CAPITAL GROUP OF PRZEDSIĘBIORSTWO HANDLU ZAGRANICZNEGO “BALTONA” S.A.

[FOREIGN TRADE COMPANY “BALTONA” JOINT STOCK COMPANY]

QUARTERLY REPORT ON THE ACTIVITY OF THE ISSUER

FOR THE PERIOD OF NINE MONTHS

ENDED ON 30 SEPTEMBER 2018

This document is a translation of financial statements originally issued in Polish.

The Polish original should be referred to in matters of interpretation.

Warsaw, 29 November 2018

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1. Selected financial data

1.1. Selected financial data of Baltona Group

	for the period of 9 months ended on 30 September		for the period of 9 months ended on 30 September	
	2018	2017	2018	2017
		in 000 PLN		in 000 EUR
Net revenue from sales of products, goods and materials	361 692	280 573	85 034	65 915
Operating profit	2 445	2 506	575	589
EBITDA from operating activity*	7 240	7 482	1 702	1 758
Net profit/(loss) attributable to owners of the parent entity	1 186	2 099	279	493
Weighted average number of issued shares in units	10 887 582	10 958 714	10 887 582	10 958 714
Number of potential diluting ordinary shares	-	-	-	-
Earnings/(Loss) per share (in PLN/EUR)	0,11	0,19	0,03	0,04
Diluted earnings/(loss) per share (in PLN/EUR)	0,11	0,19	0,03	0,04

** EBITDA= operating profit adjusted with depreciation and impairment write-offs*

	2018-09-30	2017-12-31	2018-09-30	2017-12-31
		in 000 PLN		in 000 EUR
Total assets	160 480	98 151	37 571	23 532
Share capital	2 814	2 814	659	675
Equity of the parent entity's owners	9 614	6 680	2 251	1 602
Long-term liabilities	43 521	28 430	10 189	6 816
Short-term liabilities	106 781	63 128	24 999	15 135
Liabilities and liability provisions	150 302	91 558	35 188	21 952
Book value per share (in PLN/EUR)	0,88	0,61	0,21	0,15
Diluted book value per share (in PLN/EUR)	0,88	0,61	0,21	0,15

	for the period of 9 months ended on 30 September		for the period of 9 months ended on 30 September	
	2018	2017	2018	2017
		in 000 PLN		in 000 EUR
Operating cash flows	10 490	2 054	2 466	483
Investment cash flows	(40 184)	(2 103)	(9 447)	(494)
Financial cash flows	22 621	(2 293)	5 318	(539)
Total net cash flows	(7 073)	(2 342)	(1 663)	(550)

Amounts are presented in thousands PLN unless stated otherwise

1.2. Selected financial data of PHZ Baltona S.A.

	for the period of 9 months ended on 30 September		for the period of 9 months ended on 30 September	
	2018	2017	2018	2017
		in 000 PLN		in 000 EUR
Net revenue from sales of products, goods and materials	208 470	143 120	49 012	33 623
Operating (loss)/profit	(7 178)	(4 893)	(1 688)	(1 150)
EBITDA from operating activity*	(5 154)	(2 738)	(1 212)	(643)
Net profit/(loss)	(539)	2 924	(127)	687
Weighted average number of issued shares, in units	10 887 582	10 958 714	10 887 582	10 958 714
Number of potential diluting ordinary shares	-	-	-	-
Earnings/(Loss) per share (in PLN/EUR)	(0,05)	0,27	(0,01)	0,06
Diluted earnings/(loss) per share (in PLN/EUR)	(0,05)	0,27	(0,01)	0,06

** EBITDA= operating profit/(loss) adjusted with depreciation and impairment write-offs*

	2018-09-30	2017-12-31	2018-09-30	2017-12-31
		in 000 PLN		in 000 EUR
Total assets	116 312	85 612	27 230	20 526
Share capital	2 814	2 814	659	675
Total equity	25 782	26 321	6 036	6 311
Long-term liabilities	22 325	18 125	5 227	4 346
Short-term liabilities	68 205	41 166	15 968	9 870
Liabilities and liability provisions	90 530	59 291	21 194	14 215
Book value per share (in PLN/EUR)	2,37	2,42	0,55	0,58
Diluted book value per share (in PLN/EUR)	2,37	2,42	0,55	0,58

	for the period of 9 months ended on 30 September		for the period of 9 months ended on 30 September	
	2018	2017	2018	2017
		in 000 PLN		in 000 EUR
Operating cash flows	8 801	911	2 069	214
Investment cash flows	(19 704)	(5 208)	(4 632)	(1 224)
Financial cash flows	5 937	(1 613)	1 396	(379)
Total net cash flows	(4 966)	(5 910)	(1 168)	(1 389)

Amounts are presented in thousands PLN unless stated otherwise

Average PLN/EUR exchange rates published by the National Bank of Poland (NBP)

	for the period of 9 months ended on 30 September	
	2018	2017
average exchange rate during the period	4,2535	4,2566

	na dzień	
	2018-09-30	2017-12-31
exchange rate at the end of the period	4,2714	4,1709

Amounts are presented in thousands PLN unless stated otherwise

2. Information on the organisation of the Capital Group, including indication of the entities covered by consolidation

2.1. Structure of Baltona Group

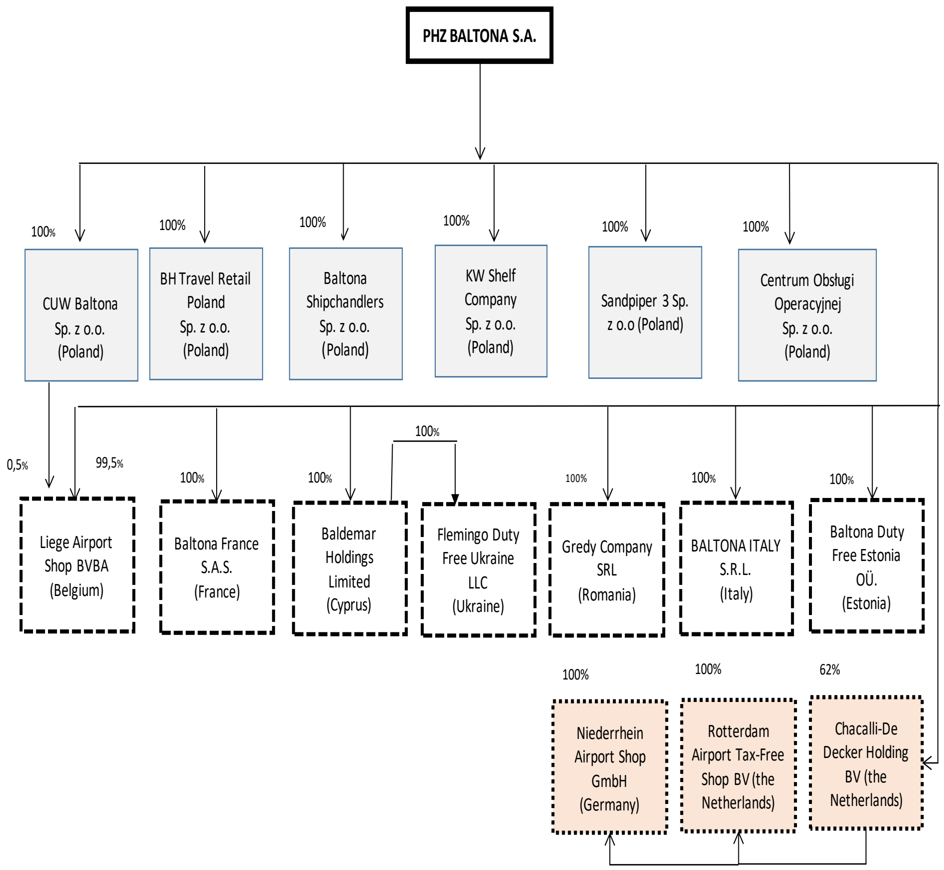
The Capital Group of BALTONA consists of the parent entity – Przedsiębiorstwo Handlu Zagranicznego BALTONA S.A. [Foreign Trade Company BALTONA Joint Stock Company] (hereinafter referred to as the "Parent Entity", "Baltona", "PZH Baltona S.A.", "Company", "Issuer") – and subsidiaries.

Przedsiębiorstwo Handlu Zagranicznego BALTONA Spółka Akcyjna [Foreign Trade Company BALTONA Joint Stock Company] is a joint stock company registered in Poland. Since 2013, the Parent Entity has been listed on the main market of Giełda Papierów Wartościowych S.A. [Warsaw Stock Exchange] in Warsaw.

The Parent Entity was entered into the register of entrepreneurs of the National Court Register at the District Court for the Capital City of Warsaw, 13th Trade Division under number KRS 0000051757. The company was assigned with the statistical number REGON 00014435. The registered office of the Parent Company is located at ul. Flisa 4 in Warsaw (postal code: 02-247).

In connection with this Report, the Parent Entity together with the subsidiaries are referred to as Baltona Group (hereinafter also: "Group").

As at 30 September 2018, the Parent Entity held shares in the following entities:



* The Parent Entity holds shares in Flemingo Duty Free Ukraine LLC via the subsidiary Baldemar Holdings Limited
** The Parent Entity holds shares in the companies Rotterdam Airport Shop BV and Niederrhein Airport Shop GmbH via the subsidiary Chacalli-De Decker Holding BV.

2.2. Description of entities covered by consolidation

As at 30 September 2018, consolidation covered PHZ Baltona S.A. as the parent entity and the following subsidiaries:

Company name	Area of activity	Consolidation method
BH Travel Retail Poland Sp. z o.o.	B2B sales	Full
Baltona Shipchandlers Sp. z o.o.	Supplying sea ship crews and B2B sales	Full
Gredy Company SRL	Retail sales	Full
Centrum Usług Wspólnych Baltona Sp. z o.o.	Administrative and accounting services to Group companies	Full
Baltona France S.A.S.	Retail sales at duty free shops	Full
Baldemar Holdings Limited *and its subsidiary:*	Holding company	Full
Flemingo Duty Free Ukraine LLC	Retail sales at duty free shops	Full
Centrum Obsługi Operacyjnej Sp. z o.o.	Gastronomy activity	Full
Sandpiper 3 Sp z o.o.	IT activity	Full
KW Shelf Company Sp. z o.o.	Property lease to own account	Full
Baltona Italy S.r.l.	Retail sales at duty free shops	Full
Liege Airport Shop BVBA	Retail sales at duty free shops	Full
Baltona Duty Free Estonia OÜ	Retail sales at duty free shops	Full
CDD Holding BV	Holding company	Full
Rotterdam Airport Shop BV	Retail sales at duty free shops	Full
Niederrhein Airport Shop GmbH	Retail sales at duty free shops	Full

Duration of the Parent Entity and entities making up the Capital Group is unlimited.

On 11 July 2018, the Company, CDD Holding B.V. (hereinafter: Seller) and Flemingo International (BVI) Limited (hereinafter: Buyer or Flemingo) concluded an agreement concerning sale of shares in indirect subsidiaries of Chacalli Group, i.e. Chacalli-De Decker N.V. (Belgium), Chacalli Den Haag B.V. (the Netherlands) and Chacalli-De Decker Limited (Great Britain). The above companies' activity is connected with supplying diplomatic establishments. Moreover, the Agreement identifies the principles subject to which the Travel Retail business currently conducted within Chacalli-De Decker N.V. (Belgium) will be in whole transferred as an organised part of the enterprise into the structures of Baltona Group. The ownership title to shares of the Chacalli Companies will be transferred within 60 days of conclusion of the Agreement, upon finalisation of formal and registration related activities applicable under the legal systems in which particular Chacalli Companies operate, and after execution of the transaction related to acquisition by the Issuer of Travel Retail assets currently held by Chacalli-De Decker N.V. (Belgium). On 11 September 2018, the Issuer and CDD Holding B.V. as the Seller, and Flemingo International (BVI) Limited as the Buyer concluded an annex to the above agreement. Pursuant to the annex, the parties decided that the initial deadline of 60 days after the date of conclusion of the sale agreement, applicable to the transfer of the ownership title to shares in Chacalli companies, would be extended until the end of November 2018.

The formal and registration related activities were completed after the balance sheet date and the ownership title to the shares of two Chacalli Companies was transferred respectively: transfer of shares in Chacalli De Decker N.V. was completed on 25 October 2018, and transfer of shares in Chacalli De Decker Ltd. was completed on 26 October 2018. As at the date of drawing up this report, the process related to transfer of the ownership title towards the shares in the third Chacalli Company remains pending. At the same time, it is the Issuer's intention to extend the deadline for finalisation of the above mentioned process related to transfer of the ownership title to the shares in Chacalli Den Haag B.V.

Amounts are presented in thousands PLN unless stated otherwise

The Management Board of the Parent Company has analysed the circumstances and results of the above agreements and annexes. As a result of the analysis, it was concluded that loss of control over the above entities occurred upon conclusion of the original agreement; consequently, assets of the companies sold were excluded in the quarterly shortened consolidated financial statements, while fair value of payment received as a result of the transaction was included, as well as the result on sale and respective adjustments of equity of the parent entity's owners and minority shareholdings.

The initial capital was raised in August 2018 at the subsidiary Liege Airport Shop BVBA. On 1 October 2018, an agreement was concluded between Przedsiębiorstwo Handlu Zagranicznego BALTONA S.A. and Chacalli-De Decker N.V. concerning acquisition of shares in the raised equity of Liege Airport Shop BVBA. As the agreement is related to the agreement dated 11 July 2018 concerning transfer of the Travel Retail business into the structures of Baltona Group, its effects are recognised in these quarterly consolidated financial statements.

3. Identification of effects of changes within the structure of the business entity, including those resulting from business combinations, acquisition or loss of entities of the Issuer's Capital Group, long-term investments, division, restructuring and discontinuation of activity

Information regarding changes in the structure of the Group is contained in the item above and in note 26 to the quarterly shortened consolidated financial statements.

4. Position of the Management Board regarding possibilities to accomplish previously published result forecasts for the given year in the light of results presented in the semi-annual report as compared with result forecasts

The Management Board of PHZ Baltona S.A. did not publish any result forecasts for 2018.

5. Information on transactions concluded by the issuer or its subsidiary with related parties on non-arm's length terms

All transactions concluded by the Parent Entity and its subsidiaries, including transactions with related parties, are concluded on arm's length terms. A list of related entities and value of transactions concluded by Group companies with those entities during the third quarter of 2018 and during the comparable period as well as unsettled balances from those transactions as at 30 September 2018 and 31 December 2017 are presented in detail in note 24 to the quarterly shortened consolidated financial statements of the Group of PHZ Baltona S.A. for the period of nine months ended on 30 September 2018.

6. Shareholders holding directly or indirectly via subsidiaries at least 5% of the total number of votes at the general meeting of shareholders of PHZ Baltona S.A. as at the date of submission of the consolidated quarterly report, and changes in the ownership structure of significant packages of shares in PHZ Baltona S.A. during the period from submission of the previous consolidated periodic report, in accordance with the information available to PHZ Baltona S.A.

Shareholder	Number of shares	% share in the share capital	Change in the number of shares	Number of shares	% share in the share capital	Number of votes	% share in the total number of votes	Change in the number of votes	Number of votes	% share in the total number of votes
	as at the date identified in the most recent report			as at the date of publication of the report		as at the date identified in the most recent report			as at the date of publication of the report	
Ashdod Holdings	9 081 600	80,68%	-	9 081 600	80,68%	9 081 600	80,68%	-	9 081 600	80,68%
Others (below 5% share in votes)	2 174 977	19,32%	-	2 174 977	19,32%	2 174 977	19,32%	-	2 174 977	19,32%
Total number of shares of the Company and related votes	11 256 577	100,00%	-	11 256 577	100,00%	11 256 577	100,00%	-	11 256 577	100,00%

Ashdod Holdings is a company of the laws of Cyprus with the registered office in Larnaca (Cyprus), holding 9,081,600 of the Issuer’s shares and the same number of votes at the General Meeting of Shareholders, corresponding with 80.68% of the Issuer’s shares and 80.68% of the total number of votes as the General Meeting of Shareholders. The entity is the sole shareholder controlling the Issuer. No changes in this respect have occurred as compared with the date of publication of the preceding report. As Ashdod is controlled by Flemingo International Limited, the Group of PHZ Baltona S.A. has been part of an international capital group headed by Flemingo International Limited since 2010.

7. Specification of the possession of the shares of PHZ Baltona S.A. or rights (options) related to the shares by persons performing management and supervisory functions at PHZ Baltona S.A. as at the date of submission of the consolidated quarterly report, with identification of changes in shareholding during the period from submission of the previous periodic report, in accordance with the information available to PHZ Baltona S.A.

As at the date of preparation of this report, no member of the Supervisory Board or member of the Management Board held actions of PHZ Baltona S.A. or any rights thereto.

8. Information on significant proceedings pending before a court, authority competent for conducting arbitration proceedings or public administration body, including information on proceedings concerning the liabilities or claims of the Issuer or its subsidiary, whose value is significant

Information concerning pending proceedings is presented in the Additional Explanations to the quarterly shortened consolidated financial statements, par. 24 Contingent liabilities and court cases.

9. Information on credit or loan securities or guarantees granted by the Issuer or its subsidiary – jointly to one entity or subsidiary of that entity if the total value of existing securities or guarantees is equivalent to at least 10% of the Issuer’s equity

During the period covered by this quarterly report, the Issuer and its Subsidiaries granted securities as collaterals of the non-revolving credit dated 19.06.2018. Detailed information regarding credit collaterals is presented in the Additional Explanations to the quarterly shortened consolidated financial statements, par. 17.3 Terms and schedule of credit and loan repayment.

The value of securities or guarantees issued by or on behalf of companies of the Issuer’s Group is as follows:

- As at 30 September 2018, contingent liabilities under guarantees granted by banks and insurance companies to companies of Baltona Capital Group, mainly towards suppliers, landlords as well as customs and tax institutions, amounted to PLN 49,026 thousand.

Amounts are presented in thousands PLN unless stated otherwise

- As at 30 September 2018, the Group is taking advantage of an insurance guarantee to secure the customs debt, at PLN 1,000 thousand, and of an insurance guarantee concerning the Common Transit Procedure, at PLN 500 thousand.
- As at 30 September 2018, liabilities under securities which PHZ Baltona S.A. granted with respect to the subsidiaries' liabilities, mainly towards banks, lessors and landlords, amounted to PLN 58,670 thousand.
- In connection with the overdraft agreements, the Parent Entity was granted with a corporate guarantee issued by Flemingo International Limited up to the total amount of PLN 106,500 thousand with respect to the multi-purpose credit line agreement.
- In connection with the non-revolving credit agreements, the Parent Entity was granted with a corporate guarantee issued by Flemingo International Limited up to the total amount of PLN 6,750 thousand with respect to the non-revolving credit agreement dated 30.08.2016, a corporate guarantee issued by Flemingo International Limited up to the total amount of PLN 5,782.5 thousand with respect to the non-revolving credit agreement dated 29.09.2017 and a corporate guarantee issued by Flemingo International Limited up to the total amount of PLN 6,795 thousand with respect to the non-revolving credit agreement dated 20.02.2018.
- In connection with the non-revolving credit agreements, the subsidiary BH Travel Retail Poland Sp. z o.o. was granted with a corporate guarantee issued by Flemingo International Limited up to the total amount of PLN 58,500 thousand with respect to the non-revolving credit agreement dated 19.06.2018.
- As at 30 September 2018, corporate guarantees issued by Flemingo International Limited to secure currency contract transactions amounted to PLN 1,500 thousand.
- In connection with the signed annexes to the credit agreements, the Issuer's subsidiaries issued to the Bank BGŻ BNP Paribas S.A. guarantees under promissory notes for liabilities under the credit agreements. The guarantees granted together by Centrum Usług Wspólnych Sp. z o.o., Centrum Obsługi Operacyjnej Sp. z o.o. and Baltona Shipchandlers Sp. z o.o. were granted up to the amount of PLN 106,500 thousand with respect to the multi-purpose credit line agreement. The guarantees granted together by Centrum Usług Wspólnych sp. z o.o, Centrum Obsługi Operacyjnej sp. z o.o, BH Travel Retail Poland sp. z o.o. and Baltona Shipchandlers sp. z o.o. were granted up to the amount of PLN 6,750 thousand with respect to the non-revolving credit agreement dated 30.08.2016, up to PLN 5,782.5 thousand with respect to the non-revolving credit agreement dated 29.09.2017 and up to PLN 6,795 thousand with respect to the non-revolving credit agreement dated 20.02.2018. The guarantees granted together by Przedsiębiorstwo Handlu Zagranicznego BALTONA S.A, Centrum Usług Wspólnych sp. z o.o. and Centrum Obsługi Operacyjnej sp. z o.o. were granted up to the amount of PLN 58,500 thousand with respect to the non-revolving credit dated 19.06.2018.
- As at 30 September 2018, corporate guarantees issued by Baltona Duty Free Estonia OÜ to secure the non-revolving credit agreement amounted to PLN 5,782.5 thousand.

Apart from the securities and guarantees enumerated above, the Group does not have significant non-balance sheet items.

10. Other information which the Company considers important to evaluate the position of the Capital Group in terms of human resources, property, finance, financial results and changes thereof, and information important from the point of view of evaluating the Issuer's capability to satisfy its liabilities

To secure financial liquidity, the parent entity and the subsidiaries have overdraft facilities. An additional source of financing for the Group are loans obtained from the affiliated entity Flemingo International Limited BVI. The policy of current assets management is adapted on an ongoing basis to the changing market environment and, consequently, it allows maintenance of financial liquidity. The Group has full ability to fulfill its liabilities.

As at 30 September 2018 and 31 December 2017, respectively, employment (measured by FTEs) within the Group companies was as follows:

Company	2018-09-30	2017-12-31	Change
PHZ Baltona S.A.	207	163	44
BH Travel Retail Poland Sp. z o.o.	50	0	50
Centrum Obsługi Operacyjnej Sp. z o.o.	88	77	11
Centrum Usług Wspólnych Baltona Sp. z o.o.	45	38	7
Baltona Shipchandlers Sp. z o.o.	33	30	3
Baltona France SAS	15	15	0
Baltona Italy S.r.l.	13	8	5
Gredy Company SRL	13	11	2
Flemingo Duty Free Ukraine	21	18	3
Baltona Duty Free Estonia OÜ	31	13	18
Grupa Chacall-De Decker	25	64	-39
Total	**541**	**437**	**104**

No changes with respect to the remuneration policy have occurred in 2018 except for changes caused by adaptation to market conditions. Falling employment at Chacalli Group results from disposal of 3 companies of that Group.

11. Identification of factors which, in the Issuer's evaluation, will influence the results achieved by the Issuer and the Capital Group within at least one subsequent quarter

In the evaluation of the Issuer, the financial results of its Capital Group within at least the subsequent quarter will be influenced by:

- Results achieved by newly opened shops, cafes and retail outlets in Poland, as well as shops at the Tallinn and Wrocław airports which commenced operation in 2018, cafes in Warsaw in attractive locations at the Central Railway Station and in Nowy Świat street.
- Opening of new outlets at Warsaw Chopin Airport in connection with conclusion of a settlement with Przedsiębiorstwo Państwowe Porty Lotnicze [State Airports Company] on 6 May 2018 concerning lease of retail space, covering 14 shops at both Airport Terminals, with the total area of app. 2,818.75 m².
- Cooperation with Przedsiębiorstwo Państwowe Porty Lotnicze [State Airports Company] regarding execution of the retail space lease agreements, as mentioned above.
- Conclusion on 27 November 2018 of an annex with Port Lotniczy Poznań-Ławica Sp. z o.o. [Poznań-Ławica Airport], enabling the Lessor to extend the lease term after expiry of the agreement, i.e. after 6 July 2019 on the terms identified in the annex. The extended lease term may apply no longer than until 7 November 2019.
- Sale on 11 July 2018 by Flemingo International (BVI) Limited of the business connected with supplying diplomatic establishments carried out at three indirect subsidiaries, i.e. Chacalli-De Decker N.V. (Belgium), Chacalli Den Haag B.V. (the Netherlands) and Chacalli-De Decker Limited (Great Britain).
- Prospects of growth in scheduled passenger traffic at Warsaw-Okęcie, Warsaw-Modlin, Wrocław Airports and at other airports where shops of the Group companies are located.
- Maintaining the appropriate level of stock at the Group's shops.
- Maintaining current and acquisition of new sources of financing, including in particular bank credits.
- Development of currency exchange rates, in particular with regard to the EUR/PLN pair.
- Development of interest rates determining the costs of service of the Group's indebtedness.
- Political situation in Ukraine.
- Cost optimisations achieved via negotiations and process changes.

12. Brief overview of significant achievements or failures of the Capital Group during the period covered by the report, including specification of the main events related thereto

Operational area

During the period of 9 months ended on 30 September 2018, the Group focused on optimisation of its operational activity, in particular by increasing sales.

Amounts are presented in thousands PLN unless stated otherwise

On 6 May 2018 the Issuer, its subsidiary BH Travel Retail Poland Sp. z o.o., Flemingo Dutyfree Shop Private Limited, Ashdod Holdings Limited and Przedsiębiorstwo Państwowe Porty Lotnicze [State Airports Company] concluded a settlement defining the principles related to mutual settlements connected with litigations relating to lease of retail space at Warsaw Chopin Airport. Pursuant to the provisions of the Settlement, the Parties waived towards one another any mutual claims (current and future) connected with the litigations referred to above, including in particular with respect to proceedings conducted before domestic courts upon the suits of, respectively, BH Travel and PPL, as well as claims of Flemingo against the Republic of Poland, pursued under the bilateral investment Treaty of 7 October 1996 concluded between the Government of the Republic of Poland and the Government of the Republic of India, and resulting from the judgement of the arbitration tribunal at the Permanent Court of Arbitration in Hague (Kingdom of the Netherlands), as well as from litigation notification performed by Ashdod under the bilateral investment Treaty between the Republic of Poland and the Republic of Cyprus, drawn up in Warsaw on 4 June 1992.
In connection with conclusion of the Settlement, the Issuer and PPL concluded, also on 6 May 2018, a package consisting of the total of 14 agreements of retail space lease, covering 14 shops at both Airport Terminals with the total area of app. 2,818.75 sqm. The Lease Agreements foresee gradual taking over of particular premises. The term of particular Lease Agreements is defined as 9 years after handing over of the premises covered by the given Lease Agreement, provided however that in the case of two premises with the total area of 1,326 sqm., the Parties outlined their mutual rights and obligations applicable in the case if redevelopment of the building of Airport Terminal 2 occurs during the term of the agreements so that the redevelopment has significant influence onto operation of the said premises. In particular, the Parties foresee the possibility of partial or complete early termination of the Lease Agreements covering those premises. Estimated value of the Lease Agreements during the term thereof will total to app. PLN 710 million net. The estimated value of particular agreements includes, among others, the sum of monthly lease rents agreed by the Parties, and service charges.

Financial area
On 22 February 2018, the Company received a package of bilaterally signed documents including, above all, an annex to the agreement of the multi-purpose credit line, pursuant to which the amount of the limit granted within the multi-purpose line will increase from PLN 30 million to PLN 33 million, with simultaneous identification of sub-limits to be used within the current account credit, at PLN 14 million and to be used within the guarantee line, at PLN 33 million. Together with the annex documentation referred to above, the Company received a bilaterally signed PLN 4.53 million non-revolving credit agreement.

Subsequently, on 19 June 2018, the Management Board of Przedsiębiorstwo Handlu Zagranicznego Baltona S.A. concluded with Bank BGŻ BNP Paribas S.A. (Bank) an annex to the multi-purpose credit line agreement (Multi-purpose credit line agreement), pursuant to which, among others, (i) the Issuer's subsidiary BH Travel Retail Poland sp. z o.o. (BH Travel) joined the above mentioned agreement and became jointly liable with the Issuer for the liabilities under the Multi-purpose credit agreement, (ii) the amount of limit granted under the agreement increased to PLN 71 million (provided, however, that the limit will be reduced by PLN 5 million per year in years 2019-2021, to reach PLN 56 million at the end of 2021), (iii) the crediting period was set until 8 February 2021. Moreover, independent sub-limits to be used within the overdraft limit were identified within the above mentioned limit: at PLN 14 million for the Issuer and PLN 15 for BH Travel (i.e. PLN 29 million altogether for the two entities) as well as a sub-limit of PLN 56 million to be used within the guarantee line exclusively by the Issuer. Increasing the above limit involved updating of the securities under the agreement, which currently include in particular (i) granting of up to PLN 106.5 million identified in the promissory note declaration concerning own blank promissory note guaranteed by the subsidiaries Centrum Usług Wspólnych Baltona Sp. z o. o., Baltona Shipchandlers Sp. z o.o. and Centrum Obsługi Operacyjnej Sp. z o.o. (Subsidiaries), (ii) increasing, from 30 November 2018 onwards of the amount of security under the registered pledge on the goods for sale being the property of the Issuer and BH Travel, up to PLN 29 million, (iii) assignment in favour of the Bank of rights under the insurance policy concerning the above mentioned stock, (iv) corporate guarantee issued by Flemingo

International Limited BVI up to PLN 106.5 million with the expiry date on 1 January 2028, (v) corporate guarantee issued by the subsidiary Chacalli – De Decker S.A. up to PLN 49.5 million with the expiry date on 8 February 2024. Irrespective of the above, in connection with conclusion of annexes to the above agreement, securities of three non-revolving credit agreements concluded between the Company and the Bank were also updated, in particular by increasing to PLN 29 million the maximum amount of security under the registered pledge on the stock of goods for sale, being the Issuer's property.
Provisions of the agreements concluded so far have not changed materially within the remaining scope.

Moreover, on 19 June 2018, the subsidiary BH Travel Retail Poland sp. z o.o. concluded the non-revolving credit agreement for PLN 39 million to be used for financing and refinancing of costs of the investment connected with commencement of activity by Baltona Capital Group at Warsaw airport. The credit was granted for 60 months, with the release deadline at the end of the first quarter of 2019. The credit will be repaid in equal monthly principal instalments. The interest rate was set at WIBOR 3M increased with the bank's margin. Securities of credit repayment include own blank promissory note up to PLN 58.5 million enforceable until 19 June 2026, guaranteed by the Issuer and the three Subsidiaries mentioned above, registered pledge up to PLN 14 million (until 29 November 2018) and up to PLN 29 million from 30 November 2018, established on the stock being the property of BH Travel and the Issuer, assignment of rights under the insurance policy for the above mentioned pledge and corporate guarantee issued by Flemingo International Limited BVI up to PLN 58.5 million with the expiry date falling 12 months beyond the crediting period. The remaining terms of the above mentioned credit agreement (including those related to release of the credit or the terms of withdrawal) do not deviate from provisions commonly applied in such agreements.

On 21 September 2018, the Management Board of Przedsiębiorstwo Handlu Zagranicznego "Baltona" S.A. concluded with Bank BGŻ BNP Paribas S.A. (Bank) an annex to the multi-purpose credit line (Agreement of multi-purpose credit line), pursuant to which the amount of the limit granted under the agreement was raised to PLN 76 million (subject to annual reduction of the limit amount by PLN 5 million at the end of each of the years from the period of 2019-2021, i.e. to PLN 56 million at the end of 2021) and the current credit availability term was set until 18 June 2019. In connection with raising the above limit, collaterals securing the amounts due under the agreement were updated and they currently include, in particular: (i) raising to PLN 114 million of the amount included in the promissory note declaration concerning the issued own blank promissory note guaranteed by the subsidiaries Centrum Usług Wspólnych Baltona Sp. z o. o., Baltona Shipchandlers Sp. z o.o. and Centrum Obsługi Operacyjnej Sp. z o.o. (Subsidiaries), (ii) raising, from 30 November 2018 onwards, the amount of collateral the under registered pledge on the stock of goods for sale, being the property of the Issuer and BH Travel, up to PLN 34 million, (iii) cession of rights under the insurance policy covering the above mentioned stock in favour of the Bank, (iv) corporate guarantee issued by Flemingo International Limited BVI up to PLN 106.5 million with the validity term until 1 January 2028, (v) bank guarantee issued by Barclays Bank up to 1.15 million USD, (vi) corporate guarantee issued by the affiliated company Chacalli – De Decker NV up to PLN 49.5 million with the validity term until 8 February 2024.

13. Indication of amounts and kinds of items influencing the assets, liabilities, equity, net result or cash flows, untypical due to their kind, value or frequency

The balance sheet sum as at 30 September 2018 in the consolidated statements of Baltona Group amounted to PLN 160,480 thousand and was by PLN 62,329 thousand, i.e. by 64% higher as compared with the balance sheet sum as at 31.12.2017. The reason of growth are higher levels of stock, property, plant and equipment connected with opening of shops at new locations.

On the side of liabilities, increase of the balance sheet sum as at 30 September 2018 results mainly from increase in trade and other liabilities, which is connected with financing of the opening of new retail outlets.

The positive net financial result generated during the period of 9 months ended on 30 September 2018 was mainly influenced by the operating activity and the result on sale of shares in subsidiaries. Factors influencing the consolidated financial results are discussed in the following paragraph.

14. Overview of factors and events, including in particular untypical ones, which have material influence onto the shortened financial statements

During the period of 9 months ended on 30 September 2018, the Group achieved total sales revenue of PLN 361.6 million, which denotes an increase in absolute amounts by PLN 81.1 million, i.e. by nearly 29% as compared with the corresponding period of 2017. As compared with the three quarters of 2017, public retail sales increased by 98%, duty free retail sales increased by 19%, whereas wholesale and shipchandling decreased by 13%. Growth of sales revenue resulted from shop and café openings at new locations and increases in the number of passengers.

The result of the Group's operating activity after nine months of 2018 was the profit of PLN 2,445 thousand; to compare, the profit for the corresponding period of the previous year was PLN 2.506 thousand. As far as the costs area is concerned, the greatest increase (in absolute amounts) during the periods being compared concerned the value of goods sold and amounted to PLN 43.8 million, i.e. 22.7%. Increase in the costs of rents and other third party services amounted to PLN 31.4 million, while the costs of employee benefits grew by PLN 4.2 million, i.e. by 14.2%. Growth of costs in the category of rents and other services was related, above all, to the necessity to incur costs connected with the new locations where business commenced during the year, which was to a large extent connected with the process of launching sales at particular locations. Moreover, it ought to be emphasised that in the first months of 2017 the Group operated at Gdańsk airport where the revenue to costs ratio was satisfactory from the point of view of generated margins. In the meantime, during 2018, the Issuer was commencing or had just commenced business activity at other locations, in the place of the activity conducted in Gdańsk. Another factor which caused the lower operating margin during the reporting period as compared with a corresponding period was an unfavourable (from the point of view of financial projections made) passenger structure at Wrocław airport. In consequence of the above, the impact of that location's operating result onto the results of the Capital Group in the third quarter of 2018 was negative.

The analysed costs include non-recurring costs connected with legal service of the process related to negotiations and conclusion of lease agreements at Warsaw Chopin Airport. Another important cost factor which had material impact on the level of costs during the period of 9 months ended on 30 September 2018 was the level of salaries. On the one hand, costs of salary increases for existing staff were incurred, but at the same time – in connection with development of business (in particular related to planned resumption of activity at Warsaw Chopin Airport) – it was necessary to recruit staff, both operational staff to work at the location, and staff at the Company's headquarters to be responsible for handling the processes carried out at new business locations.

Considering the above, the EBITDA result (calculated as the operating result adjusted by depreciation) generated during the period of 9 months of 2018 amounted to PLN 7.240 thousand and was by PLN 242 thousand lower as compared with the corresponding period, when it amounted to PLN 7.482 thousand.

To compare, the Group's net result for the period of 9 months ended on 30 September 2018 closed with the profit of PLN 1.663 thousand. Net profit for the corresponding period of 2017 amounted to PLN 1.745 thousand.

15. Information on seasonal or cyclical character of activity during the presented period

The business of Baltona Group is characterised with seasonal character of demand, profitability and sales. This results from specific features of the air transport industry and resulting seasonal character of air traffic. Baltona Group records the lowest sales in the period from November to April, and the highest sales from May to October. As a result, sales revenue generated during the first half of the year is usually lower.

Seasonal character influences the margins and financial results achieved during particular months and quarters of the year, ant it causes diversified working capital requirements on the part of the Group.

16. Information on issue, buy-back and repayment of non-share based and equity securities

During the period of nine months ended on 30 September 2018, the Parent Entity did not introduce new securities into turnover on the capital market, and it did not have any issued debt securities which would require repayment or buy-back.

17. Information on paid out (or declared) dividend, in total and per one share, with division into ordinary and privileged share

During the period of nine months ended on 30 September 2018, PHZ Baltona S.A. did not pay out or declare any dividend.

18. Events after the date of preparation of the quarterly shortened financial statements, not disclosed in the statements, but which may have significant impact onto the Issuer's future financial results

On 7 November 2018, the Parent Entity was furnished with a copy of the petition filed by LTR against Port Lotniczy Wrocław S.A. (hereinafter: Wrocław Airport) and the Parent Entity. The claim of the suit is stated as the request to cancel the agreement concluded between Wrocław Airport and the Parent Entity for lease of space. Moreover, the petitioner raised the alternative claim concerning adjudication of invalidity of the above mentioned agreement. Also in this case, the legal basis of the request to invalidate the agreement is art. 705 of the Civil Code, which refers to conducting the tendering procedure in a manner inconsistent with the law or good habits. The legal basis of the alternative claim is art. 58 of the Civil Code, but the petitioner also refers to alleged irregularities of the bidding procedure and alleged violation of the petitioner's priority right to occupy a part of the lease object. Value of the object of litigation is specified by LTR as PLN 250,000.

On 28 November 2018, the Parent Entity filed its reply to the petition, requesting dismissal of the petition in whole.

During the reporting period, the Company was carrying out fit-out works at the units leased from PPL (State Airports Company) pursuant to the lease agreements concluded on 6 May 2018. As compared with the original fit-out schedule, there were delays related to commencement of business at particular units at Warsaw Chopin Airport which, in the Company's evaluation, are not attributable to the Company. Nevertheless, PPL initiated the procedure of charging the Company with invoices covering the lease rent, referring to the original schedules instead of actual circumstances enabling commencement of business at the airport. In consequence, the Company received invoices for the lease rent and debit notes covering penalties for delays in accomplishment of certain activities during the fit-out process.

In the evaluation of the Company, some of the amounts contained in the invoices issued by PPL are not due and the Company has suspended the processing of those invoices. In particular, the Company believes that the schedules referred to by PPL cannot constitute the basis for charging of lease rents and they did not specify a deadline for completion of fit-out works which would be binding onto the parties (and, therefore, there has not been any delay on the part of the Company in performance of certain actions which could constitute the basis to claim contractual penalties). The Company states that, in its evaluation, the delays related to fit-out completion – as compared with the original dates stipulated in the schedules – result from reasons not dependent on the Company.

As at the date of drawing up this periodic report, the total amount of payments suspended by the Company amounts to, respectively, PLN 4.9 million under delay penalties and PLN 8.8 million under lease rents.

The Company and PPL are clarifying the discrepancies related to interpretation of the agreements and actual circumstances. For the period of current cooperation, the Company has applied the existing manner of settlements with PPL, pursuant to which the Company is paying lease rent liabilities to PPL. At the same time, the parties agreed that they would undertake actions aimed at commissioning an external entity with verification of the technical aspects of their cooperation so far and the fit-out process, which would allow reaching an agreement concerning the appropriate rent settlement mechanism.

Moreover, the Issuer emphasises that issuance of the debit notes and the invoices, as well as the circumstances referred to by PPL in those documents do not constitute violation of the settlement dated 6 May 2018.

On 27 November 2018, the Management Board of Przedsiębiorstwo Handlu Zagranicznego Baltona S.A. signed with Port Lotniczy Poznań-Ławica Sp. z o.o. (Poznań-Ławica Airport) annex no. 4 to the space lease agreement dated 26 March 2013, in which the parties decided to enable the Lessor to extend the lease term after expiry of the agreement, i.e. after 6 July 2019 on the terms identified in the annex. The extended lease term may apply no longer than until 7 November 2019.

19. Information on changes in contingent liabilities or contingent assets, which have occurred since the end of the last business year

Since the end of the last business year, there have been changes in contingent liabilities of the capital group. Information on the amount of contingent liabilities is presented in the additional explanations notes to the quarterly shortened consolidated financial statements.

20. Information regarding the principles of preparation of financial statement

The quarterly shortened consolidated financial statements and the individual financial statements have been prepared in compliance with the International Financial Reporting Standard 34 "Interim Financial Reporting", as approved by the European Union. Overview of the principles governing preparation of particular statements is contained in the above financial statements.

The quarterly shortened consolidated financial statements do not include all the information required for full annual financial statements prepared in compliance with the International Financial Reporting Standards as approved by the European Union, hereinafter referred to as "EU IFRS" and, consequently, ought to be read in conjunction with the financial statements of the Company for the year ended on 31 December 2017, approved for publication on 6 March 2018.

21. Risk factors and threats

Risk factors related to the environment in which the Group operates are presented below:

- risk connected with the macroeconomic situation on the Group's operating markets;
- risk connected with development of currency exchange rates;
- risk of interest rates;
- risk connected with the Group's operating market and competition on the market;
- risk connected with new locations;
- risk connected with consumer preferences;
- risk connected with tobacco smoking restrictions;
- risk connected with influence of macroeconomic situation onto debt financing availability;
- risk connected with changes in the law, its interpretation and application;

•risk connected with regulation and functioning of customs free zones and free warehouses;

•risk of inability to accomplish strategic objectives adopted by the Group;

•risk of IT system breakdown;

•risk connected with seasonal character of business;

•risk connected with specific characteristics of airport logistics;

•risk of liquidity loss;

•operating risk connected with the Group's activity;

•risk connected with the Group's indebtedness;

•risk of losing experienced management staff;

•risk connected with dependence on the air transport industry;

•risk related to entry onto new markets;

•risk connected with space lease agreements;

•risk connected with concentration of suppliers;

•risk connected with possible infringement of information obligations;

•financial risk.

A detailed overview of particular risk factors is presented in the report on the activity of Baltona Group for 2017 and it remains up to date on the date of preparation of this report.

The Management Board of the Parent Entity informs that the Company is now undergoing a tax audit carried out by the Podkarpacie Region Customs and Tax Office in Przemyśl (CTO), which covers accuracy of the declared tax base amounts as well as correct calculation and payments related to corporate income tax for 2015. In particular, the audit concerns principles governing intra-group settlements between the Issuer and its subsidiary Centrum Usług Wspólnych Baltona Sp. z o.o. related to licence fees paid by the Issuer to the latter subsidiary in return for the right to use Baltona trademarks. In the Issuer's evaluation, any settlements of licence fees have been so far performed in accordance with applicable regulations. However, the Issuer wishes to draw attention to the risk of possible different evaluation of circumstances of the case by the tax authority and, in consequence, to the possibility that settlements of the licence fees paid by the licencee to the subsidiary may be challenged. The Issuer estimates that, in case of issuance by the CTO of a decision based on the findings adopted by the CTO, the maximum amount of tax and interest which might potentially be charged from the Company is app. PLN 0.7 million under income tax and over PLN 0.2 million under interest on tax liabilities.

The Issuer informs that, on the date of drawing up these financial statements, the proceedings are pending and the Issuer has not yet been furnished with an analysis of the evidence material referred to during the proceedings. Therefore, as at the date of these statements, the Issuer is not familiar with the outcome or date of completion of the said audit.

Irrespective of the above, the Issuer emphasises that the principles governing settlements of licence fees, as followed in 2015, i.e. during the period covered by the above audit, were also respectively followed during other years. The estimated amount of potential income tax in case of a different evaluation of the tax authority regarding the arrangements followed by the Issuer totals approximately PLN 3.1 million and PLN 0.6 million of interest (including app. PLN 0.7 million and interest of app. PLN 0.2 million for the year covered by the audit).

22. Statement of the Management Board

To the best knowledge of the Company's Management Board, the quarterly shortened individual and consolidated financial statements for the period of 9 months ended on 30 September 2018 and the comparable data have been drawn up in accordance with applicable principles of accounting and they reflect in a true, reliable and transparent manner the property and financial standing of PHZ Baltona S.A. and of the Capital Group of PHZ Baltona, as presented in the statements for the above period. This report of the Management Board on the activity of the Capital Group of PHZ Baltona for the period of 9 months ended on 30 September 2018 contains a true illustration of the development, achievements and standing of PHZ Baltona S.A. and its Capital Group, including an overview of the primary threats and risk.

Capital Group of Przedsiębiorstwo Handlu Zagranicznego "Baltona" S.A.

Piotr Kazimierski
President of the Management Board

Karolina Szuba
Member of the Management Board

Michał Kacprzak
Member of the Management Board
Chief Accountant
Person responsible for maintenance
of accounting books

Warsaw, 29 November 2018