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

[FOREIGN TRADE COMPANY “BALTONA” JOINT STOCK COMPANY]

SEMI-ANNUAL REPORT ON THE ACTIVITY OF THE ISSUER

FOR THE PERIOD OF SIX MONTHS

ENDED ON 30 JUNE 2018

Warsaw, 24 August 2018

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1. Selected financial data

1.1. Selected financial data of Baltona Group

	for the period of 6 months ended on 30 June		for the period of 6 months ended on 30 June	
	2018	2017	2018	2017
		in 000 PLN		in 000 EUR
Net revenue from sales of products, goods and materials	203 097	169 542	47 906	39 917
Operating profit	(2 240)	118	(528)	28
EBITDA from operating activity*	657	3 570	155	840
Net profit/(loss) from continued activity attributable to owners of the parent entity	(2 733)	402	(645)	95
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)	(0,25)	(0,02)	(0,06)	(0,01)
Diluted earnings/(loss) per share (in PLN/EUR)	(0,25)	(0,02)	(0,06)	(0,01)

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

	2018-06-30	2017-12-31	2018-06-30	2017-12-31
		in 000 PLN		in 000 EUR
Total assets	125 555	98 151	28 786	23 532
Share capital	2 814	2 814	645	675
Equity of the parent entity's owners	3 442	6 680	789	1 602
Long-term liabilities	29 010	28 430	6 651	6 816
Short-term liabilities	94 043	63 128	21 562	15 135
Liabilities and liability provisions	123 053	91 558	28 213	21 952
Book value per share (in PLN/EUR)	0,32	0,61	0,07	0,15
Diluted book value per share (in PLN/EUR)	0,32	0,61	0,07	0,15

	for the period of 6 months ended on 30 June		for the period of 6 months ended on 30 June	
	2018	2017	2018	2017
		in 000 PLN		in 000 EUR
Operating cash flows	56	(5 162)	13	(1 215)
Investment cash flows	(13 148)	(1 561)	(3 101)	(368)
Financial cash flows	5 326	(1 476)	1 256	(347)
Total net cash flows	(7 766)	(8 199)	(1 832)	(1 930)

All amounts are presented in thousands Polish zlotys (PLN) unless stated otherwise

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

	for the period of 6 months ended on 30 June		for the period of 6 months ended on 30 June	
	2018	2017	2018	2017
		in 000 PLN		in 000 EUR
Net revenue from sales of products, goods and materials	126 210	102 998	29 770	24 250
Operating loss	(6 381)	(3 752)	(1 505)	(883)
EBITDA from operating activity*	(5 134)	(2 117)	(1 211)	(498)
Net profit/(loss)	(4 989)	4 534	(1 177)	1 067
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)	(0,46)	0,41	(0,11)	0,10
Diluted earnings/(loss) per share (in PLN/EUR)	(0,46)	0,41	(0,11)	0,10

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

	2018-06-30	2017-12-31	2018-06-30	2017-12-31
		in 000 PLN		in 000 EUR
Total assets	109 552	85 612	25 117	20 526
Share capital	2 814	2 814	645	675
Total equity	21 332	26 321	4 891	6 311
Long-term liabilities	23 415	18 125	5 368	4 346
Short-term liabilities	64 805	41 166	14 858	9 870
Liabilities and liability provisions	88 220	59 291	20 227	14 215
Book value per share (in PLN/EUR)	1,96	2,42	0,45	0,58
Diluted book value per share (in PLN/EUR)	1,96	2,42	0,45	0,58

	for the period of 6 months ended on 30 June		for the period of 6 months ended on 30 June	
	2018	2017	2018	2017
		in 000 PLN		in 000 EUR
Operating cash flows	2 673	(3 043)	630	(716)
Investment cash flows	(15 459)	(5 266)	(3 646)	(1 240)
Financial cash flows	7 482	(1 057)	1 765	(249)
Total net cash flows	(5 304)	(9 366)	(1 251)	(2 205)

All amounts are presented in thousands Polish zlotys (PLN) unless stated otherwise

1.3. Average PLN/EUR exchange rates published by the NBP

	for the period of 6 months ended on 30 June	
	2018	**2017**
average exchange rate during the period	4,2395	4,2474

	as at	
	2018-06-30	**2017-12-31**
exchange rate at the end of the period	4,3616	4,1709

All amounts are presented in thousands Polish zlotys (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

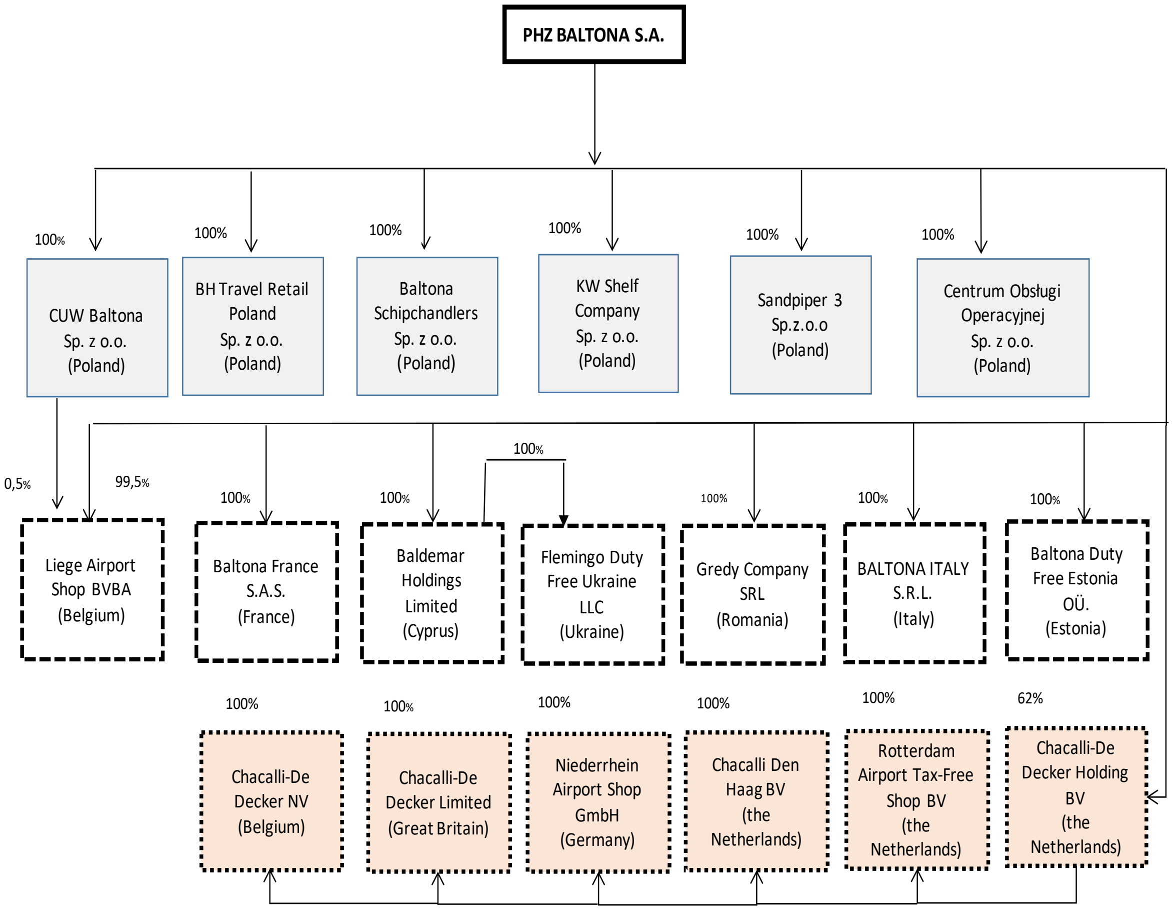
The Capital Group of Baltona consists of the parent entity – Przedsiębiorstwo Handlu Zagranicznego "Baltona" S.A. [Foreign Trade Company "Baltona" Joint Stock Company] (hereinafter referred to as the "Parent Entity", "Baltona", "PZH Baltona S.A.", "Company", "Issuer") and subsidiaries.

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 June 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 1 share in Chacalli-De Decker NV, while the remaining shares are held via the subsidiary CDD Holding BV.

*** The Parent Entity holds 100% shares in Chacalli-De Decker Den Haag BV, Rotterdam Airport Shop BV, Niederrhein Airport Shop GmbH and Chacalli-De Decker Limited via the subsidiary Chacalli-De Decker Holding BV and the subsidiaries thereof.

2.2. Description of entities covered by consolidation

As at 30 June 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
Sandpipier 3 Sp z o.o.	IT activity	Full
KW Shelf Company Sp. z o.o.	Property lease to own account	Full
Baltona Duty Free Estonia OÜ	Retail sales at duty free shops	Full
Baltona Italy S.r.l.	Retail sales at duty free shops	Full
Liege Airport Shop BVBA	As at 30.06.2018, the company did not conduct operating activity	Full
CDD Holding BV	Holding company	Full
Chacalli-De Decker NV	Retail sales at duty free shops, B2B sales and sales to diplomatic establishments	Full
Chacalli Den Haag BV	Retail sales at duty free shops and to diplomatic establishments	Full
Rotterdam Airport Shop BV	Retail sales at duty free shops	Full
Niederrhein Airport Shop GmbH	Retail sales at duty free shops	Full
Chacalli-De Decker Limited	Sales to diplomatic establishments	Full

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

No changes within the capital structure of the Group occurred during the first half of 2018. Changes in the structure of the Group, which occurred after the balance sheet date, are discussed in the item below, devoted to events occurred until the date of publication of these 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 note 26 to the semi-annual 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

During the period of six months ended on 30 June 2018, entities of Baltona Capital Group did not conclude one or more transactions with related parties, other than typical and routine transactions concluded on arm's length terms whose character and conditions result from ongoing business activity of the Group companies.

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 first quarter of 2018 and during the comparable period as well as unsettled balances from those transactions as at 30 June 2018 and 31 December 2017 are presented in detail in note 25 to the semi-annual shortened consolidated financial statements of the Group of PHZ "Baltona" S.A. for the period of six months ended on 30 June 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 semi-annual 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. No changes in this respect have occurred as compared with the date of publication of the preceding quarterly 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 semi-annual 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 and as at the date of the previous periodic report, no member of the Supervisory Board or member of the Management Board held actions of PHZ "Baltona" S.A. or any rights thereto.

All amounts are presented in thousands Polish zlotys (PLN) unless stated otherwise

8. Information on significant proceedings pending before a court, authority competent for conducting arbitration proceedings or public administration body, concerning the liabilities or claims of the Issuer or its subsidiary, including information on the object of proceedings, value of the object of proceedings, date of initiation of the proceedings, parties to initiated proceedings and the Issuer's position

Information concerning pending proceedings is presented in the Additional Explanations to the semi-annual 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 significant

During the period covered by this semi-annual 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 semi-annual 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 June 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 41,314 thousand.
- As at 30 June 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 June 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 58,559 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 June 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 June 2018, corporate guarantees issued by Baltona Duty Free Estonia OÜ to secure the non-revolving credit agreement amounted to PLN 5,782.5 thousand.
- As at 30 June 2018, corporate guarantees issued by Chacalli De-Decker N.V to secure the non-revolving credit agreement amounted to, respectively, PLN 6,750 thousand with respect to the non-revolving credit agreement dated 30.08.2016, PLN 5,782.5 thousand with respect to the non-revolving credit agreement dated 29.09.2017 and PLN 6,795 thousand with respect to the non-revolving credit agreement dated 20.02.2018 and PLN 49,500 thousand with respect to the overdraft facility agreement.

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

Company	*2018-06-30*	*2017-12-31*	*Change*
PHZ Baltona S.A.	192	163	29
BH Travel Retail Poland Sp. z o.o.	0	0	0
Centrum Obsługi Operacyjnej Sp. z o.o.	91	77	14
Centrum Usług Wspólnych Baltona Sp. z o.o.	39	38	1
Baltona Shipchandlers Sp. z o.o.	31	30	1
Baltona France SAS	12	15	-3
Baltona Italy S.r.l.	10	8	2
Gredy Company SRL	13	11	2
Flemingo Duty Free Ukraine	20	18	2
Baltona Duty Free Estonia OÜ	31	13	18
Grupa Chacall-De Decker	61	64	-3
Total	**500**	**437**	**63**

No changes with respect to the remuneration policy have occurred in 2018 except for changes caused by adaptation to market conditions 2018.

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:

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- Results achieved by newly opened shops, cafes and retail outlets in Poland, including the shops opened in 2017 in Katowice, Wrocław and on Unity Line ferries, as well as shops at the Tallinn airport which commenced operation in 2018.
- Commencement of operating activity 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.
- Sale on 11 July 2018 by Flemingo International (BVI) Limited of the activity connected with supplying diplomatic establishment, 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-Modlin Airport 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 6 months ended on 30 June 2018, the Group focused on optimisation of its operational activity by increasing sales.

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 will involve 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 change 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.

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 June 2018 in the consolidated statements of Baltona Group amounted to PLN 125,555 thousand and was by PLN 27,404 thousand, i.e. by 28% 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 June 2018 results mainly from increase in trade and other liabilities, which is connected with financing of the opening of new retail outlets.

The negative net financial result generated during the period of 6 months ended on 30 June 2018 was mainly influenced by the operating activity. 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 6 months ended on 30 June 2018, the Group achieved total sales revenue of PLN 203.09 million, which denotes an increase in absolute amounts by PLN 33.5 million, i.e. by nearly 19.8% as compared with the corresponding period of 2017. As compared with the first half of 2017, public retail sales decreased by 4%, duty free retail sales increased by 44%, whereas wholesale and shipchandling decreased by 43%. Growth of sales revenue resulted from shop openings at new locations and increases in the number of passengers.

The result of the Group's operating activity after the first half of 2018 was the loss of PLN 2,240 thousand; to compare, the result for the corresponding period of the previous year was the profit of PLN 118 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 16.2 million, i.e. 13.9%. Increase in the costs of rents and other third party services amounted to PLN 14.8 million, while the costs of employee benefits grew by PLN 3.5 million, i.e. by 23%. 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 in the first half of 2018, 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 half 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, in the first half of 2018, the Issuer was commencing or had just commenced business activity at other locations, in the place of the activity conducted in Gdańsk. Taking into account the initial period of particular concessions, as compared with the mature concession in Gdańsk closed in the first half of 2017, the current sales volume at the new locations has not achieved, in the Issuer's evaluation, the assumed/optimum level, which resulted in an unfavourable revenue to costs ratio as compared with the corresponding period. 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 in the first half of 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 first half of 2018 amounted to PLN 657 thousand and was by PLN 2,913 thousand lower as compared with the corresponding period, when it amounted to PLN 3,570 thousand.

Moreover, the Group's net result for the period of 6 months ended on 30 June 2018 closed with the loss of PLN 4,248 thousand. Net loss for the corresponding period of 2017 amounted to PLN 713 thousand. Deterioration of the net financial result was mainly the effect of increasing value of goods sold, as well as costs of rents and other third party services.

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 six months ended on 30 June 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 shares

During the period of six months ended on 30 June 2018, PHZ “Baltona” S.A. did not pay out or declare any dividend.

18. Events after the date of preparation of the semi-annual shortened financial statements, not disclosed in the statements, but which may have significant impact onto the Issuer’s financial results

On 4 July 2018, the Management Board of the Issuer was notified of filing by Lagardere Travel Retail Sp. z o.o. with the registered office in Warsaw (hereinafter: LTR) against the State Airports Company (hereinafter: PPL or the Counterparty) and the Company of a petition at the Regional Court in Warsaw, 16th Trade Division, for cancellation of 14 lease agreements concluded between the Issuer and PPL on 6 May 2018. According to the Issuer’s knowledge, the legal basis of the claim contained in the petition is art. 70(5) of the Civil Code, pursuant to which a tender participant may request cancellation of a concluded agreement if a party to the agreement, another participant or a person acting in agreement therewith influenced the result of the auction or tender in a manner being in contradiction with the law or good habits. Pursuant to the information obtained, the petition contains a motion requesting security of the claims, namely a request concerning prohibition to release the units covered by the above mentioned lease agreements to the Company by PPL and prohibition to perform the said lease agreements. The value of the object of litigation was determined by LTR as PLN 78.9 million. According to the information furnished to the Issuer by the Counterparty, the previous tender procedure concerning lease of retail space at Warsaw Chopin Airport was ended by the Counterparty without selection of a bid. The Issuer did not participate in these proceedings and the lease agreements between the Issuer and the Counterparty were concluded by way of negotiations. The Issuer is not familiar with any circumstances which could substantiate the conclusion that signature of the lease agreements between the Issuer and the Counterparty occurred as a result of violation of the law or good habits. Due to the above, the Issuer does not see any reasons why LTR’s petition for cancellation of the lease agreements by the Issuer concluded with the Counterparty should be accepted. At present, the Issuer is awaiting delivery of a copy of the petition and related documentation. Then, the Issuer will perform a comprehensive analysis of the claims contained in the said petition after its delivery by the Court and appointment of the deadline for submitting a response to the petition.

On 11 July 2018, the Issuer’s Management Board undertook actions aimed at separation from the activity of the Issuer’s Capital Group of the activity related to supplying diplomatic establishments. The business related to supplying diplomatic establishments is 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) (hereinafter referred to jointly as Chacalli Companies). In connection with the above process, also on 11 July 2018, an agreement covering sale of shares in the Chacalli Companies was concluded between the Company and CDD Holding B.V. (hereinafter: Seller) and Flemingo International (BVI) Limited (hereinafter: Buyer or Flemingo). Flemingo is an entity related to the Issuer in such a manner that Ashdod Holdings Limited, i.e. the dominant shareholder of the Company, is controlled by Flemingo International Limited. Moreover, the Agreement sets the principles upon which the Travel Retail activity, currently conducted within Chacalli-De Decker N.V. (Belgium), will be transferred in whole as the organised part of the enterprise, into the structures of Baltona Group. Ownership title to the Chacalli Companies' shares sold will be transferred within 60 days after conclusion of the Agreement, subject to fulfilment of formalities and registration activities applicable in the legal systems within which particular Chacalli Companies operate, as well as after execution of the transaction involving purchase by the Issuer of assets from the Travel Retail area currently functioning within Chacalli-De Decker N.V. (Belgium).

On 13 July 2018, the Management Board of the subsidiary Baltona Shipchandlers Sp. z o.o. signed an annex to the overdraft agreement, increasing the debt limit to PLN 3,500 thousand, with the repayment deadline falling on 30 April 2019.

On 20 July 2018, the Company was furnished with a bilaterally signed supply agreement, whose parties are the Issuer, five of the Issuer's subsidiaries, i.e. BH Travel Retail Poland Sp. z o. o., Baltona France SAS, Baltona Italy S.r.l., Niederrhein Airport Shop GmbH and Baltona Duty Free Estonia OÜ (hereinafter jointly: Subsidiaries) and Gebr. Heinemann SE & Co. KG (hereinafter: Supplier), pursuant to which the parties established the principles governing mutual deliveries of a predefined range of goods (including alcohol, tobacco products, perfumes, cosmetics) until the end of March 2019. Estimated value of the Agreement is app. EUR 18 million, being the equivalent of app. PLN 77.9 million. Deliveries will be executed pursuant to an agreed schedule, subject to the Supplier's approval. The Issuer and the Subsidiaries were granted with a trade credit up to the total amount of EUR 2.4 million, whose security will be a bank guarantee furnished by the Issuer. The deliveries will be executed pursuant to the DAP formula (Incoterms 2010). Moreover, the Agreement defines a selective distribution system related to products offered by several dozen luxury brands. In case of violation of the selective distribution principles by the Issuer or any of the Subsidiaries, the Issuer or the given Subsidiary will be obliged to pay contractual damages of EUR 250 thousand for each violation. What is more, the Agreement does not define a limit of contractual damages which may be charged in connection with the above. The Agreement does not contain other provisions concerning contractual damages than the ones identified above. Pursuant to the Agreement, the Issuer acts as a joint debtor liable for the Subsidiaries' debts towards the Supplier. The remaining provisions of the Agreement, including those pertaining to termination of the agreement or liability for the deliveries, are in line with standard provisions of such agreements.

After the end of the reporting period, in connection with temporary delays in commencing business activity at the retail units at Warsaw Chopin Airport as compared with the original schedule, the Company was furnished by PPL with debit notes covering penalties for delays in timely completion of fit-out works as well as invoices for the fit-out period rent. On the date of drawing up these periodic statements, these total PLN 2.7 million. The circumstances which triggered issuance of the debit notes and invoices, as well as the reasons referred to by PPL in the documents, do not constitute violation of the settlement of 6 May 2018, and the Issuer is in the process of clarifying the situation with PPL.

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

Any changes since the end of the last business year with regard to contingent liabilities of the Capital Group are presented in the additional explanations notes to the semi-annual shortened consolidated financial statements.

20. Information regarding the principles of preparation of financial statements

The semi-annual 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 semi-annual 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.

22. Statement of the Management Board

To the best knowledge of the Company's Management Board, the semi-annual shortened individual and consolidated financial statements 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 first half of 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, 24 August 2018