



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 THREE MONTHS ENDED

ON 31 MARCH 2018

IN THOUSANDS POLISH ZLOTYS

**This document is a translation of financial statements originally issued in Polish.
The Polish original should be referred to in matters of interpretation.**

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1. Selected financial data
1.1. Selected financial data of Baltona Group

	for the period of 3 months ended on 31 March		for the period of 3 months ended on 31 March	
	2018	2017	2018	2017
	in 000 PLN		in 000 EUR	
Net revenue from sales of goods and services	91 856	90 891	21 984	21 191
Operating profit/(loss)	(3 829)	(3 044)	(916)	(710)
EBITDA from operating activity*	(2 431)	(1 308)	(582)	(305)
Net profit/(loss) attributable to owners of the parent entity	(3 523)	(1 942)	(843)	(453)
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)	(0,32)	(0,18)	(0,08)	(0,04)
Diluted earnings/(loss) per share (in PLN/EUR)	(0,32)	(0,18)	(0,08)	(0,04)

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

	2018-03-31	2017-12-31	2018-03-31	2017-12-31
	in 000 PLN		in 000 EUR	
Total assets	110 117	98 151	26 165	23 532
Share capital	2 814	2 814	669	675
Equity of the parent entity's owners	3 205	6 680	762	1 602
Long-term liabilities	30 966	28 430	7 358	6 816
Short-term liabilities	76 561	63 128	18 192	15 135
Liabilities and liability provisions	107 527	91 558	25 550	21 952
Book value per share (in PLN/EUR)	0,29	0,61	0,07	0,15
Diluted book value per share (in PLN/EUR)	0,29	0,61	0,07	0,15

	for the period of 3 months ended on 31 March		for the period of 3 months ended on 31 March	
	2018	2017	2018	2017
	in 000 PLN		in 000 EUR	
Operating cash flows	(6 922)	(7 688)	(1 657)	(1 792)
Investment cash flows	(5 553)	(448)	(1 329)	(105)
Financial cash flows	4 315	(699)	1 033	(163)
Total net cash flows	(8 160)	(8 835)	(1 953)	(2 060)

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

	for the period of 3 months ended on 31 March		for the period of 3 months ended on 31 March	
	2018	2017	2018	2017
	in 000 PLN		in 000 EUR	
Net revenue from sales of goods and services	53 910	50 950	12 902	11 879
Operating profit/(loss)	(3 796)	(2 682)	(908)	(625)
EBITDA from operating activity*	(3 213)	(1 886)	(769)	(440)
Net profit/(loss)	(3 218)	(2 390)	(770)	(557)
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)	(0,29)	(0,22)	(0,07)	(0,05)
Diluted earnings/(loss) per share (in PLN/EUR)	(0,29)	(0,22)	(0,07)	(0,05)

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

	2018-03-31	2017-12-31	2018-03-31	2017-12-31
	in 000 PLN		in 000 EUR	
	Total assets	97 473	85 612	23 161
Share capital	2 814	2 814	669	675
Total equity	23 103	26 321	5 490	6 311
Long-term liabilities	20 753	18 125	4 931	4 346
Short-term liabilities	53 617	41 166	12 740	9 870
Liabilities and liability provisions	74 370	59 291	17 671	14 215
Book value per share (in PLN/EUR)	2,12	2,42	0,50	0,58
Diluted book value per share (in PLN/EUR)	2,12	2,42	0,50	0,58

	for the period of 3 months ended on 31 March		for the period of 3 months ended on 31 March	
	2018	2017	2018	2017
	in 000 PLN		in 000 EUR	
Operating cash flows	(5 682)	(6 012)	(1 360)	(1 402)
Investment cash flows	(8 450)	(1 390)	(2 022)	(324)
Financial cash flows	6 391	(444)	1 530	(104)
Total net cash flows	(7 741)	(7 846)	(1 853)	(1 829)

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

	for the period of 3 months ended on 31 March	
	2018	2017
average exchange rate during the period	4,1784	4,2891

	na dzień	
	2018-03-31	2017-12-31
exchange rate at the end of the period	4,2085	4,1709

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. Marcina Flisa 4 in Warsaw (postal code: 02-247).

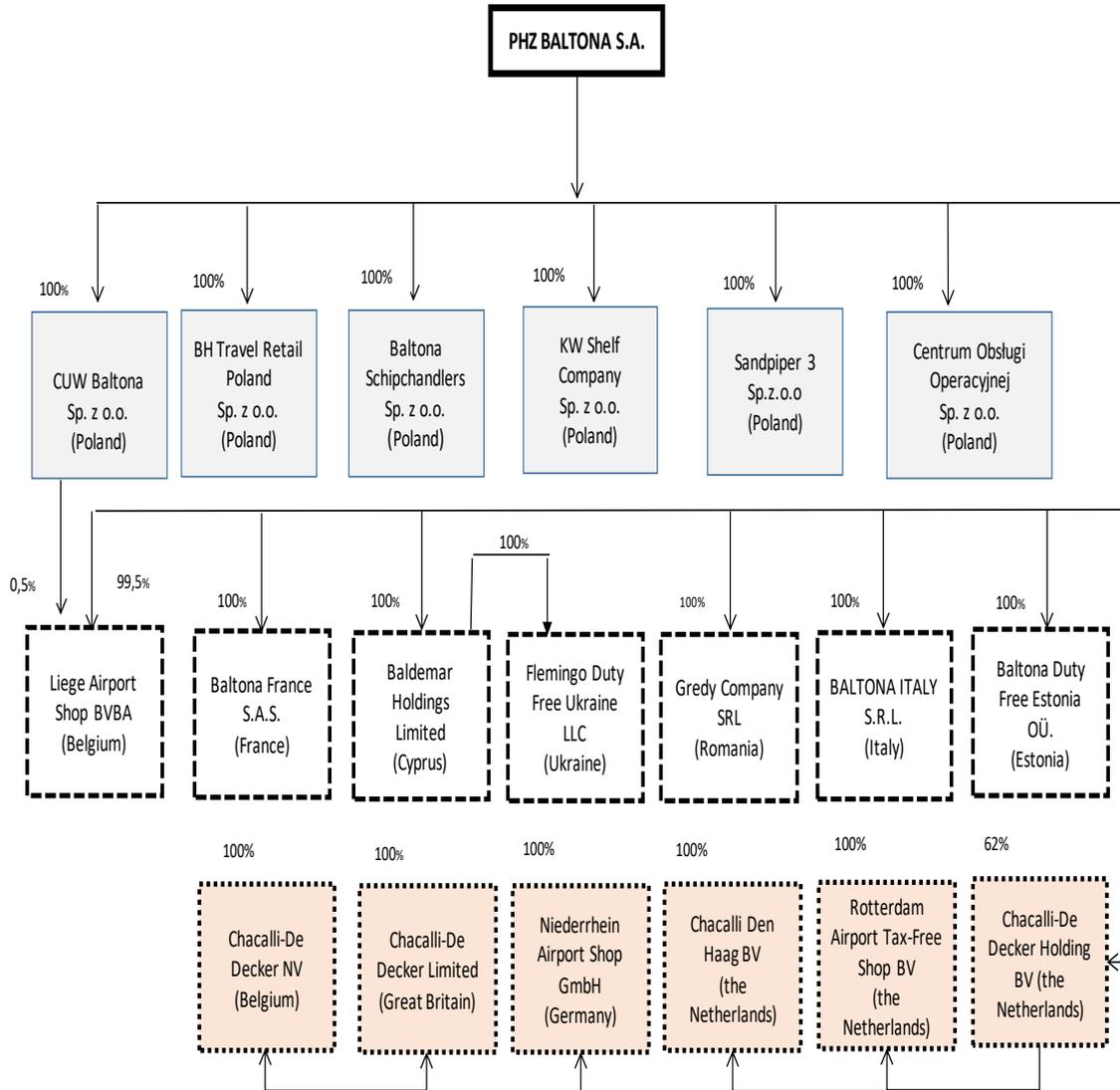
In connection with this Report, the Parent Entity together with the subsidiaries are referred to as Baltona Group (hereinafter “Group”).

As at 31 March 2018, the Group – besides the Parent Entity – consisted of the following entities:

Company name	Area of activity	Consolid. 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 <i>its subsidiary</i> : Flemingo Duty Free Ukraine LLC	Holding company Retail sales at duty free shops	Full 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 31.03.2018, 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

As at 31 March 2018, the largest shareholder of the Parent Entity is Ashdod Holdings Limited, holder of 80.68% shares. As the company Ashdod is controlled by Flemingo International Limited, the Group of PHZ "Baltona" S.A. has been a part of the international capital group headed by Flemingo International (BVI) Limited since 2010.

The diagram presents detailed capital relations of the companies making up Baltona Group as at 31 March 2018:



2.2. Description of entities covered by consolidation.

As at 31 March 2018, consolidation covered PHZ “Baltona” S.A. as the Parent Entity and the following subsidiaries:

Company name	Share capital	Currency	Registered seat	Share as at 31.03.2018	Share as at 31.12.2017
BH Travel Retail Poland Sp. z o.o.	3.000.000	PLN	Poland	100%	100%
Baltona Shipchandlers Sp. z o.o.	2.233.000	PLN	Poland	100%	100%
Gredy Company SRL	200	RON	Romania	100%	100%
Centrum Usług Wspólnych Baltona Sp. z o.o.	28.081.850	PLN	Poland	100%	100%
Baltona France S.A.S.	1.000	EUR	France	100%	100%
Baldemar Holdings Limited	1.432	USD	Cyprus	100%	100%
Flemingo Duty Free Ukraine LLC	439.587,50	UAH	Ukraine	100%	100%
Centrum Obsługi Operacyjnej Sp. z o.o.	5.000	PLN	Poland	100%	100%
Sandpi pier 3 Sp z o.o.	5.000	PLN	Poland	100%	100%
KW Shelf Company Sp. z o.o.	5.000	PLN	Poland	100%	100%
Baltona Duty Free Estonia OÜ	2.500	EUR	Estonia	100%	100%
Baltona Italy S.r.l.	10.000	EUR	Italy	100%	100%
Liege Airport Shop BVBA	18.600	EUR	Belgium	99,5%	99,5%
CDD Holding BV	2.035.000	EUR	the Netherlands	62%	62%
Chacalli-De Decker NV	1.200.000	EUR	Belgium	62%	62%
Chacalli Den Haag BV	15.881,31	EUR	the Netherlands	62%	62%
Rotterdam Airport Shop BV	45.378,02	EUR	the Netherlands	62%	62%
Niederrhein Airport Shop GmbH	25.000	EUR	Germany	62%	62%
Chacalli-De Decker Limited	121.000	GBP	Great Britain	62%	62%

The companies do not have any branches (establishments).

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

3. Identification of the changes within the structure of the Issuer’s Capital Group, including those resulting from business combinations, obtaining or loss of control over subsidiaries and long-term investments, as well as division, restructuring and cessation of activity.

No significant changes within the structure of the Issuer’s Capital Group occurred during the reporting period and until the date of drawing up this Report.

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 quarterly 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. All transactions concluded were typical and

routine ones, concluded on arm's length terms, and their character and terms resulted from ongoing operating activity of the Group's companies.

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 31 March 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 three months ended on 31 March 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 Limited 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 exercising control over the Issuer. In this respect, there have not been any changes as compared with the date of publication of the previous report.

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 periodic 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 holds 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, 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.

A detailed description of information concerning pending proceedings is presented in the Explanatory Information to the quarterly shortened financial statements, par. 23 Contingent liabilities.

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 interim report, the Issuer and its Subsidiaries granted securities as collaterals of the non-revolving credit dated 20.02.2018. Detailed information regarding credit collaterals is presented in the Explanatory Information 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 31 March 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 19,528 thousand.
- As at 31 March 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 31 March 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 76.6 thousand.
- In connection with the current account credit agreements, the Parent Entity was granted with a corporate guarantee issued by Flemingo International (BVI) Limited up to the total amount of PLN 51,000 thousand with respect to the multi-purpose credit line.
- 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.
- As at 31 March 2018, corporate guarantees issued by Flemingo International BVI 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 bills of exchange 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., BH Travel Retail Poland Sp. z o.o. and Baltona Shipchandlers Sp. z o.o. were granted up to the amount of PLN 51,000 thousand with respect to the multi-purpose credit line agreement, up to 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.

- As at 31 March 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 31 March 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.

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

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

Company	2018-03-31	2017-12-31	Change
PHZ Baltona S.A.	182	163	19
BH Travel Retail Poland Sp. z o.o.	0	0	0
Centrum Obsługi Operacyjnej Sp. z o.o.	84	77	7
Centrum Usług Wspólnych Baltona Sp. z o.o.	38	38	0
Baltona Shipchangers Sp. z o.o.	30	30	0
Baltona France SAS	13	15	-2
Baltona Italy S.r.l.	9	8	1
Gredy Company SRL	13	11	2
Flemingo Duty Free Ukraine	18	18	0
Baltona Duty Free Estonia OÜ	23	13	10
Grupa Chacall-De Decker	65	64	1
Total	475	437	38

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

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 companies of Chacalli-De Decker Group, subsidiaries of the Group operating within Benelux, Great Britain and Germany.
- 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.

- 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 3 months ended on 31 March 2018, the Group focused on optimisation of its operational activity by increasing sales, margins and reduction of the Group's costs.

Financial area

The net financial result in the first quarter of 2018 was significantly influenced by fluctuations of the USD and EUR exchange rates as well as the political and economic situation in Ukraine, which resulted in further decreases of the hryvnia. Growth in the number of passengers as compared with the first quarter of the previous year had positive impact onto the Group's results.

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. Detailed information concerning cooperation with the Bank is contained in the current report no. 4/2018 dated 22 February 2018.

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 sum as at 31 March 2018 in the consolidated statements of Baltona Group amounted to PLN 110,117 thousand and was by PLN 11,965 thousand, i.e. by 12% higher as compared with the balance sum as at 31.12.2017. The reason of growth are higher levels of stock connected with stock deliveries to new locations.

On the side of liabilities, the decrease of the balance sum as at 31 March 2018 results mainly from decrease of trade and other liabilities and growth of liabilities under credits and loans, which is connected with utilisation of the credit line and launch of further tranches of the non-revolving credits.

The negative financial result generated during the period of 3 months ended on 31 March 2018 was mainly influenced by growth in the costs of third party services and employee benefits, along with moderate growth of sales revenues and own cost of sales.

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

During the period of 3 months ended on 31 March 2018, the Group achieved total sales revenue of PLN 91.8 million, which denotes an increase in absolute amounts by over PLN 0.9 million, i.e. by 1% as compared with the corresponding period of 2017. As compared with the first quarter of 2017, public retail sales, wholesale and shipchandling decreased, respectively, by 26% and 9%, whereas the retail duty free sales increased by 14%.

The result of the Group's operating activity after the first quarter of 2018 was the loss of PLN 3,829 thousand; to compare, the result for the corresponding period of the previous year was the loss of PLN 3,044 thousand. As far as the costs area is concerned, the greatest increase (in absolute amounts) during the periods being compared concerned the costs of third party services and employee benefits – by, respectively, PLN 1.7 million and PLN 0.8 million.

The EBITDA result (calculated as the operating result adjusted by depreciation) generated during the first quarter of 2018 amounted to PLN -2.431 thousand and was by 86% lower as compared with the first quarter of 2017, when it amounted to PLN -1.308 thousand.

Moreover, the Group's net result for the period of 3 months ended on 31 March 2018 closed with the loss of PLN 4,068 thousand. Net loss for the corresponding period of 2017 was lower and amounted to PLN 2,514 thousand. The negative financial result was mainly the effect of the operating activity. Net exchange rate differences were positive and amounted to PLN 449 thousand during the first quarter of 2018, whereas in the first quarter of 2017 positive net exchange rate differences amounted to PLN 915 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 and fourth quarters of the year is usually higher and usually lower than the revenue recorded during the second and third quarters. Seasonal character influences the margins and financial results achieved during particular months and quarters of the year, and 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 three months ended on 31 March 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 three months ended on 31 March 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 financial results

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.

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 explanatory notes to the quarterly shortened consolidated financial statements.

20. Information regarding the principles of preparation of financial statements

The quarterly shortened consolidated financial statements and 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 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.

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, 18 May 2018