation | 1,625 | - 622 |
| interest received | - | - 18 |
| forward transaction valuation | - | - 538 |
| Total | 1,625 | - 1,115 |



INFORMATION AND EXPLANATIONS

TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR 3Q21

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 3Q21 VRG S.A. Capital Group consisted of the following entities:

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

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

The company specialises in retail sale of clothing.
Share in equity: 100.0%. Share in votes at the General Shareholder Meeting: 100.0%.
- 4. WSM Factory Sp. z o.o.** (former name: 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 3Q21 include data of the Parent Company and subsidiaries: W.KRUK S.A., DCG S.A., WSM Factory Sp. z o.o. (former name: Wólczanka Shirts Manufacturing Sp. z o.o.), VG Property Sp. z o.o.

Changes in Capital Group structure in 3Q21.

Between January 1, 2021 and September 30, 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 September 30, 2021 the composition of the Management Board of VRG S.A. was as the following:

| | | | |
|------------------|---|--|--|
| Management Board | Jan Pilch Deputy-Chair of the Supervisory Board delegated to temporarily perform the functions of the President of the Management Board | Radosław Jakociuk Executive Vice-President of the Management Board | Michał Zimnicki Executive Vice-President of the Management Board |
| | | | |

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

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

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

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

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

- on May 19, 2021, Mr. Ernest Podgórski 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. In connection with the above, the resignation of Mr. Ernest Podgórski, Phd entered into force with effect on the date of the Ordinary General Meeting of VRG S.A. on June 28, 2021.

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

- on September 10, 2021, the Supervisory Board of the parent company adopted a resolution to dismiss Andrzej Jaworski, President of the Management Board, from the Management Board of the Company.

- on September 10, 2021, the Supervisory Board of the parent company adopted a resolution to appoint Ms. Marta Fryzowska to the Management Board of the Company as of January 1, 2022, entrusting her with the position of Executive Vice-President of the Management Board.

- on November 4, 2021, the Supervisory Board of the parent company adopted a resolution on changing the date of appointment of Mrs. Marta Fryzowska to the Management Board of the Company and entrusting her with the function of the Vice-President of the Management Board of the Company, with effect from December 1, 2021, instead of the current date of January 1, 2022.

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

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

| | | | |
|-------------------|---|---|---|
| Supervisory Board | Mateusz Kolański Chair of the Supervisory Board | Jan Pilch Deputy-Chair of the Supervisory Board | Piotr Kaczmarek Member of the Supervisory Board |
| | Marcin Gomola Member of the Supervisory Board | Piotr Stępnik Member of the Supervisory Board | Wacław Szary Member of the Supervisory Board |
| | | | Andrzej Szumański Member of the Supervisory Board |

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

- on January 11, 2021, Mr. Ernest Podgórski resigned from the position of a Member of the Supervisory Board of the Company with effect on January 11, 2021.

- on January 19, 2021, the Supervisory Board of Company adopted a resolution to supplement the composition of the Supervisory Board by co-option provided for in paragraph 22 sec. 3 of the Company's Articles of Association. The Supervisory Board appointed Mr. Mateusz Kolański to the Supervisory Board of the parent company of the former joint term in office. Mr. Mateusz Kolański was appointed Vice-Chair of the Supervisory Board with effect from February 17, 2021. Extraordinary General Meeting of the parent company on March 17, 2021, acting on the basis of paragraph 22 section 3 of the Company's Articles of Association, approved the above-mentioned co-option of Mr. Mateusz Kolański to the Supervisory Board of the Company, in connection with the resignation submitted by Mr. Ernest Podgórski.

- on June 28, the Annual General Meeting of the parent company adopted resolutions according to which the following were appointed to the composition of the 7-person Supervisory Board of the parent company for the new term of office:

1. Prof. Andrzej Szumański
2. Mr. Piotr Kaczmarek
3. Mr. Piotr Stępnik
4. Mr. Mateusz Kolański
5. Mr. Jan Pilch
6. Mr. Waclaw Gray
7. Mr. Marcin Gomola.

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

In the period from the balance sheet date, i.e. September 30, 2021 to the date of signing this report, the composition of the Supervisory Board of the parent company 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 November 16, 2021.

1.5. Going concern

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

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 2021, which similarly to 2020 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 2021 was optimised. The Group also applied for a subsidy to payroll costs, which was granted in the amount of PLN 5.3 million (for all companies of the Capital Group in total). In addition, the Group also applied for an exemption from paying Social Security contributions for November 2020 and January 2021

(DCG S.A., a subsidiary) and April 2021 (W.KRUK S.A.), the exemption was granted in the total amount of PLN 3.5 million. In the opinion of the Management Board of the parent company, there is no risk of to the going concern status.

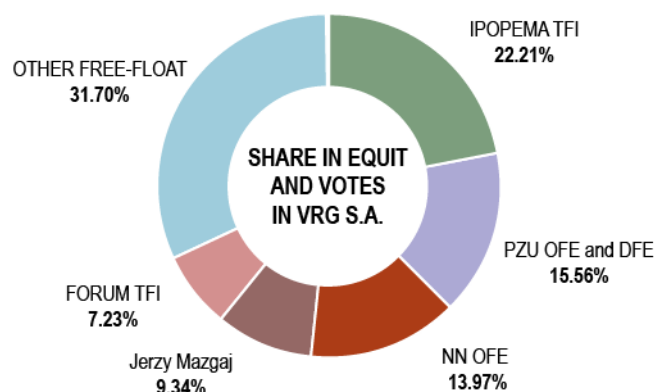
The Management Board of the Parent Entity notes that the financial debt of the Capital Group is at a safe level and decreased from PLN 87.9 million (under the previously applicable IAS17 standard) at the end of Q3 2020 to PLN 31.4 million at the end of Q3 2021 .

1.6. Share capital and shareholders

Shareholders owning directly or indirectly through related parties at least 5% of the total number of votes at the Company's General Shareholder Meeting as at the date of publication of the consolidated quarterly report and indication of changes in the ownership structure of significant stakes in VRG S.A. in the period from submitting the former consolidated financial report according to information provided by the Company.

1) Ownership structure of the share capital, in accordance with the information possessed by the Company as at the date of signing (November 16, 2021) of the consolidated quarterly report for 3Q21

As at the date of signing of the consolidated quarterly report for the third quarter of 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 related parties, 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 | 52,066,678 | 22.21 | 52,066,678 | 22.21 |
| 2 | PZU „Złota Jesień” Open Pension Fund and Voluntary Pension Fund ² | 36,470,100 | 15.56 | 36,470,100 | 15.56 |
| 3 | Nationale-Nederlanden Open Pension Fund ³ | 32,750,487 | 13.97 | 32,750,487 | 13.97 |
| 4 | Jerzy Mazgaj ⁴ | 21,900,000 | 9.34 | 21,900,000 | 9.34 |
| 5 | Forum TFI S.A. ⁵ | 16,946,800 | 7.23 | 16,946,800 | 7.23 |

¹ information provided in accordance with the notification received by the Company pursuant to Art. 69 sec. 2 point 1 lit. a and art. 87 sec. 1 point 2 lit. a of the Act of July 29, 2005 on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organized

Condensed interim financial report of VRG Capital Group for 3Q21

Trading, and on Public Companies, applies to the Company's shares held jointly by all funds managed by IPOPEMA TFI S.A. According to the information in the possession of the Company, the Ipopema 2 FIZ Non-Public Assets fund managed by IPOPEMA TFI S.A. at the Ordinary General Meeting on June 28, 2021, held 20,289,000 shares of the Company, which constituted 8.65% of the share capital of the Company and entitled to 20,289,000 votes representing 8.65% of the total number of votes at the General Meeting of the Company. According to the information possessed by the Company, the Ipopema 21 FIZ Non-Public Assets Fund, managed by IPOPEMA TFI SA, holds 31,658,785 shares of the Company, which constitutes 13.50% of the share capital of the Company and entitles to 31,658,785 votes, constituting 13.50% of the total number of votes at the General Meeting of the Company.

² information based on the number of shares registered jointly by the Open Pension Fund PZU "Złota Jesień" and the Voluntary Pension Fund PZU at the Ordinary General Meeting on June 28, 2021. Open Pension Fund PZU "Złota Jesień" at the Ordinary General Meeting on June 28, 2021, he independently owned 35,603,400 shares of the Company, which constituted 15.19% of the share capital of the Company and entitled to 35,603,400 votes, representing 15.19% of the total number of votes at the General Meeting of the Company.

³ information based on the number of shares registered by Nationale-Nederlanden Open Pension Fund at the Ordinary General Meeting on June 28, 2021. Nationale-Nederlanden Open Pension Fund at the Ordinary General Meeting on June 28, 2021 held 32,750,487 shares of the Company, which constituted 13.97% of the share capital of the Company and entitled to 32,750,487 votes, constituting 13.97% of the total number of votes at the General Meeting of the Company.

⁴ information provided on the basis of the current report of Krakchemia S.A. No. 10/2021 of October 26, 2021 and the number of shares registered by Mr. Jerzy Mazgaj at the Ordinary General Meeting on June 28, 2021, Mr. Jerzy Mazgaj at the Ordinary General Meeting of June 28, 2021, he had independently 21,900,000 shares of the Company, which constituted 9.34% of the share capital of the Company and entitled to 21,900,000 votes, constituting 9.34% of the total number of votes at the General Meeting of the Company.

⁵ information provided on the basis of the number of shares registered jointly by the Forum X Closed Investment Fund and Forum XXIII Closed Investment Fund managed by Forum TFI SA at the Ordinary General Meeting on June 28, 2021. Forum X Closed-end Investment Fund at the Ordinary General Meeting of on June 28, 2021, he owned 6,951,760 shares of the Company, which constituted 2.97% of the share capital of the Company and entitled to 6,951,760 votes constituting 2.97% of the total number of votes at the General Meeting of the Company. Fund Forum XXIII Closed-end Investment Fund at the Ordinary General Meeting on June 28, 2021, held 9,995,040 shares of the Company, which constituted 4.26% of the share capital of the Company and entitled to 9,995,040 votes, representing 4.26% of the total number of votes at the General Meeting of the Company.

2) Changes in the ownership structure of significant blocks of shares in accordance with the information held by the Company from the date of submitting the consolidated semi-annual report for the first half of 2021 (August 26, 2021)

To the best of the Company's knowledge, from the date of publication of the consolidated semi-annual report for the first half of 2021 (August 26, 2021), the following changes took place in the ownership structure of significant blocks of the Company's shares:

| Jerzy Mazgaj | 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 26.08.2021 (with related party Krakchemia S.A.) | 22,900,000 | 9.77 | 22,900,000 | 9.77 |
| As at 16.11.2021 | 21,900,000 | 9.34 | 21,900,000 | 9.34 |

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

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 annual report for 1H21 | Number of shares held on the day of quarterly report publication for 3Q21 |
|--|--|---|
| Jan Pilch - Deputy-Chair of Supervisory Board temporarily delegated to perform the function of President of the Management Board | 86,000 | 86,000 |
| Radosław Jakociuk – Executive Vice-President of the Management Board | 11 | 11 |
| Michał Zimmicki – Executive 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 semi-annual report for 1H21 | Number of F-series subscription warrants held on the day of publication of consolidated 3Q21 report |
|--|--|---|
| Radosław Jakociuk – Executive 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 shares held on the date of handover consolidated semi-annual report for 1H21 | Number of shares held on the date of handover consolidated report quarterly for the third quarter of 2021 |
|--|--|---|
| Jan Pilch – Deputy-Chair of Supervisory Board temporarily delegated to perform the function of President of the Management Board | 86,000 | 86,000 |

2. Principles for preparation of the financial statements

The condensed interim financial report for 3Q21 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.

On top, 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 3Q21 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 September 30, 2021 and as of September 30, 2021. The fiscal year is the calendar year. Comparable financial data are presented for the period from January 1, 2020 to September 30, 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 3Q21 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 third 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.

Pursuant to the provisions of IAS 8 "Accounting principles, changes in accounting estimates and error corrections", in the report for the third quarter of 2021, the Group performed a retrospective restatement of data relating to previous periods (adjustment of comparative data from previous years). Retrospective restatement of data was made in connection with the creation of deferred tax on lease of commercial premises and office space and the change in the presentation of data in the statement of financial position. Therefore, it corrects the comparable data for the third quarter of 2020 and in the statement of financial position for the first half of 2020 and for 2020. As a result of the above adjustment, the 'Corporate income tax assets' and 'corporate income tax assets' were increased in the statement of financial position. Retained earnings "by the amount of PLN 3,267 thousand zloty for the third quarter of 2020 and by the amount of PLN 2,521 thousand zloty. for the first half of 2020 and by the amount of PLN 8,238 thousand zloty. for 2020. In the profit and loss account, the income tax decreased and the net result increased by the amount of PLN 3,267 thousand zloty for the three quarters of 2020 and by the amount of PLN 746 thousand zloty for the third quarter of 2020 and in the statement of comprehensive income, the net profit for the financial year increased by PLN 3,267 thousand. zloty. for the three quarters of 2020 and by the amount of PLN 746 thousand zloty. for the 3rd quarter of 2020.

Moreover, in the statement of financial position for 2020, the Group changed the presentation of trade receivables and other receivables and current assets, which were presented in one item of the statement of financial position, and now receivables from corporate income tax were excluded from receivables, liabilities from corporate income tax were excluded from trade liabilities and other liabilities. Therefore, in the statement of financial position for the third quarter of 2021, the Group also makes appropriate adjustments to comparable data for the third quarter of 2020, the first half of 2020 and 2020.

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.

When gains or losses on non-monetary items are recognized directly in equity, all elements of these gains or losses relating to exchange rate differences are recognized directly in equity.

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

3.3. Financial instruments

Classification of financial instruments

Classification of financial instruments is based on the business model of managing groups of financial assets and the characteristics of contractual cash flows for a given financial asset and financial liability.

Classification is made at the moment of initial recognition. The classification of derivative instruments depends on their intended use and compliance with the requirements contained in IFRS 9.

Financial instruments are classified into the following categories:

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

Financial assets measured at amortized cost

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

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

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

Financial assets at fair value through profit or loss

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

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

Financial assets measured at fair value through other comprehensive income

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

equity instruments classified in this category are recognized in other comprehensive income. Interest income on investments in debt instruments is recognized in profit or loss. Dividends from equity instruments measured at fair value through other comprehensive income are recognized as revenue in profit or loss. Interest income on investments in debt instruments is recognized in profit or loss. At the time of disposal of investments in debt instruments, accumulated profits / losses are recognized in profit or loss.

Financial liabilities measured at amortized cost

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

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

Impairment of financial assets

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

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

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

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

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

Fair value of derivatives and other financial instruments

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

3.4. Non-current assets available for sale

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

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

3.5. Investment property

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

3.6. Fixed assets

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

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

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

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

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

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

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

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

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

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

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

3.7. Goodwill

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

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

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

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

3.8. Other intangible assets

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

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

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

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

3.9. Shares and stakes in controlled entities

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

3.10. Impairment of non-financial assets

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

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

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

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

3.11. Inventory

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

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

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

Determination of value of sold inventories is accounted as follows:

- raw materials, materials and goods - "first in - first out"

- semi-finished products, work in progress and finished products - according to the actual production cost

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

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

3.12. Trade and other receivables

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

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

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

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

3.13. Cash and cash equivalents

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

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



3.14. Kapitál

| | |
|---------------------|--|
| 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: <ul style="list-style-type: none"> ■ 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 | <p>The Group's capital management is aimed at maintaining the ability to continue operations, with consideration of planned investments, so that the Capital Group could generate returns and economic benefits for shareholders/investors in the future.</p> <p>The use of capital is monitored on an ongoing basis by analysing indicators and comparing the situation of the Capital Group against the industry in which the Capital Group operates.</p> <p>The Capital Group does not have externally imposed capital restrictions. In relation to the previous reporting period there were no changes in terms of rules and processes for capital management.</p> |

3.15. Liabilities

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

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.

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

Other revenues, including financial income

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|--|--|
| <p>Interest</p> <p>-----</p> <p>Revenue from interest is recognised on an accrual basis using the effective interest rate method.</p> | |
| <p>Dividends</p> <p>-----</p> <p>Dividends are recognized when the right to receive them is granted.</p> | <p>Rental income</p> <p>-----</p> <p>Revenue from lease of investment property is recognized on a straight-line basis over the lease period in relation to ongoing contracts.</p> |

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

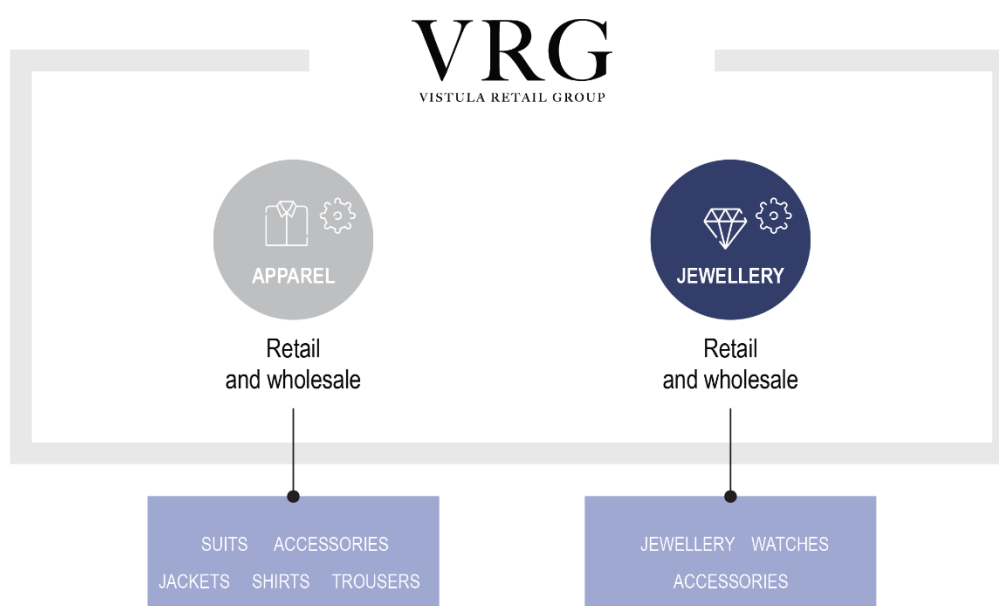
when Management Board members and key managers acquire full entitlement to benefits (vesting date). The cumulated cost recognised for equity-settled transactions at each balance sheet date until the date of the vesting date of rights reflects the degree of expiration of the vesting period and the number 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 | V I S T U L A | 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. |
| | V I S T U L A <i>Lantier</i> | 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. |

| | | |
|--|---|--|
| |  | <p>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.</p> |
| |  | <p>Women's brand introduced in 2021. The collection was created for women who appreciate quality, comfort and the timeless nature of products. VISTULA WOMAN, refined in details, surprises with classic cuts and fashionable patterns. It includes products for many occasions - outerwear (classic coats, casual down and leather jackets), jackets and elegant pants, skirts, dresses, shirts, as well as jeans, sweaters and t-shirts and an offer of accessories (shoes, belts, hats and gloves).</p> |


Leading brands of the Bytom business line:

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

Leading brands of the Wólczanka business line:


| | | |
|-----------|---|---|
| Wólczanka |  | <p>It is a brand that has existed since 1948. The brand's offer includes men's shirts, and from the Fall-Winter 2014 season also women's shirts, both formal and casual. Tradition and many years of experience in designing shirts and accessories have made the brand an expert in its field and a leader on the Polish market. Since 2019, the offer of the Wólczanka brand has been successively expanded with new assortments, including various types of trousers, skirts, dresses, jackets, coats, jackets and denim clothing - new assortments allow you to complete ready-made stylizations for various occasions.</p> |
| |  | <p>It is a brand of shirts and accessories that refer in their form and design to the principles of traditional tailoring and made of the highest quality fabrics. Lambert offers classic shirts and business accessories, perfect for women and men who observe the formal dress code at work, as well as who like to feel elegant, regardless of the occasion, who value comfort and the highest quality of the product.</p> |

Other own brands in the apparel segment:

| | | |
|-----------------|---|---|
| Apparel segment |  | <p>The clothing of this brand is aimed at the higher segment of the women's fashion market. The products of this brand were introduced to the Polish market in the early 90's.</p> <p>The offer signed with the Deni Cler Milano logo is made of Italian fabrics, and most of the accessories used are of Italian origin. The materials that are used in the production of this brand's clothes are primarily cashmere and wool with silk. The range of the brand includes mainly: skirts, jackets, pants, blouses, coats and dresses.</p> <p>The owner of the Deni Cler Milano brand derived from Milan is the subsidiary group DCG S.A. based in Warsaw. Basic activities of DCG S.A. focuses on the design, production and distribution of exclusive women's clothing.</p> |
|-----------------|---|---|

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 |  | <p>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.</p> <p>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.</p> |
| | WATCHES | <p>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.</p> <p>Watches of renowned brands sold in W.KRUK stores occupy a strong position on the Polish market, and their sales value is systematically increasing.</p> |

Manufacturing operations

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

Sezonowość i cykliczność działalności

Handel detaliczny zarówno w sektorze fashion jak i w branży jubilerskiej cechuje się znaczącą sezonowością sprzedaży. Dla rynku odzieżowego najkorzystniejszym okresem z punktu widzenia generowanego wyniku finansowego to okres II i IV kwartału, natomiast w zakresie branży jubilerskiej to okres IV kwartału (zwłaszcza miesiąc grudzień).

W zakresie segmentów geograficznych całość działalności Grupy Kapitałowej realizowana jest w Rzeczpospolitej Polskiej.

Seasonality and cyclicity of operations

Retail sales both in the fashion sector and in the jewellery industry are characterized by significant seasonality of sales. For the apparel market, the most favourable period from the point of view of 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 September 30, 2021 announced by the National Bank of Poland, which was PLN/EUR 4.6329. Individual items of the profit and loss account were converted into EUR at the exchange rate of 4.5595 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.

To calculate the average exchange rate, the following EURO exchange rates were adopted as of: 29.01.21 - 4.5385 PLN/EUR, 26.02.21 - 4.5175 PLN/EUR, 31.03.21 - 4.6603 PLN/EUR, 30.04.21 - 4, 5654 PLN/EUR, 31.05.21 - 4.4805 PLN/EUR, 30.06.21 - 4.5208 PLN/EUR, 30.07.21 - 4.5731 PLN/EUR, 31.08.21 - 4.5374 PLN/EUR, 30.09.21 - 4.6329.

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 December 31, 2020, which amounted to PLN/EUR 4.6148 and on September 30, 2020, which was 4.5268 PLN/EUR. Comparable data for individual items of the profit and loss account have been converted into EUR at the rates constituting the arithmetic mean of the average EUR rates set by the National Bank of Poland on the last day of each completed month of the comparative period, i.e. from 01/01/2020 to 30/09/2020, which amounted to 4.4420 PLN/EUR.

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 3,478 ths |
| b) change in deferred income tax provision in the amount of: | - PLN297 ths |
| c) change in the balance of receivables write-offs in the amount: | + PLN 1,189 ths |
| d) change in the balance of inventories write-offs to net realizable value in the amount of: | + PLN 11,634 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 530 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 9M21, 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 nine months of 2021, the parent company did not grant any additional sureties to subsidiaries.

As at 30/09/2021, 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 amended later 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 4,500,000.00 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 6,700,000, the surety is valid until July 14, 2025.
- c) An investment loan agreement up to the amount of PLN 4,021,500.00 concluded by a subsidiary VG Property Sp. z o.o. on June 30, 2016 with later 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 foreign exchange risk. The parent company has forward contracts for the purchase of currency as hedging transactions. Derivatives are denominated in USD and EUR. As at September 30, 2021, the balance of the nominal value is PLN 0 thousand. PLN. As at the balance sheet date, the Company measures the transactions held at fair value, the difference in the valuation is charged to income or financial costs and other short-term financial assets or other liabilities, respectively.

The valuation of derivative instruments belongs to the second level 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.

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

The Capital Group operates in a highly competitive market environment. The apparel and jewellery segment of the market is highly fragmented: on the one hand, we are dealing with brands recognized on the Polish market, such as Vistula, Bytom, Wólczanka, Deni Cler and W.KRUK, and on the other, with global brands that are aggressively entering the Polish market. The apparel segment of the market is characterized by relatively low entry barriers. We are also dealing with the emergence of competition from emerging brands. The Group may be forced to look for new supply markets in order to maintain the competitiveness of the offer. In addition, it may be possible to increase your marketing and promotion expenditure to reach your target customer.

Actions: In order to reduce the risk, the Management Board monitors the competitors' activities on an ongoing basis in terms of the development of the sales network, offered products and the 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.

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 September 30, 2021, the Group had liabilities measured at amortized cost in the amount of PLN 58,387 thousand for loans taken. Therefore, the Group is exposed to interest rate risk due to changes in debt valuation based on a variable interest rate. An increase in the level of interest rates may increase the cost of financing and thus lower the Group's profitability (the sensitivity analysis was carried out in the annual and semi-annual financial statements).

Actions: having relatively low debt, the Issuer currently considers this risk to be low. He constantly monitors the market situation, but currently does not take any additional measures to hedge the 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 and potential restrictions may have a negative impact on the Issuer's future financial results. It may be caused by restrictions introduced by the Minister of Health in the operation of commercial facilities with a sales area of more than 2,000 m², where over 95% of Vistula, Bytom, Wólczanka, Deni Cler and W.KRUK stores are located.

The above assessment results from the Issuer's best knowledge as at the date of this report. The impact of coronavirus 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 will continue the activities initiated in 2020 to improve the Group's working capital and maintain a stable level of the Group's net debt. In 2020, talks were held with banks that finance the activities of the Company and its companies from the capital group, which was completed with the extension of contracts with the main bank financing the Group, PKO BP, for two subsequent years and positively influencing the Group's liquidity situation in the current year. In the first half of 2021, the Company extended its agreement with ING bank for another two years.

In the opinion of the Management Board, the current situation is sufficiently monitored and controlled. The Management Board of the Company, having in mind the actions taken, is convinced of the positive results of the above-mentioned actions.

Internal risk factors

Risk associated with adopting the wrong strategy

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

Activities: Management boards analyse 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.

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. In addition, it is important to receive the ordered goods on time, which allows them to be sold in a timely manner and obtain high margins on this account. Due to the market situation related to disturbances in the supply chain, there is a risk of receiving goods at a later date, which will result in the necessity to sell them at lower prices.

Activities: The Group, taking into account the required quality, actively seeks the most optimal service providers and suppliers and negotiates price conditions. In order to minimize the risk in the supply chain, the Group uses various suppliers to provide transport services as well as optimizes the process of placing and executing orders.

Risk of cost of external services

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

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

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

Risk of termination of bank loan agreement

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

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

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

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

Risk of losing financial liquidity

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

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

Activities: The Group constantly monitors its liquidity position by analyzing the volume of sales proceeds and the required liabilities. In addition, in the current situation, the Group has taken active steps to improve financial liquidity and cash protection in individual Group companies. The Group took steps to extend the payment terms for the purchased goods, which will have a positive impact on 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. In addition, talks were held with banks that finance the operations of the Company and its companies from the Capital Group. In April, the Capital Group companies increased their financing under current loans and annexes were signed to extend the repayment of long-term loan installments. In July 2020, the Capital Group signed agreements with the main financing bank, PKO BP, extending the cooperation for another two years. These agreements concerned the provision of lines as part of an overdraft facility and for letters of credit and guarantees. In the first half of 2021, the Company extended its contract with ING bank for the next years. As part of the solutions of the anti-crisis shield, the key companies of the Group received co-financing for wages from the Guaranteed Employee Benefits Fund and were also temporarily exempted from Social Security contributions.

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

In the opinion of the Management Board of the parent company, the current situation is sufficiently monitored and controlled. The Management Board of the parent company, having in mind the actions taken, is convinced of the positive results of the above-mentioned actions.

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 22.21% votes at the General Shareholder Meeting, and five significant shareholders hold a total of 68.31% 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 guaranteed for the debts of the subsidiary. In the second quarter of 2015, the subsidiary DCG S.A. received refinancing from the PKO BP Bank, and during the third quarter of 2016, the subsidiary VG Property Sp. z o.o. obtained an investment loan from PKO BP Bank. The above liabilities of subsidiaries of DCG S.A. and VG Property Sp. z o.o. have been guaranteed by the Company.

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.

Risks related to the smooth cooperation with an external logistics operator

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

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

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

- introduction of a procedure for regular audits of logistics structures and systems made available for the needs of VRG S.A. by the 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 period of 9 months ended September 30, 2021, there were no other circumstances that could materially affect the personnel, property, financial standing and financial result of the Capital Group, or that could threaten its ability to meet its obligations.

13. Significant events of 3Q21:

08.07.2021

Notification on a significant block of shares

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

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

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

22.07.2021

Resignation of a member of the Management Board of the Company

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

03.08.2021

Information on making a write-off

In the current report No. 50/2021 dated August 3, 2021, the Management Board of the Company announced that on August 3, 2021, a decision was made to make an impairment loss in the amount of PLN 9,211,596.00. The decision was made after analyzing and reviewing and recognizing the impairment of inventories covering: inventories of raw materials for the production of clothing products, inventories of clothing products intended for sale in the wholesale channel, and inventories of commercial

goods and finished goods. The impairment loss was recognized in the Company's financial statements for the first half of 2021.

10.09.2021

Changes in the composition of the Management Board of the Company

In current reports No. 53/2021, No. 54/2021 of September 10, 2021, the Management Board of the Company informed that the Supervisory Board of the Company on September 10, 2021 adopted resolutions regarding changes in the composition of the Company's Management Board, including: a) a resolution to recall, effective from September 10, 2021, the President of the Management Board, Mr. Andrzej Jaworski, from the composition of the Management Board of the Company; b) a resolution on appointing Ms. Marta Fryzowska to the Management Board of the Company as of 1 January 2022 and entrusting her with the function of the Vice President of the Management Board.

10.09.2021

Delegating a member of the Supervisory Board to perform the function of the President of the Management Board of the Company

In the current report No. 55/2021 of September 10, 2021, the Management Board of the Company informed that the Supervisory Board of the Company on September 10, 2021, pursuant to Art. 383 par. 1 of the Commercial Companies Code, adopted a resolution on delegating the Deputy Chairman of the Supervisory Board of the Company, Mr. Jan Pilch, to temporarily perform the duties of the President of the Management Board. The posting took place until December 10, 2021.

14. Significant events after the balance sheet date:

04.11.2021

Change of the date of taking up the position in the Management Board of the Company by the Executive Vice President of the Management Board of the Company

In the current report No. 58/2021 of November 4, 2021, the Management Board of the company informed that the Supervisory Board of the Company on November 4, 2021 adopted a resolution on changing the resolution of the Supervisory Board of the Company of September 10, 2021 regarding the appointment of Mrs. Marta Fryzowska to the composition of the Management Board of the Company and entrusting her with the function of the Vice-President of the Management Board of the Company, about which the Company informed in the current report No. 54/2021. Pursuant to the resolution of the Supervisory Board of the Company of November 4, 2021, the above-mentioned resolution of the Supervisory Board was amended in such a way that the Supervisory Board decided to appoint Mrs. Marta Fryzowska to the Management Board of the Company, entrusting her with the function of Vice President of the Management Board, with effect from December 1, 2021 instead of the current date January 1, 2022.



MANAGEMENT COMMENTARY TO FINANCIAL INFORMATION

PRESENTED IN INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR 3Q21

1. 3Q21 financial results

Consolidated financial results of VRG Capital Group for the third 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 3Q21, as compared to the corresponding period in 2020, the group's retail floorspace decreased to 52.0 ths m² i.e. 1.2% YoY. Floorspace of the apparel segment decreased by 2.5%, while in the jewellery segment floorspace increased by some 3.9%.

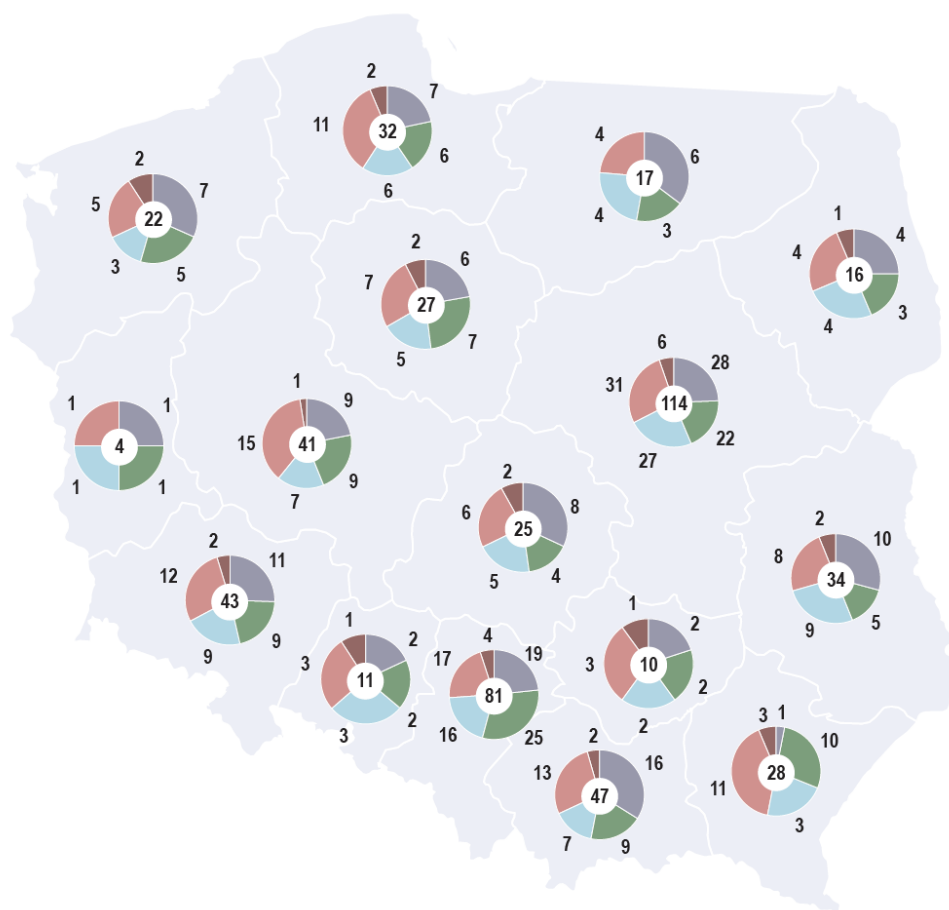
Retail floorspace (end of period):

| | ths m ² | |
|-------------------------|--------------------|-------------|
| | 30.09.2021 | 30.09.2020 |
| Apparel segment | 40.9 | 41.9 |
| Jewellery segment | 11.2 | 10.8 |
| Total floorspace | 52.0 | 52.6 |

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 3Q21, the Capital Group retail network encompasses 552 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.

Condensed interim financial report of VRG Capital Group for 3Q21

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



VRG Selected financial data of VRG Group

| IFRS16 | PLN ths | | | |
|-------------------|---------------|----------------|---------------|--------------|
| | 9M'2021 | 9M'2020 | Q3'2021 | Q3'2020 |
| Revenues | 721,132 | 621,710 | 305,018 | 249,368 |
| EBITDA | 121,932 | 75,617 | 67,699 | 39,804 |
| EBIT | 43,917 | -9,030 | 43,022 | 13,258 |
| Net profit | 26,522 | -26,033 | 23,674 | 5,742 |

Condensed interim financial report of VRG Capital Group for 3Q21

| IAS17 | PLN ths | | | |
|-------------------|---------------|----------------|---------------|--------------|
| | 9M'2021 | 9M'2020 | Q3'2021 | Q3'2020 |
| Revenues | 721,132 | 621,710 | 305,018 | 249,368 |
| EBITDA | 66,033 | 7,050 | 53,835 | 18,910 |
| EBIT | 50,086 | -10,344 | 48,429 | 13,171 |
| Net profit | 35,660 | -13,003 | 36,057 | 9,315 |

Revenues

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



Revenues of the Capital Group in the third quarter of 2021 amounted to PLN 305.0 million and were PLN 55.7 million (+ 22%) higher than the revenues achieved in the corresponding period of the previous year.

APPAREL SEGMENT

| Apparel segment | PLN ths | | | |
|--------------------------------------|----------------|----------------|----------------|----------------|
| | Q3'2021 | Q3'2020 | 9M'2021 | 9M'2020 |
| Revenues | 168,555 | 146,334 | 394,997 | 383,626 |
| Cost of sales | 76,248 | 76,781 | 186,117 | 205,129 |
| Gross profit on sales | 92,307 | 69,553 | 208,880 | 178,497 |
| Other operating income | 1,343 | 96 | 8,854 | 4,850 |
| Gain on sale of non-financial assets | - 5 | - | 17 | - |
| Selling costs | 64,414 | 60,240 | 174,968 | 160,236 |
| Administrative expenses | 13,293 | 10,594 | 36,851 | 35,081 |
| Other operating costs | 2,450 | 1,715 | 16,937 | 18,963 |
| Loss on sale of non-financial assets | - | 71 | 0 | 221 |
| Profit on operations | 13,488 | -2,971 | -11,005 | -31,154 |
| Financial income/costs | -8,130 | -3,600 | -5,843 | -13,509 |

Condensed interim financial report of VRG Capital Group for 3Q21

| | | | | |
|----------------------------------|--------------|---------------|----------------|----------------|
| Pre-tax profit | 5,358 | -6,571 | -16,848 | -44,663 |
| Income tax | 1,417 | -1,175 | -2,404 | -8,073 |
| Net profit for the period | 3,941 | -5,396 | -14,444 | -36,590 |

| IAS17* Apparel segment | PLN ths | | | |
|---|----------------|----------------|----------------|----------------|
| | Q3'2021 | Q3'2020 | 9M'2021 | 9M'2020 |
| Revenues | 168,555 | 146,334 | 394,997 | 383,626 |
| Cost of sales | 76,248 | 76,781 | 186,117 | 205,129 |
| Gross profit on sales | 92,307 | 69,553 | 208,880 | 178,497 |
| Other operating income | 1,296 | 42 | 8,635 | 4,746 |
| Gain on sale of non-financial assets | - | 5 | - | 17 |
| Selling costs | 60,517 | 60,144 | 169,953 | 161,149 |
| Administrative expenses | 13,372 | 10,594 | 37,092 | 34,950 |
| Other operating costs | 2,446 | 1,715 | 16,914 | 18,963 |
| Loss on sale of non-financial assets | - | 71 | 0 | 221 |
| Zysk na działalności operacyjnej | 17,262 | -2,929 | -6,427 | -32,040 |
| Financial income/costs | -2,344 | -1,014 | -2,954 | -3,029 |
| Pre-tax profit | 14,919 | -3,943 | -9,381 | -35,069 |
| Income tax | 3,122 | -750 | -1,127 | -6,241 |
| Net profit for the period | 11,797 | -3,193 | -8,254 | -28,828 |

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

Revenues

R revenues of the apparel segment in the third quarter of 2021 amounted to PLN 168.6 million and were by PLN 22.3 million (i.e. 15%) higher than the revenues for the third quarter of 2020.

| Apparel segment | PLN m | | | |
|-----------------|--------------|--------------|--------------|--------------|
| | Q3'2021 | Q3'2020 | 9M'2021 | 9M'2020 |
| Revenues | 168.6 | 146.3 | 395.0 | 383.6 |
| Retail sales | 162.7 | 140.5 | 376.2 | 366.6 |
| Processing | 4.1 | 4.1 | 13.7 | 13.5 |
| B2B | 1.8 | 1.8 | 5.1 | 3.5 |

Sales results in 9 months of 2021 were significantly affected by the epidemic state of emergency introduced throughout the country, which resulted in the traditional stores located in shopping centers being closed in January and from March 20 until the beginning of May 2021.

In the third quarter of 2021, there was an increase in both offline sales (by 18% YoY) and online sales by 8% compared to the same period last year. Share of online in apparel segment revenues came in at 20% in the third quarter of 2021 compared to the 21% share of online in the third quarter of 2020.

A noticeable return of customers to traditional store network after opening of stores in early May and redirection of traffic from the online to the offline channel was also visible in the third quarter of 2021. We observed an increase in store traffic compared to last year and an increased interest in purchasing products from the formal collection.

Condensed interim financial report of VRG Capital Group for 3Q21

In the third quarter of 2021, the Group recorded the following sales dynamics in retail channels:

| | | | |
|---|-------------------------------------|--|---|
| VISTULA up PLN 9.4m (+15%) | BYTOM up PLN 3.9m (9%) | WÓLCZANKA up PLN 6.8m (28%) | DENI CLER MILANO up PLN 2.1m (19%) |
|---|-------------------------------------|--|---|

In the period of 9 months of 2021, there was an increase in offline sales (by 6 yoy) and a decrease in online sales (by 6% yoy) compared to the same period last year. The share of online in revenues of the apparel segment was 28% after 9 months of 2021, compared to 30% of share for the period of 9 months of 2020. There was an increase in revenues in the reporting period, despite a longer period of store being closed compared to the same period last year.

In the period of 9 months of 2020, the Group recorded the following sales dynamics in retail channels:

| | | | |
|--|--|--|--|
| VISTULA up PLN 3.3m (+2%) | BYTOM down PLN 3.0m (-3%) | WÓLCZANKA up PLN 5.9m (+8%) | DENI CLER MILANO up PLN 3.4m (+12%) |
|--|--|--|--|

Gross profit on sales margin

Gross profit on sales in the apparel segment in the third quarter of 2021 amounted to PLN 92.3 million and was 33% higher than that generated in the corresponding period of the previous year. Gross margin on sales increased 7.2 pp. to the level of 54.8% compared to the third quarter of 2020. Increase in gross margin resulted from higher share of offline sales channel (characterized by a higher gross margin on sales) in retail sales and changes in promotional policy (limitation of promotional campaigns).

Changes in individual brands' margins in 3Q 2021:

| | | | |
|--|--|--|---|
| VISTULA 57.0% (margin up 6.1 pp.) | BYTOM 56.0% (margin up 8.4 pp.) | WÓLCZANKA 55.0% (margin up 5.5 pp.) | DENI CLER MILANO 55.3% (margin up 5.5 pp.) |
|--|--|--|---|

Gross profit on sales of the apparel segment in the period of 9 months of 2021 amounted to PLN 208.9 million and was higher by 17% than that generated in the period of 9 months of 2020. The gross margin for the period of 9 months of 2021 was 52.9% (9M 2020: 46.5%).

Changes in individual brands' margins in 9M 2021:

| | | | |
|--|--|--|---|
| VISTULA 55.5% (margin up 6.3 pp.) | BYTOM 53.4% (margin up 6.3 pp.) | WÓLCZANKA 53.7% (margin up 6.5 pp.) | DENI CLER MILANO 56.2% (margin up 5.9 pp.) |
|--|--|--|---|

Selling costs

Selling costs in the third quarter of 2021 amounted to PLN 64.4 million and were higher by PLN 4.2 million (+ 7%) compared to the costs incurred in the corresponding period of 2020. The share of selling costs in the apparel segment revenues in the third quarter of 2021 amounted to 38.2% compared to 41.2% in the third quarter of 2020.

Selling costs in 9 months of 2021 amounted to PLN 175 million and were higher by PLN 14.7 million YoY. The share of selling costs in revenues of the apparel segment in 9M 2021 was 44.3% compared to 41.8% in the 9M 2020 period. Increase in share of selling costs in revenues is the result of an increase in salary costs (a longer period of reducing FTEs to 4/5 last year, no bonuses). Under IAS17 reporting standard, rentals in the apparel segment in Q3 2021 were adjusted by some PLN 7.6 million due to the fact that they should not be charged for the lockdown period, which took place at the end of Q1 2021 and at the beginning of Q2 in the first quarter of 2021 (initially, in the first half of 2021, rents were recognized in full). For the 9M 2021 period, the total value of rental adjustments due to lockdown is approximately PLN 12.5 million.

General and administrative expenses

General and administrative costs in the third quarter of 2021 amounted to PLN 13.3 million compared to PLN 10.6 million, which means an increase by PLN 2.7 million compared to the third quarter of 2020. At the same time, the share of general and administrative costs in revenues increased from 7.2% in the third quarter of 2020 to 7.9% in the third quarter of 2021.

In 9M 2021, general and administrative costs were at the level of PLN 36.9 million compared to PLN 35.1 million (an increase by 5%), and their share in revenues was 9.3% in 9M 2021 compared to 9.1% in 9M 2020. Last year, reduction in remuneration costs as a result of companies in the apparel segment benefiting from the government assistance for employers related to preventing, counteracting and combating Covid-19, had a significant impact on the value of costs.

Operating result in the apparel segment

In the third quarter of 2021, there was a profit in the apparel segment of PLN 13.5 million, which means that the result of this segment was higher by PLN 16.5 million than the operating result in the corresponding period of 2020. Such a significant improvement in the operating result was significantly influenced not only by double-digit increase in sales, but also by a significant improvement in the margin (by 7.2 pp).

The operating loss in this segment for 9M 2021 amounted to PLN 11 million (9M 2020: loss of PLN 31.2 million), which means its significant (by PLN 20.1 million) decrease YoY.

Co-financing due to COVID-19 from the Guaranteed Employee Benefits Fund and redemption of social security contributions in the total amount of PLN 7.3 million for the period of 9M 2021 (for 9M 2020: PLN 4.8 million) was recognized in other operating revenues, while in other operating costs, there were write-offs for inventories in the amount of PLN 9.4 million (9M 2020: PLN 13.9 million for write-offs on inventories) and write-off for buildings and real estate held by the Company in the amount of PLN 1.9 million (of which PLN 1.3 million related to property, plant and equipment and PLN 0.6 million to real estate). Inventory write-off concerned mainly wholesale finished goods as well as goods and finished products from older collections. Better year-on-year operating result is mainly the result of increased sales and improved gross margin, as well as a more favourable balance of other operating income/expenses.

Financial income and expenses

The balance of the result on financial activities in the apparel segment amounted to PLN -8.1 million in the third quarter of 2021 compared to PLN -3.6 million in the third quarter of 2020. Introduction of IFRS 6 to financial reporting had an adverse impact on the balance of financial activities of the apparel segment in the third quarter of 2021, as it resulted in an increase in net financial costs by PLN 5.8 million (third quarter of 2020: an increase in costs by PLN 2.6 million).

| Apparel segment | PLN ths | | | |
|------------------------------------|---------|---------|---------|---------|
| | Q3'2021 | Q3'2020 | 9M'2021 | 9M'2020 |
| net financial costs | -1,213 | -499 | -2,867 | -1,065 |
| FX differences net (excl. IFRS 16) | -1,131 | -515 | -87 | -1,965 |

Condensed interim financial report of VRG Capital Group for 3Q21

| | | | | |
|--------------------------------|---------------|---------------|---------------|----------------|
| IFRS 16 impact | -5,786 | -2,586 | -2,889 | -10,480 |
| - incl. FX losses | -4,934 | -1,894 | -367 | -8,572 |
| - incl. interest | -853 | -692 | -2,522 | -1,908 |
| Financial income/ costs | -8,130 | -3,600 | -5,843 | -13,509 |

Net result in the apparel segment

Within the apparel segment, VRG Group reported a net profit of PLN 3.9 million in the third quarter of 2021, compared to a net loss of PLN 5.4 million in the third quarter of 2020. Sales increase, higher by 7.2 pp. gross margin resulted in a significant improvement in the net result of the apparel segment, despite the negative impact of exchange rate differences.

The Group in this segment recorded a net loss of PLN 14.4 million in 9M 2021 compared to a PLN 36.6 million loss in 9M 2020. The negative financial result in the reporting period is a consequence of limitations in the operation of the existing sales network due to restrictions related to COVID-19. However, YoY there was a significant improvement in the financial result of this segment is related not only to sales increase but, above all, to the consistent improvement of the margin.

JEWELLERY SEGMENT

| Jewellery segment | PLN ths | | | |
|---|----------------|----------------|----------------|----------------|
| | Q3'2021 | Q3'2020 | 9M'2021 | 9M'2020 |
| Revenues | 136,463 | 103,034 | 326,135 | 238,084 |
| Cost of sales | 65,436 | 50,176 | 158,854 | 118,127 |
| Gross profit on sales | 71,027 | 52,858 | 167,281 | 119,957 |
| Other operating income | 41 | 56 | 1,845 | 4,529 |
| Gain on sale of non-financial assets | 110 | - | 106 | - |
| Selling costs | 33,871 | 28,757 | 92,382 | 77,899 |
| Administrative expenses | 7,612 | 7,162 | 20,840 | 21,738 |
| Other operating costs | 161 | 747 | 1,088 | 2,625 |
| Loss on sale of non-financial assets | - | 19 | 0 | 100 |
| Zysk na działalności operacyjnej | 29,534 | 16,229 | 54,922 | 22,124 |
| Financial income/costs | -5,105 | -2,624 | -4,076 | -8,815 |
| Pre-tax profit | 24,429 | 13,605 | 50,846 | 13,309 |
| Income tax | 4,696 | 2,467 | 9,880 | 2,752 |
| Net profit for the period | 19,733 | 11,138 | 40,966 | 10,557 |

| IAS 17* Jewellery segment | PLN ths | | | |
|--------------------------------------|----------------|----------------|----------------|----------------|
| | Q3'2021 | Q3'2020 | 9M'2021 | 9M'2020 |
| Revenues | 136,463 | 103,034 | 326,135 | 238,084 |
| Cost of sales | 65,436 | 50,176 | 158,854 | 118,127 |
| Gross profit on sales | 71,027 | 52,858 | 167,281 | 119,957 |
| Other operating income | 41 | -73 | 1,712 | 4,387 |
| Gain on sale of non-financial assets | 110 | - | 106 | 0 |
| Selling costs | 32,107 | 28,757 | 90,289 | 78,474 |

Condensed interim financial report of VRG Capital Group for 3Q21

| | | | | |
|---|---------------|---------------|---------------|---------------|
| Administrative expenses | 7,743 | 7,162 | 21,209 | 21,450 |
| Other operating costs | 161 | 747 | 1,088 | 2,625 |
| Loss on sale of non-financial assets | 0 | 19 | 0 | 100 |
| Zysk na działalności operacyjnej | 31,167 | 16,100 | 56,513 | 21,696 |
| Financial income/costs | -1,148 | -804 | -2,027 | -1,684 |
| Pre-tax profit | 30,019 | 15,297 | 54,486 | 20,011 |
| Income tax | 5,758 | 2,788 | 10,572 | 4,187 |
| Net profit for the period | 24,261 | 12,508 | 43,914 | 15,824 |

**The table above presents the basic financial positions of the Group's clothing segment with the impact of IAS 17 as a previously applicable standard*

Revenues

Revenues of the Capital Group in the third quarter of 2021 in the jewellery segment amounted to PLN 136.5 million and were higher than the segment's results recorded in the third quarter of 2020 by PLN 33.4 million (+ 32%). The increase in sales in the third quarter of 2021 was caused by the high demand for watches and gold jewellery.

In the period of 9 months of 2021, revenues in this segment amounted to PLN 326.1 million and were higher than those achieved in the period of 9 months of 2020 by PLN 88.1 million (+ 37%). Despite the lower number of trading days than in 2020, this segment recorded a significant increase in sales, mainly due to increased sales of watches.

Gross profit margin on sales

Gross profit on sales in the jewellery segment in the third quarter of 2021 amounted to PLN 71 million and was 34% higher than that generated in the corresponding period of the previous year. In the third quarter of 2020, the gross margin increased by 0.7 pp. to 52% compared to 51.3% in the third quarter of 2020.

The gross margin in 9M 2021 was 51.3%, which means an increase in the margin by 0.9 pp. compared to 9M 2020.

Selling costs

Selling costs in the third quarter of 2020 amounted to PLN 33.9 million compared to PLN 28.8 million in the corresponding period the period of the previous year, which means an increase in selling costs by PLN 5.1 million (18%). In the jewellery segment, share of selling costs in total sales decreased from 27.9% in the third quarter of 2020 to 24.8% in the third quarter of 2021.

Selling costs in 9M 2021 amounted to PLN 92.4 million, which means an increase compared to 9M 2020 by PLN 14.5 million (+ 19%). Their share in revenues amounted to 28.3% in 9M 2021 compared to 32.7% in 9M 2020.

It should be noted that the increase in costs is the result of increased sales and a lower cost base (greater reduction in salaries in 2020 due to reduced employment), however, it is significantly lower than revenue growth. Under IAS17 reporting standard, in the jewellery segment in Q3 2021, had its rentals adjusted by some PLN 3.4 million due to as these should not be charged for the lockdown period, which took place at the end of Q1 2021 and at the beginning of Q2 2021 (initially, rentals were recognized in full in the first half of 2021). For the period of 9M 2021, the total value of rental adjustments due to the lockdown came in at c. PLN 5.3 million.

General and administrative expenses

In the third quarter of 2021, general and administrative costs were higher by PLN 0.5 million (+ 6%) compared to the third quarter of 2020. The share of general and administrative costs in sales amounted to 5.6% and was lower by 1.4 pp. compared to the third quarter of 2020. In the period of 9 months of 2021, these costs amounted to PLN 20.8 million, which means a decrease by PLN 0.9 million compared to 9 months of 2020. Their share in sales in 9M 2021 was 6.4% compared to 9.1% in 9M 2020.

Operating profit in the jewellery segment

VRG in the jewellery segment recorded an increase in operating profit from PLN 16.2 million in the third quarter of 2020 to PLN 29.5 million (+ 82%) in the third quarter of 2021. The dynamic increase in operating profit in the third quarter was the result of a 32% increase in revenues, exceeding the increase in selling costs and general administrative costs (15% increase YoY). The operating profit margin amounted to 21.6% and was higher by 5.9pp. compared to the same period last year. Within this segment, VRG recorded an operating profit of PLN 54.9 million in 9 months of 2021, compared to PLN 22.1 million in 9M 2020. The operating profit margin increased from 9.3% in 9M 2020 to 16.8% in 9M 2021.

Net profit in the jewellery segment

The balance of the result on financial activities in the jewellery segment amounted to PLN -5.1 million in the third quarter of 2021. Application of IFRS16 standard for financial reporting had a negative impact on the balance of financial activities of the jewellery segment in the third quarter of 2021 (due to negative exchange rate differences), as it increased financial costs by PLN 3.9 million. In the third quarter of 2020, introduction of IFRS16 had a negative impact on the balance of financial activities in the amount of PLN 1.8 million.

| Jewellery segment | PLN ths | | | |
|------------------------------------|---------------|---------------|---------------|---------------|
| | Q3'2021 | Q3'2020 | 9M'2021 | 9M'2020 |
| net financial costs | -380 | -1,065 | -1,467 | -1,166 |
| FX differences net (excl. IFRS 16) | -768 | 261 | -560 | -518 |
| IFRS 16 impact | -3,957 | -1,820 | -2,049 | -7,131 |
| - incl. FX losses | -3,375 | -1,381 | -383 | -5,887 |
| - incl. interest | -582 | -439 | -1,666 | -1,244 |
| Financial income/ costs | -5,105 | -2,624 | -4,076 | -8,815 |

Net profit in the jewellery segment

The net profit of the jewellery segment in the third quarter of 2021 amounted to PLN 19.7 million compared to PLN 11.1 million of net profit in the third quarter of 2020, which means an increase by PLN 8.6 million (77% YoY).

The net profit of the jewellery segment in 9M 2021 amounted to nearly PLN 41 million compared to PLN 10.6 million in 9M 2020, which means an increase in net profit by over PLN 30 million. This was due to the dynamic increase in sales, improvement of the margin and increase in costs below the increase in sales revenues.

Structure and characteristics of statement of financial position

| CONSOLIDATED BALANCE SHEET | 30.09.2021 | | 30.09.2020 | |
|---|------------------|-----------|------------------|-----------|
| | value | share (%) | value | share (%) |
| | (PLN ths) | | (PLN ths) | |
| Non-current assets, including: | 881,523 | 60.4% | 872,648 | 60.8% |
| <i>Intangible assets</i> | 499,484 | 34.2% | 499,172 | 34.8% |
| <i>Fixed assets</i> | 51,774 | 3.5% | 63,967 | 4.5% |
| <i>Right of use assets IFRS16</i> | 301,962 | 20.7% | 291,722 | 20.3% |
| Current assets, including: | 579,146 | 39.6% | 561,717 | 39.2% |
| <i>Inventory</i> | 509,604 | 34.9% | 493,098 | 34.4% |
| <i>Trade and other receivables and other current assets</i> | 18,645 | 1.3% | 18,828 | 1.3% |
| <i>Cash and cash equivalents</i> | 50 897 | 3.5% | 49 253 | 3.4% |
| Total assets | 1 460 669 | | 1 434 365 | |

Condensed interim financial report of VRG Capital Group for 3Q21

| | | | | |
|---|------------------|-------|------------------|-------|
| Dominating entity's equity including: | 849 876 | 58,2% | 837 316 | 58,4% |
| Share capital | 49 122 | 3,4% | 49 122 | 3,4% |
| Net profit (loss) for the current period | 26 522 | 1,8% | -26 033 | -1,8% |
| Long-term liabilities and provisions | 297 390 | 20,4% | 279 291 | 19,5% |
| Long-term loans and borrowings | 38 074 | 2,6% | 51 700 | 3,6% |
| Financial leases | 257 662 | 17,6% | 226 004 | 15,8% |
| ⁴ -incl.: lease liabilities related to retail and office space | 256 346 | 17,5% | 224 460 | 15,6% |
| Short-term liabilities and provisions, including: | 313 403 | 21,5% | 317 758 | 22,1% |
| Trade and other liabilities | 178 092 | 12,2% | 162 862 | 11,6% |
| Short-term loans and borrowings and short-term portions of long-term debt | 20 313 | 1,4% | 57 503 | 4,0% |
| Financial leases | 99 799 | 6,8% | 83 761 | 5,8% |
| ⁴ -incl.: lease liabilities related to retail and office space | 98 899 | 6,8% | 82 301 | 5,7% |
| Total equity and liabilities | 1 460 669 | | 1 434 365 | |

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

Assets

Value of assets at the end of September 2021 slightly increased compared to the end of September 2020.

Decrease in property, plant and equipment by PLN 12.2 million

Change in tangible fixed assets is mainly the result of depreciation in the three quarters of 2021 and the lack of significant investments in the reporting period.

Right-of-use assets

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 the accrual of depreciation in Q3 2021.

Inventory

Value of inventories as at September 30, 2021 amounted to PLN 509.6 million, which means an increase compared to September 30, 2020 by 3%. In the apparel segment, the value of inventories increased by 1% YoY. In the jewellery segment, inventories increased by + 6%, which is the result of an increase in the stock of watches (mainly luxury) and faster stocking up for sale in the fourth quarter than last year

The Group's inventories per m2 amounted to PLN 9,793, which means an increase by approx. 4.6% YoY:

| INVENTORY / m2 | 3Q21 | 3Q20 | YoY |
|-------------------|--------|--------|-----|
| VRG | 9,793 | 9,366 | 5% |
| Apparel segment | 6,205 | 6,004 | 3% |
| Jewellery segment | 22,915 | 22,459 | 2% |

Equity and liabilities

Equity

In the reporting period, changes in equity result from the profit earned for three quarters of the year in the amount of PLN 26,522 thousand PLN.

Long- and short-term debt

Long-term debt as at September 30, 2021 amounted to PLN 38.1 million compared to PLN 51.7 million at the end of September 2020, which means a decrease by PLN 13.6 million. Lease liabilities related to lease of commercial premises and office space total PLN 355.2 million, of which PLN 256.3 million is the long-term part and PLN 98.9 million the short-term part.

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

The amount of net debt (under IAS17) decreased compared to last year. The net debt/EBITDA ratio (under IAS17) is at a relatively low level of 0.4, well below the levels defined in the loan agreements concluded by the companies of the Capital Group.

| Net debt | 30.09.2021 | 30.09.2020 |
|---|----------------|----------------|
| Long-term debt | 295,736 | 277,704 |
| Long-term loans and borrowings | 38,074 | 51,700 |
| Finance lease liabilities | 257,662 | 226,004 |
| <i>'incl.: lease liabilities related to retail and office space</i> | 256,346 | 224,460 |
| Short-term debt | 160,126 | 166,186 |
| Loans and borrowings and short-term part of long-term loans | 20,313 | 57,503 |
| Reverse factoring | 21,644 | 24,922 |
| Finance lease liabilities | 99,799 | 83,761 |
| <i>'incl.: lease liabilities related to retail and office space</i> | 98,899 | 82,301 |
| Cash and equivalents | 50,897 | 49,253 |
| Net debt | 386,595 | 394,637 |
| EBITDA (annual, 4Q) | 144,737 | 151,750 |
| Net debt/EBITDA | 2.7 | 2.6 |

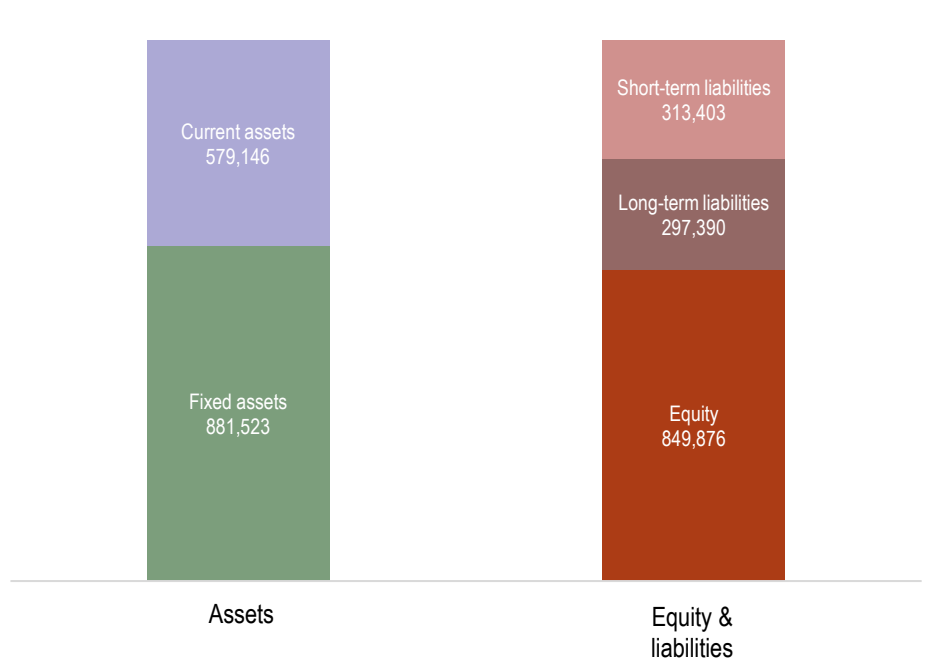
Condensed interim financial report of VRG Capital Group for 3Q21

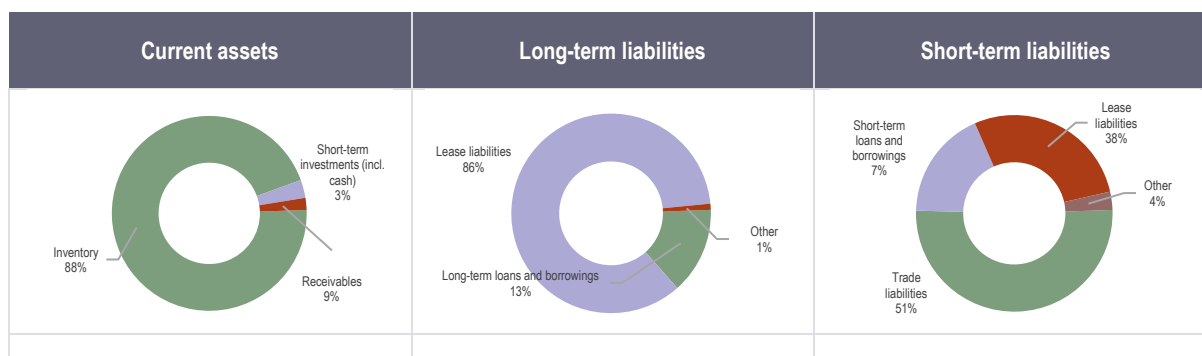
| Net debt IAS 17* | 30.09.2021 | 30.09.2020 |
|---|---------------|---------------|
| Long-term debt | 39,390 | 53,244 |
| Long-term loans and borrowings | 38,074 | 51,700 |
| Finance lease liabilities | 1,316 | 1,544 |
| Short-term debt | 61,227 | 83,885 |
| Loans and borrowings and short-term part of long-term loans | 20,313 | 57,503 |
| Reverse factoring | 21,644 | 24,922 |
| Finance lease liabilities | 900 | 1,460 |
| Cash and equivalents | 50,897 | 49,253 |
| Net debt | 31,350 | 87,876 |
| EBITDA (annual, 4Q) | 82,426 | 60,427 |
| Net debt/EBITDA | 0.4 | 1.5 |

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

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

Balance sheet analysis at the end of 3Q 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 are still relevant in 2021. 2021 began with shopping centers being closed in January 2021 and from March 20, 2021, until May 4, 2021 due to the growing number of infections throughout the country. As a consequence, these events had a negative impact on the Group's results in the first quarter of 2021. Traditional stores in shopping malls were reopened on May 4, 2021. Based on the sales results for the period May - October 2021, a greater increase in sales and faster return of customers to shopping centers is noticeable than after the opening of stores in May 2020. This had a positive effect on the Group's revenues achieved in Q2 and Q3 2021. This trend is maintained in the current month. From November 1 to November 15, sales of the Capital Group increased by 91% YoY. In the opinion of the Management Board, revenues in 2021 should be similar to those in 2019 and exceed PLN 1 billion. It should also be influenced by the slow return of employees to offices and greater interest in the formal offer. We also assume an improvement in gross percentage margin this year compared to 2020 due to the further increase in Asian sourcing, common supplier policies and a reduction in the intensity of promotional activities, which could already be seen in the third quarter of 2021.

The Group is well prepared for the Autumn/Winter 2021 season, and in particular for the fourth quarter of 2021. It has an attractive and stylistically diverse assortment of all brands of the Group, reflecting the prevailing trends and customer expectations. The casual and smart casual assortment has a greater share in the offer of apparel brands, which is a response to customer demand and the market situation. The collection also includes a significant part of the formal offer, for which we have noticed an increase in interest in recent months. Significant changes are noticeable in the collection of the Wólczanka brand, which includes new assortments for both men and women creating a "total look", and the share of casual products has been increased. The Vistula brand offer includes, in addition to formal and casual products, the Vistula Red line (classic in new forms with typically casual models), as well as Vistula Woman - the first full women's collection. In the Bytom brand, offering men's formal fashion and an assortment of smart casual and casual types, we can find a continuation of the retro Future style, combining vintage style with modern forms. The Deni Cler Milano brand has prepared the "La Vita e bella" collection consisting of six capsules for the Autumn/Winter season. In mid-September 2021, the W.KRUK brand presented a new original collection of MEA jewellery and accessories, created in cooperation with the new brand ambassador - Magda Molek, which includes both modern jewellery, accessories, scarves and handbags with patterns and colors referring to symbolism of the road. At the turn of the second and third quarter, the products of the Italian exclusive jewellery manufacture Pasquale Bruni were added to the W.KRUK portfolio.

As regards the opening plans, the Group does not expect any significant changes in net retail floorspace it owns in 2021 compared to the end of 2020. The brand opening and closing plans have been updated. It is still planned to close unprofitable stores, in particular in the apparel segment, which will reduce its space by 1% YoY and develop

in the jewellery segment (increase of space by 4% YoY). In the case of the Wólczanka brand, new larger stores with an area of up to 150 m², which will allow to show the extended offer of this brand. Capital expenditures planned for this year in the amount of PLN 21 million will be mainly allocated to the opening of new stores, primarily W.KRUK brand, and the development of infrastructure and IT systems.

The Group continues to focus on the development of sales in the on-line channel, and the share of this channel in total sales should amount to about 20% in 2021. Ongoing support for the further development of the e-commerce channel will concern, inter alia, increase in cost on gaining on-line traffic, launching a sales application for each of the brands, improving the service of stores and further development of functionality and logistics, as well as coherent marketing and promotions on-line and off-line.

The key task of the Management Board for 2021 remains to stabilize the operating activities and protect the liquidity of the Group's companies. The Group is currently in a safe liquidity situation, but despite this, in the face of uncertainty about possible further restrictions in the operation of shopping centers, it carries out a number of steps to prevent it from deteriorating significantly. These activities include, first and foremost, the improvement of the use of working capital, a 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, including 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 online sales YoY; activities oriented at omnichannel, i.e. joint management of the channel of traditional stores and e-commerce;
- improvement of gross percentage margin due 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 changing situation and further work on financing purchases (extending cooperation with suppliers offering longer payment terms);
- maintaining the smoothness of deliveries and minimizing the risk of delays;
- maintaining a safe liquidity situation;

The main goals and activities of the Management Board for 2022 are:

- continuation of the double-digit sales growth of the Group;
- an increase in the floorspace of traditional store network by some 4% compared to December 31, 2021, of which 2% in the apparel segment and by 12% in the jewellery segment; increase in floorspace mainly due to the opening of larger stores;
- capital expenditure in the amount of c. PLN 38 million (including IT);
- further improvement of the gross margin thanks to a more effective discount policy;
- an increase in operating margin due to the favourable effect of operating leverage,
- maintaining a safe liquidity situation.

The Management Board of the parent company still maintains that the continuation of activities related to House of Brands strategy and acceleration of development through acquisitions of strong and recognizable apparel and jewellery brands will only be possible 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.

Jan Pilch

Radosław Jakociuk

Michał Zimnicki

.....
Deputy-Chair of the Supervisory Board delegated to perform the functions of President of the Management Board

.....
Executive Vice-President of the Management Board

.....
Executive Vice-President of the Management Board

Signature of person entrusted with bookkeeping

Alicja Weber

.....
Chief Accountant

Cracow, November 16, 2021



CONDENSED INTERIM SEPARATE

FINANCIAL STATEMENTS

FOR 9 MONTHS ENDED SEPTEMBER 30, 2021

**SELECTED FINANCIAL DATA
TO CONDENSED INTERIM SEPARATE FINANCIAL STATEMENTS**

| | PLN ths | | EUR ths | |
|--|--|--|--|--|
| | 9M21 January 1, 2021 to September 31, 2021 | 9M20 January 1, 2020 to September 31, 2020 | 9M21 January 1, 2021 to September 31, 2021 | 9M20 January 1, 2020 to September 31, 2020 |
| Revenues | 357,461 | 349,504 | 78,399 | 78,681 |
| Profit (loss) from operations | - 10,674 | - 28,458 | - 2,341 | - 6,407 |
| EBITDA | 33,262 | 21,992 | 7,295 | 4,951 |
| Pre-tax profit (loss) | - 15,924 | - 40,674 | - 3,492 | - 9,157 |
| Net profit (loss) | - 13,442 | - 33,165 | - 2,948 | - 7,466 |
| Net cash flows from operating activities | 22,607 | 63,539 | 4,958 | 14,304 |
| Net cash flows from investing activities | - 3,449 | - 4,683 | - 756 | - 1,054 |
| Net cash flows from financing activities | - 39,076 | - 35,566 | - 8,570 | - 8,007 |
| Total net cash flows | - 19,918 | 23,290 | - 4,368 | 5,243 |
| | 30.09.2021 | 31.12.2020 | 30.09.2021 | 31.12.2020 |
| Total assets | 999,885 | 1,029,707 | 215 823 | 223 131 |
| Liabilities and provisions | 321,606 | 337,986 | 69 418 | 73 240 |
| Long-term liabilities | 149,449 | 156,204 | 32 258 | 33 848 |
| Short-term liabilities | 163,895 | 174,193 | 35 376 | 37 747 |
| Total equity | 678,279 | 691,721 | 146 405 | 149 892 |
| Share capital | 49,122 | 49,122 | 10 603 | 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) | - 0.06 | - 0.14 | - 0.01 | - 0.03 |
| Diluted earnings (loss) per share (in PLN/EUR) | - 0.06 | - 0.14 | - 0.01 | - 0.03 |
| Book value per share (in PLN/EUR) | 2.89 | 2.95 | 0.62 | 0.64 |
| Diluted book value per share (in PLN/EUR) | 2.81 | 2.86 | 0.61 | 0.62 |
| Declared or paid dividend per share (in PLN/EUR) | - | - | - | - |

CONDENSED INTERIM SEPARATE

STATEMENT OF FINANCIAL POSITION

AS OF SEPTEMBER 30, 2021

| | As at 30-09-2021 / end of 3Q21 | As at 30-06-2021 / end of former quarter 2021 | As at 31-12-2020 / end of former year 2020 | As at 30-09-2020 / end of quarter 2020 | As at 30-06-2020 / end of former quarter 2020 |
|--|--------------------------------------|--|---|---|--|
| Assets | | | | | |
| Non-current assets | 720,096 | 726,160 | 732,751 | 725,038 | 740,060 |
| Goodwill | 120,855 | 120,855 | 120,855 | 120,855 | 120,855 |
| Other intangibles | 115,035 | 115,128 | 114,571 | 114,687 | 114,807 |
| Fixed assets | 20,344 | 21,727 | 26,480 | 29,042 | 30,716 |
| Investment property | 295 | 295 | 874 | 874 | 874 |
| Right of use assets | 160,065 | 163,298 | 169,120 | 163,168 | 177,127 |
| Long-term receivables | 140 | 140 | 134 | 129 | 292 |
| Long-term loans granted | 510 | 510 | 347 | 338 | 338 |
| Shares and stakes | 283,834 | 283,834 | 283,834 | 283,849 | 283,849 |
| Other long-term investments | 4 | 4 | 4 | 4 | 4 |
| Deferred tax assets | 19,014 | 20,369 | 16,532 | 12,092 | 11,198 |
| Current assets | 279,789 | 262,641 | 296,956 | 292,521 | 299,616 |
| Inventory | 234,510 | 241,156 | 238,222 | 233,856 | 243,147 |
| Trade and other receivables and other current as- sets | 18,274 | 10,272 | 9,642 | 14,979 | 12,223 |
| Corporate income tax receivables | - | 2,142 | 1,714 | - | - |
| Short-term loans granted and short-term part of long-term loans granted | 5 | 5 | 9 | 9 | 14 |
| Cash and equivalents | 27,000 | 8,649 | 46,918 | 43,139 | 44,232 |
| Other current assets | - | 417 | 451 | 538 | - |
| Total assets | 999,885 | 988,801 | 1,029,707 | 1,017,559 | 1,039,676 |

Condensed interim financial report of VRG Capital Group for 3Q21

| | As at 30-09-2021 / end of 3Q21 | As at 30-06-2021 / end of former quarter 2021 | As at 31-12-2020 / end of former year 2020 | As at 30-09-2020 / end of quarter 2020 | As at 30-06-2020 / end of former quarter 2020 |
|---|--------------------------------------|--|---|---|--|
| Equity and liabilities | | | | | |
| Equity | 678,279 | 673,877 | 691,721 | 712,532 | 716,840 |
| Share capital | 49,122 | 49,122 | 49,122 | 49,122 | 49,122 |
| Capital reserves | 620,017 | 620,017 | 679,121 | 679,121 | 679,121 |
| Other reserves | 17,390 | 17,390 | 17,390 | 17,454 | 17,454 |
| Retained earnings | - 8,250 | - 12,652 | - 53,912 | - 33,165 | - 28,857 |
| Long-term liabilities and provisions | 150,094 | 147,410 | 156,849 | 144,451 | 152,777 |
| Lease liabilities | 134,593 | 130,529 | 137,249 | 123,876 | 130,822 |
| <i>incl.: lease liabilities related to retail and office space</i> | 134,362 | 130,228 | 136,772 | 123,371 | 130,088 |
| Long-term bank agreements | 14,856 | 16,236 | 18,955 | 19,967 | 21,347 |
| Long-term provisions | 645 | 645 | 645 | 608 | 608 |
| Short-term liabilities and provisions | 171,512 | 167,514 | 181,137 | 160,576 | 170,059 |
| Finance lease liabilities | 59,083 | 57,462 | 58,844 | 48,650 | 53,558 |
| <i>incl.: lease liabilities related to retail and office space</i> | 58,724 | 56,941 | 58,009 | 47,717 | 52,494 |
| Trade and other liabilities | 98,868 | 96,412 | 110,410 | 88,222 | 88,349 |
| Corporate incomes tax liabilities | - | - | - | 2,994 | 2,994 |
| Loans and borrowings and short-term portion of long-term loans and borrowings | 5,944 | 5,089 | 4,939 | 13,238 | 19,110 |
| Short-term provisions | 7,617 | 8,551 | 6,944 | 7,472 | 6,048 |
| Total liabilities and provisions | 321,606 | 314,924 | 337,986 | 305,027 | 322,836 |
| Total equity and liabilities | 999,885 | 988,801 | 1,029,707 | 1,017,559 | 1,039,676 |
| Book value of equity | 678,279 | 673,877 | 691,721 | 712,532 | 716,840 |
| Shares outstanding | 234,455,840 | 234,455,840 | 234,455,840 | 234,455,840 | 234,455,840 |
| Book value per share | 2.89 | 2.87 | 2.95 | 3.04 | 3.06 |
| Diluted number of shares | 241,505,840 | 241,505,840 | 241,505,840 | 241,505,840 | 241,505,840 |
| Diluted book value per share | 2.81 | 2.79 | 2.86 | 2.95 | 2.97 |

CONDENSED INTERIM SEPARATE

OFF-BALANCE SHEET ITEMS

AS OF SEPTEMBER 30, 2021

| | PLN ths | | | | |
|--|--------------------------------------|--|---|---|--|
| | As at 30-09-2021 / end of 3Q21 | As at 30-06-2021 / end of former quarter 2021 | As at 31-12-2020 / end of former year 2020 | As at 30-09-2020 / end of quarter 2020 | As at 30-06-2020 / end of former quarter 2020 |
| bank guarantees issued for store rental expenses | 25,680 | 24,715 | 25,668 | 25,687 | 26,687 |
| open letters of credit | 18,150 | 29,922 | 21,697 | 15,144 | 5,940 |
| Total off-balance sheet items | 43,830 | 54,637 | 47,365 | 40,831 | 32,627 |



CONDENSED INTERIM SEPARATE

STATEMENT OF PROFIT OR LOSS

FOR 3 MONTHS ENDED SEPTEMBER 30, 2021

| | PLN ths | | | |
|--|--|---|--|---|
| | 3Q21 July 1, 2021 to September 30, 2021 | 9M21 January 1, 2021 to September 30, 2021 | 3Q20 July 1, 2020 to September 30, 2020 | 9M20 January 1, 2020 to September 30, 2020 |
| Revenues | 154,585 | 357,461 | 133,729 | 349,504 |
| Cost of sales | 68,191 | 164,346 | 68,388 | 182,888 |
| Gross profit on sales | 86,394 | 193,115 | 65,341 | 166,616 |
| Selling costs | 58,747 | 159,797 | 55,167 | 146,543 |
| Administrative expenses | 12,570 | 34,782 | 10,358 | 34,039 |
| Gain on sale of non-financial non-current assets | 81 | 6,216 | 35 | 4,222 |
| Other operating income | 5 | - | - | - |
| Loss on sale of non-financial non-current assets | 1,931 | 15,406 | 1,792 | 18,474 |
| Other operating costs | - | 20 | 97 | 240 |
| Profit (loss) from operations | 13,232 | - 10,674 | - 2,038 | - 28,458 |
| Financial income | 6 | 37 | 1,013 | 1,949 |
| <i>incl.: lease liabilities related to retail and office space</i> | - | - | - | - |
| Financial costs | 7,480 | 5,287 | 4,177 | 14,165 |
| <i>incl.: lease liabilities related to retail and office space</i> | 5,284 | 2,657 | 2,288 | 9,586 |
| Pre-tax profit (loss) | 5,758 | - 15,924 | - 5,202 | - 40,674 |
| Income tax | 1,356 | - 2,482 | - 894 | - 7,509 |
| Net profit (loss) for the period | 4,402 | - 13,442 | - 4,308 | - 33,165 |
| Weighted average number of ordinary shares | 234,455,840 | 234,455,840 | 234,455,840 | 234,455,840 |
| Diluted weighted average number of ordinary shares | 241,505,840 | 241,505,840 | 241,505,840 | 241,505,840 |
| Earnings (loss) per share from continued and discontinued operations | | | | |
| - basic | 0.02 | - 0.06 | - 0.02 | - 0.14 |
| - diluted | 0.02 | - 0.06 | - 0.02 | - 0.14 |

CONDENSED INTERIM SEPARATE

STATEMENT OF COMPREHENSIVE INCOME

FOR 3 MONTHS ENDED SEPTEMBER 30, 2021

| | PLN ths | | | |
|--|--|---|--|---|
| | 3Q21 July 1, 2021 to September 30, 2021 | 9M21 January 1, 2021 to September 30, 2021 | 3Q20 July 1, 2020 to September 30, 2020 | 9M20 January 1, 2020 to September 30, 2020 |
| Net profit for the period | 4,402 | - 13,442 | - 4,308 | - 33,165 |
| Other comprehensive income, including: | - | - | - | - |
| Revaluation of financial assets available for sale | - | - | - | - |
| Income tax related to other comprehensive income | - | - | - | - |
| Total comprehensive income | 4,402 | - 13,442 | - 4,308 | - 33,165 |



CONDENSED INTERIM SEPARATE

STATEMENT OF CHANGES IN EQUITY

FOR 3 MONTHS ENDED SEPTEMBER 30, 2021

| | PLN ths | | | | |
|---|---------------|------------------|----------------|-------------------|----------------|
| | Share capital | Capital reserves | Other reserves | Retained earnings | Total equity |
| 3Q20 / period between from July 1, 2020 to September 30, 2020 | | | | | |
| As at 01.07.2020 | 49,122 | 679,121 | 17,454 | - 28,857 | 716,840 |
| Net profit (loss) for the period | - | - | - | - 4,308 | - 4,308 |
| Stock-option program valuation | - | - | - | - | - |
| Share issuance | - | - | - | - | - |
| As at 30.09.2020 | 49,122 | 679,121 | 17,454 | - 33,165 | 712,532 |
| 9M20 / period between from January 1, 2020 to September 30, 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 | - | - | - | - 33,165 | - 33,165 |
| Stock-option program valuation | - | - | 64 | - | 64 |
| Share issuance | - | - | - | - | - |
| As at 30.09.2020 | 49,122 | 679,121 | 17,454 | - 33,165 | 712,532 |
| 2020 / period between from January 1, 2020 to December 31, 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 | - | - | - | - 53,912 | - 53,912 |
| Stock-option program valuation | - | - | - | - | - |
| Share issuance | - | - | - | - | - |
| As at 31.12.2020 | 49,122 | 679,121 | 17,390 | - 53,912 | 691,721 |
| 3Q21 / period between from July 1, 2021 to September 30, 2021 | | | | | |
| As at 01.07.2021 | 49,122 | 620,017 | 17,390 | - 12,652 | 673,877 |
| Net profit (loss) for the period | - | - | - | 4,402 | 4,402 |
| Stock-option program valuation | - | - | - | - | - |
| Share issuance | - | - | - | - | - |
| As at 30.09.2021 | 49,122 | 620,017 | 17,390 | - 8,250 | 678,279 |
| 9M21 / period between from January 1, 2021 to September 30, 2021 | | | | | |
| As at 01.01.2021 | 49,122 | 679,121 | 17,390 | - 53,912 | 691,721 |
| Distribution of net profit | - | - 59,104 | - | 59,104 | - |
| Net profit (loss) for the period | - | - | - | - 13,442 | - 13,442 |
| Stock-option program valuation | - | - | - | - | - |
| Share issuance | - | - | - | - | - |
| As at 30.09.2021 | 49,122 | 620,017 | 17,390 | - 8,250 | 678,279 |

CONDENSED INTERIM SEPARATE

STATEMENT OF CASH FLOWS

FOR 3 MONTHS ENDED SEPTEMBER 30, 2021

| | PLN ths | | | |
|---|--|---|--|---|
| | 3Q21 July 1, 2021 to September 30, 2021 | 9M21 January 1, 2021 to September 30, 2021 | 3Q20 July 1, 2020 to September 30, 2020 | 9M20 January 1, 2020 to September 30, 2020 |
| Operating cash flows | | | | |
| Pre-tax profit (loss) | 5,758 | - 15,924 | - 5,202 | - 40,674 |
| Adjustments: | | | | |
| Amortization and depreciation | 13,838 | 43,936 | 15,522 | 50,450 |
| Profit (loss) on investing activities | - 5 | 20 | 97 | 240 |
| Income tax paid | - | - 428 | - | - 2,263 |
| Interest costs | 952 | 2,902 | 944 | 2,655 |
| Change in provisions | - 934 | 673 | 1,578 | 122 |
| Change in inventories | 6,646 | 3,712 | 16,109 | 59,477 |
| Change in receivables | - 8,003 | - 8,638 | - 9,213 | - 4,186 |
| Change in short-term liabilities, excluding bank loans and borrowings | 10,753 | - 5,503 | - 1,001 | - 1,336 |
| Other adjustments | - 13 | 1,857 | - 639 | 946 |
| Net cash flows from operating activities | 28,992 | 22,607 | 18,195 | 63,539 |
| Investing cash flows | | | | |
| Interest received | - | - | - | 19 |
| Disposal of subsidiaries | - | - | - | - |
| Inflows from sale of intangibles | - | - | - | - |
| Inflows from sale of fixed assets | 29 | 151 | 4 | 262 |
| Disposal from investment property | - | - | - | - |
| Repayment of loans granted | - | 4 | 5 | 11 |
| Purchase of subsidiary | - | - | - | - |
| Purchase of intangible assets | - 77 | - 924 | - 9 | - 79 |
| Purchase of fixed assets | - 1,196 | - 2,517 | - 1,695 | - 4,896 |
| Purchase of investment property | - | - | - | - |
| Purchase of financial assets in other entities | - | - | - | - |
| Loans granted to subsidiaries | - | - 163 | - | - |
| Net cash flows from investing activities | - 1,244 | - 3,449 | - 1,695 | - 4,683 |
| Financing cash flows | | | | |
| Proceeds from issuance of shares and other capital instruments (bonds) and additional payments to capital | - | - | - | - |

Condensed interim financial report of VRG Capital Group for 3Q21

| | PLN ths | | | |
|--|--|---|--|---|
| | 3Q21 July 1, 2021 to September 30, 2021 | 9M21 January 1, 2021 to September 30, 2021 | 3Q20 July 1, 2020 to September 30, 2020 | 9M20 January 1, 2020 to September 30, 2020 |
| Inflows from loans and borrowings | 855 | 855 | - | 8,112 |
| Repayment of bank loans and borrowings | - 1,380 | - 4,140 | - 7,252 | - 1,380 |
| Finance lease payments | - 254 | - 722 | - 360 | - 907 |
| Other interest paid | - 171 | - 605 | - 342 | - 932 |
| Interest paid lease liabilities related to retail and office space | - 781 | - 2,297 | - 621 | - 1,742 |
| Finance lease payments related to retail and office space | - 7,666 | - 32,167 | - 9,018 | - 38,717 |
| Other financial expenses | - | - | - | - |
| Net cash flows from financing activity | - 9,397 | - 39,076 | - 17,593 | - 35,566 |
| Change in cash and cash equivalents in the balance sheet | 18,351 | - 19,918 | - 1,093 | 23,290 |
| Opening balance of cash | 8,649 | 46,918 | 44,232 | 19,849 |
| Change in cash due to foreign currency translation | - | - | - | - |
| Closing balance of cash | 27,000 | 27,000 | 43,139 | 43,139 |

Value shown under "Other adjustments" consists of:

| | PLN ths | |
|--|--|--|
| | 9M21 January 1, 2021 to September 30, 2021 | 9M20 January 1, 2020 to September 30, 2020 |
| capital reserves increase – valuation of stock options ` | - | 63 |
| interest received | - | - 19 |
| fixed assets - impairment /liquidation | 1,857 | - 438 |
| balance sheet valuation of W.KRUK S.A. subsidiary | - | - 14 |
| forward transaction valuation | - | - 538 |
| Total | 1,857 | - 946 |

INFORMATION AND EXPLANATIONS

TO CONDENSED INTERIM SEPARATE FINANCIAL STATEMENTS FOR 3Q21

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.

Jan Pilch

Radosław Jakociuk

Michał Zimnicki

.....
Deputy-Chair of the Supervisory Board
delegated to perform the functions of Presi-
dent of the Management Board

.....
Executive Vice-President of the Management
Board

.....
Executive Vice-President of the
Management Board

Signature of the person entrusted with bookkeeping

Alicja Weber

.....
Chief Accountant

Cracow, November 16, 2021

WISTULA

BYTOM

SZTUKA KRAWIECTWA OD 1945

WÓLCZANKA

DENICLER
MILANO

W.KRUK
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VRG

VISTULA RETAIL GROUP