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

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

IN PLN THOUSAND

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

Warsaw, 30 April 2019

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

Consolidated financial statements for the year ended 31 December 2018

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CONSOLIDATED FINANCIAL STATEMENTS OF CAPITAL GROUP OF PRZEDSIĘBIORSTWO HANDLU ZAGRANICZNEGO "BALTONA" S.A. FOR THE YEAR ENDED 31 DECEMBER 2018

These consolidated financial statements were approved for issue by the Management Board of Przedsiębiorstwo Handlu Zagranicznego Baltona S.A. on 30 April 2019.

Management Board:

Piotr Kazimierski	*President of the Management Board*
Karolina Szuba	*Member of the Management Board*
Michał Kacprzak	*Chief Accountant, Member of the Management Board* *Person responsible for maintaining the accounting records*

Warsaw, 30 April 2019

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

Consolidated statement of financial position

Unless otherwise stated, all amounts are given in PLN thousand.

ASSETS	Note	31.12.2018	31.12.2017
Non-current assets			
Property, plant and equipment	12.	87 130	13 643
Intangible assets	13.	92 717	1 049
Goodwill	13.	4 449	5 719
Trade and other receivables	17.	4 465	5 739
Deferred income tax assets	15.	1 634	3 351
Non-current assets		**190 395**	**29 501**
Current assets			
Inventory	16.	42 915	36 904
Trade and other receivables	17.	45 589	19 153
Short-term investment	14.	1 071	117
Current income tax receivables		103	136
Cash and cash equivalents	18.	11 638	12 340
Current assets		**101 316**	**68 650**
TOTAL ASSETS		**291 711**	**98 151**

The consolidated statement of financial position must be analysed in conjunction with the notes to the consolidated financial statements

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

Consolidated statement of financial position

Unless otherwise stated, all amounts are given in PLN thousand.

Liabilities	Note	31.12.2018	31.12.2017
			(restated)
Equity			
Share capital		2 814	2 814
Capital from the sale of shares above their nominal value		4 655	4 655
Reserve capital		23 529	23 064
Own shares		(2 042)	(2 042)
Translation differences		(803)	(1 317)
Capital from transactions with owners		94 992	-
Retained profits / (losses)		(26 529)	(22 679)
Equity attributable to the parent entity's owners		**96 616**	**4 495**
Non-controlling shares		**216**	**(86)**
Total equity		**96 832**	**4 409**
Liabilities			
Liabilities due to loans, borrowings and other debt instruments	22.	55 353	23 118
Trade and other liabilities	24.	10 836	-
Other liabilities		-	-
Deferred income	27.	69	148
Provisions	25.	52	1 094
Deferred income tax liabilities			-
Liabilities under employee benefits	24.	340	4 070
Long-term liabilities		**66 650**	**28 430**
Liabilities under credits, loans and other debt instruments	22.	46 690	13 615
Trade and other liabilities	23.	71 169	45 847
Income tax liabilities		3 038	2 263
Liabilities under employee benefits	24.	3 719	3 580
Deferred income	27.	3 611	5
Provisions	25.	2	2
Short-term liabilities		**128 229**	**65 312**
Liabilities		**194 879**	**93 742**
TOTAL LIABILITIES		**291 711**	**98 151**

The consolidated statement of financial position must be analysed in conjunction with the notes to the consolidated financial statements

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

Consolidated statement of comprehensive income

Unless otherwise stated, all amounts are given in PLN thousand.

	Note	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Sales revenue	7.	482 968	365 225
Other operating revenue	9.	3 126	1 224
Total operating revenue		**486 094**	**366 449**
Depreciation and impairment write-offs		(10 931)	(6 757)
Consumption of raw materials and materials		(3 943)	(3 220)
Third party services		(102 455)	(61 078)
Costs of employee benefits	8.	(45 779)	(40 384)
Taxes and fees		(1 715)	(1 836)
Other cost items		(4 217)	(3 563)
Value of goods and materials sold		(315 785)	(249 866)
Other operating costs	9.	(138)	(496)
Total operating costs		**(484 963)**	**(367 200)**
Operating profit (loss)		**1 131**	**(751)**
Financial revenue		349	731
Financial costs		(3 801)	(1 621)
Net financial revenue / (costs)	10.	**(3 452)**	**(890)**
Result on the sale of shares in subordinated entities		**2 323**	**-**
Profit /(Loss) before tax		**2**	**(1 641)**
Income tax	11.	(4 344)	(464)
Net profit (loss) for the reporting period		**(4 342)**	**(2 105)**

Consolidated statement of comprehensive income – continued

Other comprehensive income			
Items that may be settled in the future with the result			
Exchange differences from the conversion of units operating abroad		**352**	**(167)**
Items that can be transferred to the profit and			
Actuarial gains / losses		-	366
Other comprehensive net income for the reporting period		352	199
Total comprehensive income for the reporting period		**(3 990)**	**(1 906)**
Profit / (Loss) per:			
Owners of the Parent	20.	(4 806)	(1 604)
Non-controlling shares		464	(501)
Profit / (Loss) for the reporting period		**(4 342)**	**(2 105)**
Total comprehensive income for:			
Owners of the Parent		(4 292)	(1 522)
Non-controlling shares		302	(384)
Total comprehensive income for the reporting period		**(3 990)**	**(1 906)**
Earnings per 1 share			
Basic (PLN)		(0,44)	(0,15)
Diluted (PLN)		(0,44)	(0,15)

The consolidated statement of comprehensive income must be analysed in conjunction with the notes to the consolidated financial statements

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

Consolidated statement of cash flows

Unless otherwise stated, all amounts are given in PLN thousand.

	Note	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Operating cash flow			
Net profit / (loss) for the reporting period		(4 342)	(2 105)
Adjustments:			
Depreciation		10 931	6 757
Net financial (revenue) / costs		3 452	890
Profits / (losses) from the sale of tangibles and intangibles		(38)	(220)
Income tax		4 343	464
Other adjustments		529	17
		14 875	**5 803**
Change in inventories		(5 072)	5 700
Change in trade receivables and other receivables		(25 282)	5 650
Change in liabilities for deliveries and services and other		29 091	(6 756)
Change in liabilities due to employee benefits		(4 019)	(1 364)
Change in deferred income		3 527	(210)
		13 120	**8 823**
Tax paid		(3 036)	(735)
Net cash from operating activity		**10 084**	**8 088**
Investment cash flows			
Proceeds from sales of property, plant and equipment		38	220
Return of bank deposit		1 991	-
Acquisition of property, plant and equipment and intangible assets		(77 741)	(7 601)
Loan granting		(1 991)	-
Net cash from investments		**(77 703)**	**(7 381)**
Financial cash flows			
Drawing of credits and loans		51 007	729
Expenditure on loans and loans		(2 625)	(940)
Expenditures on repayment of credits and loans		(754)	(1 056)
Interest paid		(1 846)	(1 116)
Net cash from financing activities		**45 782**	**(2 383)**
Total net cash flows		**(21 837)**	**(1 676)**
Cash and cash equivalents at the beginning of the period		533	2 210
Influence of exchange differences concerning cash and cash equivalents		1	(1)
Cash at the end of the period		**(21 302)**	**533**

The consolidated statement of cash flows must be analysed in conjunction with the notes to the consolidated financial statements

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

Consolidated statement of changes in equity

	Note	Share capital	Capital from the sale of shares above their nominal value	Reserve capital	Own shares	Translation differences	Retained profits / (losses)	Capital from transactions with owners	Total equity of the parent entity's owners	Non-controlling shares	Total equity
Equity as at 01.01.2018		2 814	4 655	23 064	(2 042)	(1 317)	(22 679)	-	4 495	(86)	4 409
Comprehensive income for the reporting period											-
Net profit (loss) for the reporting period							(4 806)		(4 806)	464	(4 342)
Other comprehensive income									-		-
Exchange differences from the conversion of units operating abroad						514			514	(162)	352
Actuarial gains (losses) due to a defined benefit plan									-		-
Other total comprehensive income		**-**	**-**	**-**	**-**	**514**	**-**	**-**	**-**	**514**	**-**
Total comprehensive income for the reporting period		**-**	**-**	**-**	**-**	**514**	**(4 806)**	**-**	**-**	**(4 292)**	**(3 990)**
Transactions with owners of the Parent Entity recognized directly in equity											
Payment of the dividend									-		-
Own shares purchased									-		-
Sales of subsidiaries							1 421		1 421		1 421
Others											-
Equity from the right to conclude contract							-	94 992	94 992		94 992
Transfer of profit to supplementary capital				465			(465)		-		-
Transactions with owners of the		**-**	**-**	**465**	**-**	**-**	**956**	**94 992**	**96 413**	**-**	**96 413**
Equity as at 31.12.2018		**2 814**	**4 655**	**23 529**	**(2 042)**	**(803)**	**(26 529)**	**94 992**	**96 616**	**216**	**96 832**

The consolidated statement of changes in equity must be analysed in conjunction with the notes to the consolidated financial statements

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

Consolidated statement of changes in equity – continued

	Note	Share capital	Capital from the sale of shares above their nominal value	Reserve capital	Own shares	Translation differences	Retained profits / (losses)	Capital from transactions with owners	Total equity of the parent entity's owners	Non-controlling shares	Total equity
Equity as at 01.01.2017		2 814	4 655	23 064	(2 042)	(1 172)	(19 117)	-	8 202	297	8 499
Correction of fundamental error		-	-	-	-	-	(2 185)		(2 185)	-	(2 185)
Comprehensive income for the reporting period									-		-
Net profit (loss) for the reporting period							(1 604)		(1 604)	(501)	(2 105)
Other comprehensive income											
Exchange differences from the conversion of units operating abroad						(145)			(145)	(22)	(167)
Actuarial gains (losses) due to a defined benefit plan							227		227	139	366
Other total comprehensive income		**-**	**-**	**-**	**-**	**(145)**	**227**	**-**	**82**	**117**	**199**
Total comprehensive income for the reporting period		**-**	**-**	**-**	**-**	**(145)**	**(1 377)**	**-**	**(1 522)**	**(384)**	**(1 906)**
Transactions with owners of the Parent Entity recognized directly in equity											
Payment of the dividend									-		-
Own shares purchased									-		-
Transfer of profit to supplementary capital									-		-
Transactions with owners of the		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Equity as at 31.12.2017		**2 814**	**4 655**	**23 064**	**(2 042)**	**(1 317)**	**(22 679)**	**-**	**4 495**	**(86)**	**4 409**

The consolidated statement of changes in equity must be analysed in conjunction with the notes to the consolidated financial statements

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

Supplementary notes to the consolidated financial statements for the year ended 31 December 2018

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

Notes to the consolidated financial statements for the year ended 31 December 2018

1. Identification of the Parent Entity

The Baltona Group (the "Group") is composed of Przedsiębiorstwo Handlu Zagranicznego BALTONA Spółka Akcyjna (the "Parent", the "Company") and its subsidiaries. The composition of the Group is presented in Note 34 to these financial statements.

Przedsiębiorstwo Handlu Zagranicznego BALTONA S.A. is a joint-stock company registered in Poland. The registered office of the Parent is located at ul. Flisa 4 in Warsaw (postal code 02-247). The Parent was entered into the National Court Register on 12 October 2001 under KRS No. 0000051757, holding Industry Identification Number (REGON): 000144035.

The business activity of the Group involves, *inter alia*, the sales of products in retail shops, in particular duty-free shops at airports and at border checkpoints. The Group's sales outlets are located in Poland (most of them), Romania, France, Italy, Ukraine, Estonia, Germany, the Netherlands, Belgium and on ferries operating in the Baltic Sea. Moreover, the Group's business consists in catering services and supplying crews of vessels and ships in Polish seaports (ship chandlery).

In July 2018, the Group concluded an agreement for the sale of three subsidiaries whose business consisted in, among other things, providing supplies to diplomatic establishments, belonging to the B2B segment and, consequently, it ceased to perform such activity. Before that, the Company had taken steps aimed at spinning off from the Company's Group the business related to providing services to diplomatic establishment by, among others, its definitive decision to focus financial and operational resources on other sales channels in which the Baltona Group currently operates, in particular with a view to acquire and employ new sales channels, more attractive from the point of view of operational profitability as compared with the diplomatic activity conducted so far. The Management Board of the Parent 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 consolidated financial statements, while fair value of consideration received as a result of the transaction was included, as well as the result on sale and respective adjustments of equity of owners of the parent and minority interests.

The Parent and members of the Group were incorporated for an indefinite term.

The ultimate parent, which consolidates the data of the Baltona Group in its financial statements, is Flemingo International Limited.

These consolidated financial statements of the Multimedia Group cover the year ended 31 December 2018 and contain comparative data for the year ended 31 December 2017.

2. Basis of preparation of the financial statements

2.1 Basis of preparation

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments, which have been measured at fair value.

2.2 Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards endorsed by the European Union ("EU IFRS").

The consolidated financial statements have been approved by the Management Board of the Parent on 30 April 2019.

These consolidated financial statements have been drawn up for the year ended 31 December 2018 and include the financial statements of the Parent and its subsidiaries (hereinafter jointly referred to as the "Group" and each individually as "Group Members"). The consolidated financial statements also include comparative data for the year ended 31 December 2017.

2.3 Basis of measurement

These consolidated financial statements have been prepared based on the assumption that the Parent and all significant subsidiaries that belong to the Group will continue as a going concern in the foreseeable future.

As at the date of signing these financial statements, the Parent's Management Board was aware of no facts or circumstances that would involve a threat to the Group's continuing as a going concern in the 12 months after the end of the reporting period, as a result of any planned or forced discontinuation or material downsizing of its existing operations.

2.4 Presentation and functional currency

Unless indicated otherwise, the data contained in these consolidated financial statements is presented in the Polish złoty (PLN), rounded to the nearest thousand.

The functional and reporting currency of the Parent is the Polish złoty.

A functional currency is determined for each of the subsidiaries, and their assets and liabilities are measured in the functional currency. Subsidiaries use the following functional currencies: EUR (members of the CDD Holding BV Group, Baltona France S.A.S., Baltona Italy S.R.L., Baltona Duty Free Estonia OÜ; Liege Airport Shop BVBA), USD (Baldemar Holdings Limited), RON (Gredy Company SRL) and UAH (Flemingo Duty Free Ukraine). The Group uses the direct consolidation method and accounts for gains or losses on translating foreign operations in a manner which is consistent with this method.

2.5 Judgements and estimates

In order to prepare consolidated financial statements in accordance with the EU IFRS, the Management Board is required to make judgements, estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, equity and liabilities, income and costs, whose actual values may differ from these estimates.

The estimates and underlying assumptions are reviewed on a continuous basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In the period ended on 31 December 2018, there were no significant changes in the way of making estimates, which means that – as at the date of these consolidated financial statements – major estimates made by the Management Board and key sources of estimation uncertainty have remained unchanged in relation to those which have been applied with respect to the annual consolidated financial statements for the financial year ended on 31 December 2017.

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that carry a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities in the next financial year are discussed below. The Group used the assumptions and estimates concerning the future based on its knowledge as at the time of preparation of these financial statements. The assumptions and estimates contained in these financial statements may change in the future due to market developments or factors beyond the Group’s control. Such developments or factors will be reflected in the estimates or assumptions as and when they occur.

Uncertainty associated with tax settlement

Regulations on value added tax, corporate and personal income tax or social security contributions change frequently, resulting in the lack of relevant benchmarks, inconsistent interpretations and few established precedents, which could be applied. Furthermore, the applicable tax laws lack clarity, which leads to differences in opinions and diverse interpretations of tax regulations, both between various public authorities and between public authorities and businesses.

Tax settlements and other areas of activity (e.g. customs or foreign exchange activities) are subject to inspection by relevant authorities, which are authorised to impose significant fines and penalties, and any additional tax liabilities resulting from such inspections must be paid with high interest. These circumstances result in that the tax risk in Poland is higher than in countries with a more mature tax system.

As a consequence, the amounts shown and disclosed in financial statements may change in the future, as a result of a final decision made by a tax assessment authority.

On 15 July 2016, amendments were made to the Tax Legislation to reflect the provisions of the General Anti-Avoidance Rule (GAAR). GAAR is designed to prevent the creation and use of artificial legal structures created to avoid paying taxes in Poland. GAAR defines tax avoidance as an operation made primarily in order to achieve a tax advantage, contradictory in given circumstances with the object and purpose of the provisions of the tax law. According to GAAR, this action does not result in a tax advantage, if the mode of operation is artificial. Any occurrence of (i) of unreasonable division of operations, (ii) the involvement of intermediaries, despite the lack of economic or business justification, (iii) elements cancelling one another out or offsetting elements, and (iv) other actions with a similar effect to the above, may be treated as an indication of the existence of artificial

activities subject to GAAR. New regulations will require much greater judgement when assessing the tax implications of individual transactions.
GAAR should be applied to transactions made after its effective date and to transactions, which were executed prior to the effective date of GAAR but as part of which the advantages were or are still achieved after the effective date of GAAR. The implementation of the above provisions will enable Polish tax authorities to question the legal arrangements made by tax payers, such as group restructuring and reorganisation.

The Group recognises and measures deferred tax assets or liabilities in accordance with the requirements of IAS 12 *Income Tax*, based on profit (tax loss), tax base, unused tax losses, unused tax credit and tax rates, taking into account the uncertainties associated with tax settlements. In the case of uncertainty whether, and to what extent, a tax authority would accept a particular tax settlement of a transaction, the Group recognises such a settlement taking into account the uncertainty assessment.

Depreciation and amortisation rates

Depreciation and amortisation charges are determined based on the expected useful lives of property, plant and equipment and intangible assets. Each year the Group reviews the useful lives of its assets based on current estimates.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

Deferred tax assets

The Group recognises deferred tax assets based on the assumption that it will generate taxable profit sufficient to realise the assets in the future. If taxable income deteriorates in the future, this assumption may prove invalid.

Impairment losses on current assets

As at each reporting date, the Group companies analyse their inventories and trade receivables to make a decision on recognition of impairment losses, if any. For information on impairment losses see Note 16 and 28.

Measurement of provisions

In previous years, provisions for employee benefits were estimated using actuarial methods. The underlying assumptions are presented in Note 24.5. Due to the sale of the subsidiary in which the employee benefit plan was operated, the Group estimated the amount of the provision for other employee benefits on its own.

Measurement of provisions and contingent liabilities

For a description of court proceedings to which the Baltona Group companies are parties see Note 29. As at each reporting date, the Group updates potential claims under such proceedings based on the information received from lawyers engaged in them. However, a final court decision may result in significant changes in these items in the financial statements.

2.6 Correction of errors and presentation changes

2.6.1 Correction of errors and presentation changes

In these financial statements, corrections of fundamental error were made in connection with the completion of legal and tax analyses of the rules adopted by the Company for accounting for licence fees for the use of Baltona trademarks for the years 2013–2017. The Parent corrected the CIT-8 tax return for 2015 covering all irregularities identified during the audit of 2015 and intends to correct its tax returns for 2013–2017. The restatements made are presented in the table below:

Correction of current tax liabilities

influence on statement of financial position *in thousands of Polish złotych*	**31.12.2017**	**01.01.2017**
Tax liability from corporate income tax before correction	-	-
correction of fundamental errors	2 185	2 185
Tax liability from corporate income tax after correction	2 185	2 185
Retained earnings before correction	(1 641)	(147)
correction of fundamental errors	(2 185)	(2 185)
Retained earnings after correction	(3 826)	(2 332)
influence on equity	**(2 185)**	**(2 185)**

2.6.2 Presentation changes

In these consolidated financial statements, receivables from security deposits were separated from other receivables and presented under long-term receivables. The restatements made are presented in the tables below:

Trade and other receivables	**31.12.2017** ***(restated)***	**31.12.2017** ***(adjustments)***	**31.12.2017** ***(approved)***
Trade receivables	13 201	-	13 201
Tak receivables	4 667	-	4 667
Other receivables	2 452	(786)	3 238
Receivables from deposists	1 881	786	1 095
Prepayments	2 691	-	2 691
Total trade and other receivables	**24 892**	**-**	**24 892**
Longterm	5 739	786	4 953
Shortterm	19 153	(786)	19 939
Total trade and other receivables	**24 892**	**-**	**24 892**

3. Description of the application of major accounting rules and changes in IFRS EU

The accounting policies presented below have been applied with respect to all the reporting periods presented by the Group in the financial statements.

3.1 Business combinations and consolidation rules

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which the Group obtains control of the acquiree. The Group acknowledges that it exercises control over the investee when the Group is exposed or has rights to variable financial results from its involvement with the investee and has the ability to affect those financial results through its control over the investee.
Financial statements of subsidiaries are consolidated from the date of assuming control over subsidiaries to the date on which such control ceases to exist.

The financial data of the subsidiaries used in the consolidation process is prepared for the same reporting period as the financial statements of the Parent, using the same accounting policies, and with accounting policies consistently applied to economic events and transactions of a similar nature.

As at the acquisition date, the Group recognises goodwill as:

- the fair value of consideration transferred, plus
- settlement of former relationships, and
- recognised value of non-controlling interest in the acquired company; increased by the fair value of current assets held by the acquired company if the combination is divided into stages; decreased by
- the recognised net amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Where the difference is negative, gain from a bargain purchase is recognised in profit or loss of the current period.

Acquisition costs (other than costs of issuing debt or equity instruments) which the Group incurs in connection with a business combination are accounted for as costs of the period in which the costs are incurred.

For each acquisition, the Group recognises non-controlling interests in the acquiree at their fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets at fair value.

Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising from loss of control is recognised in profit or loss for current period. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, the retained interest is accounted for as an equity-accounted investee or a financial asset in accordance with IFRS 9 depending on the level of influence retained.

Consolidation adjustments

Balances of settlements between the Group's entities, transactions concluded within the Group and any resulting unrealised gains or losses, as well as revenues and costs of the Group are eliminated while preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Foreign currencies

Foreign currency transactions

Transactions denominated in foreign currencies are recognised as at the date of transaction in the functional currency of the Group entities at the exchange rate between the functional currency and a given foreign currency as at the date preceding the date of transaction.
Cash items of assets and liabilities denominated in a foreign currency are translated as at the end of the reporting period at the relevant mid exchange rate quoted by the National Bank of Poland for that date.

Exchange differences on balance-sheet valuation of assets and financial liabilities are the differences between the value at amortised cost in the functional currency as at the beginning of the reporting period, adjusted for the interest accrued and payments made during the reporting period, and the value at amortised cost in the foreign currency, translated at the closing rate at the end of the reporting period.

Non-monetary items of statement of financial position expressed in foreign currencies which are carried at fair value are translated at the mid-market rate of the functional currency quoted by the National Bank of Poland for the date of fair value measurement.

Exchange rate differences are recognised as gain or loss of the current period. Non-monetary items measured at historical cost in a foreign currency are translated at the relevant exchange rate at the date of the transaction.

Translation of foreign operations

Assets and liabilities of foreign operations, including consolidation adjustments to the fair value as at the acquisition date, are translated using the average mid-market rate quoted by the National Bank of Poland at the end of the reporting period. Revenue and costs of foreign operations are translated on the basis of the rate that constitutes an arithmetic mean of the NBP's average rates as at the last day of each month of the financial year.
Any currency-translation differences (translation reserve) are recognised as other comprehensive income. and presented as exchange differences on translation of foreign operations.

3.3 Financial instruments

Financial instruments other than derivative instruments

Loans, receivables and bank deposits are recognised at the date of origination. All other financial assets (including assets measured at fair value through profit or loss) are recognised at the

transaction date, on which the Group becomes a party to a mutual liability pertaining to a given financial instrument.
The Group derecognises a financial asset upon the expiry of its contractual rights to cash flows from that asset or upon transfer of those rights in a transaction transferring substantially all material risks and rewards of ownership of the asset.

Each interest in the transferred financial asset which is created or remains to be owned by the Group is disclosed as a separate asset or liability.

Financial assets and liabilities are set off against each other and disclosed at net amounts in the statement of financial position only if the Group holds a legally valid title to set off specified financial assets and liabilities and if it intends to settle a given transaction for the net value of the financial assets and liabilities being set off, or if it intends to simultaneously realise set-off financial assets and settle set-off financial liabilities.

The Group classifies financial assets under the following categories: financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortised cost.

Financial assets at fair value through profit or loss include, inter alia, investments in equity instruments listed on an active market and derivative instruments.

Financial assets at amortised cost include trade receivables, cash and cash equivalents, loans advanced, deposits and other debt instruments.

Cash

Cash and cash equivalents comprise cash in hand, cash in transit, bank deposits on demand with initial maturity date of up to three months, and cash under payment and credit card transactions settled within approximately four days. Balance of cash and cash equivalents disclosed in the statement of cash flows comprises the above-specified cash and cash equivalents, less unpaid overdraft facilities, which form an integral component of the Group’s cash management system.

Non-derivative financial liabilities

Financial liabilities are recognised as at the date of transaction under which the Group becomes a party to an agreement obliging it to the delivery of a financial instrument.
The Group derecognises a financial liability when it has been repaid or cancelled or becomes time barred.

Other financial liabilities include loans, overdraft facilities, trade and other liabilities.

Such liabilities are initially recognised at fair value plus directly attributable transaction cost. Following initial recognition, such liabilities are measured at amortised cost using the effective interest method.

3.4 Equity

Ordinary shares

Ordinary shares are disclosed under equity. Costs directly attributable to the issue of ordinary shares, adjusted by the effect of taxes, reduce equity.

Costs associated with the issue and the public offering of shares

The costs related to the new issue are recognised in equity, whereas the costs related to the public offering of existing shares are directly recognised in financial costs.

Share buyback

If a subsidiary of the Group repurchases the shares comprised in its share capital (own shares), the amount due comprising the costs directly related to the purchase (taking into account tax effects) decreases the equity attributable to the owners of the subsidiary up to the redemption or disposal of the shares. Repurchased own shares are recognised as part of other capital. If such shares are subsequently disposed, the amount received – after deduction of all transaction costs and tax effects – increases equity to be distributed among the subsidiary's shareholders, and the resulting surplus or loss is recognised as "Share premium".

3.5 Property, plant and equipment

Recognition and measurement

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses, if any.

Cost includes the purchase price of an asset and the costs directly attributable to bringing the asset to a condition necessary for it to be capable of use, including expenses relating to transport, loading, unloading and storage, as well as direct remuneration. Rebates, discounts and other similar reductions decrease the asset acquisition cost. Production cost of property, plant and equipment and property, plant and equipment under construction comprises all the expenses incurred by a company to construct, install, adapt or improve such asset until the day on which the asset was placed in service (or, where the asset has not been placed in service, until the reporting date).

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If a specific item of property, plant and equipment consists of separate and material components with different useful lives, such components are treated as separate items.

Gain or loss on disposal of an item of property, plant or equipment is estimated as a difference between the disposal proceeds and the carrying amount of the sold item, and is recognised in current period's profit or loss under other income or expenses.

The carrying amount of the removed items of property, plant and equipment is derecognised.

Expenditure related to the maintenance of items of property, plant and equipment is recognised as current period's profit or loss at the time it is incurred.

Depreciation

Depreciation charges are made with respect to depreciable amount, i.e. the purchase price or the cost of manufacturing of a given asset, decreased by its residual value.
The Group also assesses useful lives of material components of particular assets and – if such a period is different than the period of use of the remaining part of the asset – such a component is depreciated separately.

Depreciation cost is recognised in the statement of comprehensive income, using the straight-line method with respect of the useful economic life of a given item of property, plant and equipment. This method reflects the manner of achieving future economic benefits related to the use of a certain asset in the best possible way.

The Group has adopted the following depreciation rates for individual categories of property, plant and equipment:

Leasehold improvements	10%–50%*
Plant and equipment	10%–20%
Vehicles	14%–20%
Other property, plant and equipment	30%

*depreciation period of leasehold improvements is adjusted to the lease term

The correctness of the applied useful economic lives, depreciation methods and residual values of property, plant and equipment is reviewed as at the end of each reporting period and adjusted if appropriate.

3.6 Intangible assets

Goodwill

Goodwill arising on acquisition of subsidiaries is recognised as a separate item of the statement of financial position. Goodwill valuation methods at the time of its initial recognition are described in Note 3.1.

Measurement after the initial recognition

Subsequent to initial recognition, goodwill is recognised at cost less accumulated amortisation.
Goodwill recognised in the statement of financial position is allocated to cash-generating units and is tested for impairment annually, or more frequently when there is an indication of impairment.

The Group tests the entire carrying amount of cash-generating unit, and in the case of impairment the relevant impairment losses are first recognised for goodwill and they cannot be reversed. In the case of the overall impairment loss on goodwill, the remaining impairment loss is allocated in proportion to the remaining assets of the cash-generating unit.

Software and other intangible assets

Software and other intangible assets acquired by the Group with finite useful economic lives are recognised based on their acquisition cost, less amortisation charges and impairment losses.

Subsequent expenditure

Subsequent expenditure on existing intangible assets is capitalised only when it increases future economic benefits to be generated by the asset. Other expenditure, including internally generated trademarks, goodwill and brand is recognised in the current period's profit or loss at the moment in which it is incurred.

Amortisation

Amortisation charges are made in respect to depreciable amount, such as the purchase price of a given intangible asset, reduced by its residual value.

Amortisation cost is recognised in the statement of comprehensive income on the straight-line basis with respect of the estimated useful life of a certain intangible asset, other than goodwill, from the moment it is put into service. This method reflects the manner of achieving future economic benefits related to the use of a certain asset in the best possible way. The Group applies a special amortisation rate for intangible assets of 50%.

The reliability of applied useful economic lives, amortisation methods and residual values of intangible assets is reviewed at the end of each reporting period and adjusted in justified cases.

3.7 Leased items of property, plant and equipment

Lease agreements under which the Group assumes substantially all the risks and benefits resulting from the ownership of the property, plant and equipment are classified as finance lease agreements. Upon initial recognition, items of property, plant and equipment acquired under finance lease agreements are measured at the lower of their fair value or present value of the minimum lease payments, and subsequently reduced by depreciation and impairment losses. Lease agreements which are not finance lease agreements are treated as operating leases and not recognised in the Group's statement of financial position.

3.8 Inventories

Inventories are measured at cost which is not higher than the net realisable value. The value of inventories is determined using the FIFO ("first in, first out") method. Cost includes the purchase price increased by costs directly attributable to bringing the asset to a condition necessary for it to be capable of use or marketing.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated cost to complete and estimated costs necessary to make the sale.

The Group recognises write-downs on slow-moving and obsolete inventories. The costs related with those write-downs are recognised in the statement of comprehensive income under "Value of goods and materials sold".

3.9 Impairment losses on assets

Financial assets (including receivables)

IFRS 9 introduces a new concept for estimating impairment losses on financial assets. The model of losses incurred under IAS 39 is replaced by a model based on expected losses.

The model of expected credit losses is applicable to financial assets at amortised cost and to financial assets at fair value through other comprehensive income, with the exception of investments in equity instruments.

The Group applies a simplified approach, thus it does not monitor changes in credit risk over the instrument's life, and the impairment loss is measured at the amount equal to the lifetime expected credit losses.

Impairment of a financial asset measured at amortised cost is estimated as the difference between its carrying amount (the amount disclosed in the statement of financial position) and the present value of estimated future cash flows discounted at the original effective interest rate. Any losses are recognised as profit or loss for the current period and decrease the carrying amount of loans granted and receivables. In addition, the Group continues to charge interest on revised assets. If any subsequent circumstances indicate that the criteria for impairment losses have ceased to be met, reversal of impairment losses is recognised in profit or loss for the current period.

With respect to trade receivables, the Group applies – as allowed by the standard – a simplified approach and measures the allowance for expected credit losses at an amount equal to lifetime expected credit losses on the receivables. This approach results from the fact that the Group's receivables do not have a significant financing component within the meaning of IFRS 15. To calculate the loss allowance, the Group uses a provision matrix, under which the loss allowance is determined for receivables classified in different maturity ranges. This method takes into account historical data on credit losses and the impact of significant and identifiable future conditions (e.g. market or macroeconomic conditions).

Non-financial assets

Carrying amount of non-financial assets other than inventories and deferred tax assets is tested for impairment as at the end of each reporting period. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount of goodwill, intangible assets with infinite lives and intangible assets which are not yet fit for use is estimated at the same time each year. An impairment loss is recognised if the carrying amount of an asset or the related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time

value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

The Group tests goodwill for impairment by grouping cash-generating units so that the organisational level, being no higher than the isolated segment of operations, at which the impairment testing is made reflects the lowest organisational level at which the Group monitors goodwill for its own purposes. For impairment testing, goodwill acquired in business combinations is allocated to the cash-generating units for which synergies are expected as a result of a business combination.

The Group's corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to the CGU based on consistent and reasonable basis and are tested for impairment as part of the CGU.

Impairment losses are recognised in profit or loss for the period. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis. Reversal of impairment loss on property, plant and equipment and intangible assets are disclosed in the statement of comprehensive income under the item "Accumulated depreciation/amortisation and impairment losses".

Impairment losses on goodwill are not reversed. Impairment losses on other assets, recognised in previous periods, are reviewed for reduction or reversal at the end of each reporting period. An impairment loss recognised in prior periods is reversed if the estimates used to determine the asset's recoverable amount have changed. An impairment loss is reversed only up to the carrying amount of the asset (net of amortisation and depreciation) that would have been determined had no impairment loss been recognised.

3.10 Employee benefits

Long-term employee benefits

The Group's net liabilities due to long-term employee benefits are associated with liabilities due to future retirement allowances payable under the provisions of the Labour Code that employees have earned in return for their service in the current and prior periods. The value of these benefits is discounted to determine their present value. The discount rate is established on the basis of the yield of treasury bonds at the end of the reporting period whose maturity date is similar to the term of the related liability. Benefits are calculated using the projected unit credit method. Actuarial gains and losses are recognised in other comprehensive income.

Share-based payment

The fair value of an option to subscribe for the Parent's shares is recognised under costs of salaries and wages with a corresponding increase in equity. The fair value is measured as at the option grant date and recognised over the vesting period. The amount charged to costs is adjusted to reflect the current number of options granted for which the conditions of employment and non-market vesting conditions are met.

Defined benefit plans

A defined benefit plans is a post-employment benefit plan other than a defined contribution plan. The Group's net liabilities due to a defined benefit plan are estimated separately for each plan by determining the value of future benefits that employees have earned in return for their work in the current and prior periods. The above benefits are discounted to determine their present value. All unrecognised past service costs and the fair value of plan assets are deducted. Discount rate is established on the basis of the yield of highly valued treasury bonds at the end of the reporting period whose maturity date is similar to the term of liabilities of the Group, and they are denominated in the same currency as the benefits paid.

Benefits are measured every year on the basis of the projected unit credit method by a qualified actuary. If an estimate shows surplus in the Group's defined benefit plan, it is recognised in a lower amount with respect to the surplus in the defined benefit plan or the asset ceiling determined on the basis of the discount rate.

The Group recognises all actuarial gains or losses on the defined benefit plan in other comprehensive income, whereas the costs related to the defined benefit plan are recognised in employee benefit costs in profit or loss of the current period.

The Group recognises all gains or losses on curtailment or settlements of a defined benefit plan as at the moment of curtailment or settlement. Curtailed gain or loss covers all changes in fair value of plan assets, change in the present value of the defined benefit plan, and all actuarial gains and losses, as well as past service costs that have not been recognised before.

To measure the current value of net liability due to a defined benefit plan, the Group avails itself of the services provided by a licensed actuary. Measurement is carried out on the basis of the Projected Unit Credit Method.

3.11 Provisions

Provisions are recognised when the Group has a present legal or constructive liability resulting from past events, which can be reliably measured and which is likely to cause an outflow of economic benefits when discharged. Provisions are measured at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties that are inherent in the events and circumstances leading to the settlement of the obligation.

3.12 Contingent liabilities

Contingent liabilities are understood as a possible obligation that arises from past events. The obligation is confirmed only on the occurrence or non-occurrence of one or more uncertain future events that are not entirely controlled by the Group and a present obligation that arises from past events but is not included in the financial statements because the amount of the obligation cannot be measured with sufficient reliability, or it is not probable that an outflow of resources embodying economic benefits will be required to settle that obligation. The Group does not recognise contingent liabilities in its balance sheet. They are disclosed in detail in the financial statements.

3.13 Revenue

The Group recognises revenue in accordance with IFRS 15 *Revenue from Contracts with Customers.* This standard establishes the so-called five-step model for recognition of revenue from contracts with customers. In line with IFRS 15, revenue is recognised in the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer.

The Group recognises revenue when (or as) the Group satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

For each performance obligation, the Group determines at contract inception whether it satisfies the performance obligation over time or satisfies the performance obligation at a point in time. If an entity does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

The Group transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:
a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
c) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

The Group consider the terms of the contract, as well as any laws that apply to the contract, when evaluating whether it has an enforceable right to payment for performance completed to date. The right to payment for performance completed to date does not need to be for a fixed amount. However, at all times throughout the duration of the contract, the entity must be entitled to an amount that at least compensates the entity for performance completed to date if the contract is terminated by the customer or another party for reasons other than the entity's failure to perform as promised.

3.14 Lease payments

Payments made under operating leases are recognised in profit or loss of the period, on a straight-line basis over the lease term. Lease incentives received are recognised in profit or loss of the period as an integral part of the total lease expense over the lease term.

Minimum lease payments under finance leases are apportioned between finance costs and reduction of the liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the balance of the liability.

At the beginning of performance of the contract, the Group assesses whether the agreement is, or contains, a lease. A specific asset may the subject of a lease if the compliance with the agreement is dependent on the use of the asset in question. The agreement transfers the right to use the asset if the Group – on the basis of such an agreement – is vested with the right to control the use of the underlying asset.

Payments and other consideration required under the agreement are – at the beginning of its performance or upon its reassessment – separated by the Group into those related with the lease and those related with other elements of the contract, on the basis of the relative fair values of lease and other elements. If the Group considers – in the case of finance lease – that a reliable separation of payments is impracticable, assets and liabilities are recognised in the amount that is equivalent to the fair value of the asset identified as the subject of lease. Subsequently, the liability is reduced as payments are made and the financial costs due to the liability are recognised using the Group's marginal rate of interest for borrowings.

3.15 Finance income and costs

Financial revenues include interest revenues associated with the funds invested by the Group. Interest income is presented in profit or loss of the period on the accrual basis using the effective interest rate method.
Finance costs include interest expense associated with external financing, and impairment losses on financial assets (other than trade receivables).
Interest expense that is not directly attributable to the acquisition or production of a qualifying asset is recognised in profit or loss using the effective interest rate method.
Foreign exchange gains and losses are disclosed on a net basis as financial revenues or costs, depending on their total net position.

3.16 Income tax

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised as profit or loss of the current period, except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected income tax payable or receivable in respect of taxable income for the year, determined using tax rates enacted or substantially enacted at the reporting date, and any adjustment to income tax payable in respect of previous years' income.

Deferred tax is recognised in connection with temporary differences between the carrying amount of assets and liabilities and their value for tax purposes. Deferred income tax is not recognised in the case of temporary differences resulting from the initial recognition of assets or liabilities from a transaction other than business combination and one that has no impact on the profit or loss of the current period nor taxable profit or differences related to investments in subsidiaries and jointly controlled entities to the extent that it is not likely that they will be disposed in the foreseeable future. Moreover, a deferred tax on temporary differences resulting in the initial recognition of goodwill is not recognised. Deferred tax is measured at tax rates that are expected to be applied when temporary differences reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to offset current tax liabilities and assets, and if they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously.

A deferred tax asset is recognised in respect of carryforward of unused tax losses and deductible temporary differences in the amount of the probable taxable income which would enable these differences and losses to be utilised.
Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.17 Earnings per share

The Group presents basic and diluted earnings per share for ordinary shares. Basic earnings per share are calculated by dividing the profit or loss attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the period, adjusted for the number of own shares held by the Group. Diluted earnings per share are calculated by dividing the adjusted profit or loss attributable to holders of ordinary shares by the weighted average number of ordinary shares adjusted for the number of treasury shares and the dilutive effect of any potential shares, which include share options awarded to employees.

3.18 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses relating to transactions with other components of the Group. Operating results of each segment are reviewed regularly by the Group's chief operating decision maker that makes decisions about resources to be allocated to the segment and assess its performance. Furthermore, discrete financial information is available for each segment.
Operating results of each segment which are reported to the Group's operating decision maker include items which may be assigned directly to the segment and items which may be assigned indirectly, based on reasonable grounds.
Investment expenditure incurred as part of a segment constitute total costs incurred in a year for the acquisition of tangible fixed assets and intangible assets, with the exception of acquisition of subsidiaries.

3.19 New standards and interpretations not applied in these financial statements

Amendments to standards

The accounting policies applied to prepare these consolidated financial statements are consistent with the policies applied to prepare the financial statements of the Group for the year ended 31 December 2017, save for those described above. The following amendments to IFRS were applied in these financial statements as of their effective date, however, they did not have a material impact on the presented and disclosed financial information, did not apply to the transactions executed by the Group or the Group decided not to use the new measurement options:

- IFRS 9 *Financial Instruments* – effective for reporting periods beginning on or after 1 January 2018;

IFRS 9 *Financial Instruments* affects the classification and measurement of financial assets, which depends on the nature of cash flows and the business model related to the assets. The new standard also results in the unification of the impairment model for all financial instruments. The new

standard requires that entities account for the expected credit losses at initial recognition of financial instruments and any expected losses over the life of instruments earlier than previously.

The Management Board of the Parent decided that IFRS 9 with respect to classification and measurement will be applied retrospectively without correcting comparative data, because such correction would not be possible without the use of knowledge gained post factum. The effect of application of the standard was recognised as a change in the opening balance of retained earnings as at 1 January 2018.

On the date of initial application of IFRS 9, the categories and carrying amounts of individual classes of financial assets and financial liabilities were as follows:

	Classification		Carrying amount	
Type	**MSR 39**	**MSSF 9**	**MSR 39**	**MSSF 9**
Loans granted	Loans and receivables	Amortized cost	117	117
Trade receivables	Loans and receivables	Amortized cost	17 534	17 534
Derivatives	Fair value through other comprehensive income	Fair value through other comprehensive income	0	0
Cash and cash equivalents	Loans and receivables	Amortized cost	12 340	12 340
Total Financial Assets			**29 991**	**29 991**
Trade liabilities	Amortized cost	Amortized cost	39 858	39 858
Loans from related entities	Amortized cost	Amortized cost	21 007	21 007
Other financial liabilities measured at amortized cost	Amortized cost	Amortized cost	14 997	14 997
Derivatives	Fair value through other comprehensive income	Fair value through other comprehensive income	0	0
Total Financial Obligations			**75 862**	**75 862**

The Group’s financial statements were also affected by changes in the manner of estimating credit risk losses related to receivables, which under IAS 39 were classified as “receivables and loans” and under IFRS 9 are measured at amortised cost. The Group has developed a model for estimating expected losses from its portfolio of receivables. For trade receivables and contractual assets, a simplified version of the model was applied under which loss is calculated for the entire life of the instrument. For instruments for which the increase in credit risk following initial recognition was not significant or in the case of which the risk is low, the model for other assets provides for recognition in the first place of default losses for the next 12 months. The Group made an assumption that a significant increase in risk occurs, inter alia, when the payment is past due more than 90 days. If the increase in credit risk was significant, losses for the entire life of the instrument are recognised. The Group assumes that a default occurs when a payment is 90 days past due or there are other circumstances indicating a default.

- IFRS 15 *Revenue from Contracts with Customers* – effective for reporting periods beginning on or after 1 January 2018;

The new standard replaces IAS 11 and IAS 18 to provide one coherent revenue recognition model. Under the new, five-step model, recognition of revenue will depend on the customer obtaining control of a good or a service. Moreover, the standard introduces additional disclosure requirements and guidance concerning several detailed matters. The Company has analysed the impact of the standard on the financial statements. The analysis covered aspects related to the specific nature of the Company's business, i.e. the type of warranty provided to customers, settlement of loyalty programmes, impact of delivery terms on the time of revenue recognition, impact of new guidelines on variables in measurement mechanisms, correct accounting for the possibility to purchase additional goods and services at a reduced price offered to customers, impact of the new standard on the presentation of payments to customers and the need to adjust revenue for the effect of changes in the time value of money. The results of the analysis indicate that due to the predominance of retail sales and given the sales policies used, revenue recognition and the Company's performance will not change significantly following the application of the new standard.

Factor	Influence
type of guarantee given to customers	The Baltona Group does not provide customers with guarantees that exceed the normal guarantee of the producer of the goods being sold
settlement of loyalty programs	In Baltona Group there are any loyalty programs designed for customers
impact of delivery terms at the moment of recognition of revenues	The majority of sales in the Group are retail sales, where the collection takes place at the time of sale. In the case of wholesale and export sales, the sale is recognized in accordance with the agreed terms of sale.
impact of new guidelines on variable amounts in valuation mechanisms	There are no variable amounts in the valuation mechanisms.
correct settlement of the opportunity offered to customers to purchase at a reduced price additional goods and services	In the Baltona Group, there are occasional sale actions and are settled on an ongoing basis. There are no rebate programs for customers. The Group assigns the transaction price to each obligation to perform the service based on the individual selling price of individual separate goods or services.
impact of the new standard on the presentation of payments to customers	There are no payments to customers.
need to adjust revenues for the effects of changes in the value of money over time	There is no long-term sale and the need to settle it over time. Due to settlements in less than 12 months, the possible effects of changes in the value of money over time are immaterial.

The application of the above regulations has not caused any material changes in the accounting policies of the Group or in the presentation of data in their financial statements.

Standards which are not effective and have not yet been approved by the European Commission

The Group intends to adopt amendments to EU IFRS issued but not yet effective as at the date of issue of these separate financial statements, as of their effective date. Standards and interpretations adopted by the International Accounting Standards Board, which as at 31 December 2018 had not been endorsed for use by the European Commission (EC) and therefore have not been applied in these financial statements:

- IFRS 16 *Leases* – effective for reporting periods beginning on or after 1 January 2019

In accordance with IFRS 16, in the case of leases the lessee recognises a liability reflecting future lease payments and a right-of-use asset in its statement of financial position. In the statement of profit or loss, the lessee recognises interest expense on the lease liability and a depreciation charge for the right-of-use asset. Straight-line depreciation of the right-of-use asset and the application of the effective interest rate method to the lease liability will result in a higher total charge to the financial result in the initial years and a gradual reduction of costs in the remainder of the lease term.

In the opinion of the Management Board, the entry into force of IFRS 16 will have a significant impact on the Group's financial statements as the Group is a lessee of space at approximately 20 locations under lease agreements concluded for an average of 1 to 5 years, which according to the Group's estimates may meet the definition of a lease under IFRS 16.

The Group intends to implement IFRS 16 using a modified retrospective method, i.e. without restating comparative data, with the cumulative effect of initially applying the standard recognised as an adjustment to the opening balance of retained earnings as at the date of initial application. In addition, the Group intends to apply the following practical expedients permitted under the standard:

- as at the date of initial application of IFRS 16 the Group will not reassess whether a contract is, or contains, a lease; the Group intends to apply the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4,
- the value of the right-of-use asset under all contracts previously classified by the Group as an operating lease applying IAS 17 at the date of initial application of IFRS 16 will be determined at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognised in the consolidated statement of financial position immediately before the date of initial application,
- as part of a portfolio approach the Group will apply a single discount rate to all vehicle leases,
- the Group recognises contracts, under which the lease term expires in 2019, as an expense on a straight-line basis.

The table below presents the estimated effect of the changes on the consolidated statement of financial position:

Position of Financial Statement	As of December 31, 2018 before the change	Estimated impact of IFRS 16 on the Consolidated Statement of Financial Position	As of December 31, 2018 after the change
Non-current assets	87 130	(2 701)	84 429
Assets due to the right of use	-	581 254	581 254
Retained profits	(26 529)	-	(26 529)
Liabilities due to leasing	1 980	578 553	580 533

As a result of application of IFRS 16, in the statement of comprehensive income, in 2019 the Group expects an increase in depreciation and interest expense and a decrease in the costs of services (rents). As regards the statement of cash flows, it is expected that cash flows from financing activities will decrease and cash flows from operating activities will increase. In addition, the net debt/EBITDA ratio, which is the key covenant under the Baltona Group's existing financing programmes, will increase as a result of the higher debt liabilities.

- Amendment to IFRS 9 *Financial Instruments*

Under the amendment, it is permitted to classify as assets measured at amortised cost such instruments for which, in the event of early repayment, an entity will receive an amount which is lower than the aggregate of principal and interest accrued (the so-called Negative Compensation).

The Group estimates that the amendment to the standard will have no effect on its financial statements as no transactions to which the amendments apply have occurred.

- New IFRIC 23 *Uncertainty over Income Tax Treatments*

The interpretation of IAS 12 *Income Tax* clarifies the approach applicable in situations where the interpretation of income tax laws is ambiguous and it cannot be definitively stated which solution would be accepted by tax authorities, including courts. The management should first assess whether its tax treatment is likely to be accepted by the tax authorities. If it is, that treatment should be applied in preparing the financial statements. If not, the uncertainty of income tax amounts should be taken into account using the most likely amount or the expected value. The Group should assess any changes in facts and circumstances affecting the determined value. If the value is to be adjusted, it should be treated as a change in estimate in accordance with IAS 8.

The Group estimates that the new interpretation will have a significant impact on its financial statements in the event of discrepancies in interpretations of tax laws.

- Amendments to IAS 12 *Income Tax,* IAS 23 *Borrowing Costs*, IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements*

Minor amendments to standards, introduced as part of annual improvements to IFRS standards (2015–2017 Cycle):

- IAS 12: The IASB clarified the manner of recognition of income tax resulting from dividends. The tax is recognised when a liability to pay a dividend is recognised and charged to the profit or loss or other comprehensive income or equity, depending on the manner of recognition of past transactions that generated the relevant gain/loss.
- IAS 23: The amendment clarified that debt originally intended to finance an asset that has already been completed is included in total debt, whose cost may be later capitalised in other assets.
- IFRS 3: The IASB clarified that the rules of accounting for business combinations carried out in stages, including the need obligation to valuate shares, also apply to shares previously held in joint operations.
- IFRS 11: The IASB clarified that a joint operator which does not have joint control should not remeasure the interest in the joint operation when it obtains joint control over it.

The Group estimates that the new standard will not have a significant effect on its financial statements.

- Amendment to IAS 19 *Employee Benefits*

Under the amendment, if a net defined benefit asset or liability is remeasured as a result of an amendment, curtailment or settlement, an entity should:
- determine the current service cost and net interest for the period after the remeasurement using the assumptions used for the remeasurement, and
- determine the net interest for the remaining period based on the remeasured net asset or liability.

The Group estimates that the new standard will not affect its financial statements.

- Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

The amendment consists in introducing a new definition of “material” (with respect to omissions or misstatements in the financial statements). The previous definition included in IAS 1 and IAS 8 differed from that in the Conceptual Framework for Financial Reporting, which could have resulted in difficulties in making judgements by entities preparing financial statements. The amendment ensures that the definition is consistent across all applicable IAS and IFRS.

The Group estimates that the new standard will not affect its financial statements, as the previously made judgements concerning materiality were consistent with those which would be made using the new definition.

Standards and Interpretations adopted by the IASB, but not yet endorsed by the EU:

a) IFRS 17 *Insurance Contracts* – effective for reporting periods beginning on or after 1 January 2021,
b) Amendments to IFRS 3 *Business Combinations* – definition of a business (applicable to mergers where the acquisition date is at the beginning of the first annual period beginning on 1 January 2020 and to acquisition of assets that occurred on or after the starting date of the said annual period),
c) Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* − effective date deferred indefinitely,

d) Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020).

The Group intends to implement the above regulations at the time required by the individual standards or interpretations.

4. Fair value measurement

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in a transaction carried out on typical terms of sale of the asset between market participants at the measurement date in the current market conditions. A fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs either:

- on the principal market for the asset or liability, or
- in the absence of a principal market – on most advantageous market for the asset or liability.

Both the principal and the most advantageous markets must be available to the Group.

The fair value of the asset or liability is measured on the assumption that market participants when determining the price of an asset or liability act in their best economic interest.

In the valuation of a non-financial asset at fair value the ability of a market participant to generate economic benefits by making maximum and optimal use of the asset or by selling it to another market participant who would make maximum and optimal use of the asset is taken into account.

The Group applies valuation methods that are appropriate given the circumstances and for which sufficient information is available to determine the fair value, whereby as many relevant observable inputs as possible are used and as little as possible non-observable inputs are used.

All assets and liabilities that are measured at fair value or whose fair value is disclosed in the financial statements are classified in the fair value hierarchy as described below based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: inputs for the asset or liability are quoted (unadjusted) market prices on an active market for identical assets or liabilities;
- Level 2: inputs for the asset or liability that are based on directly or indirectly observable market data;
- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines at the end of each reporting period whether, due to a reassessment, a change has occurred in the level classification of the hierarchy (based on the input of the lowest level that is significant for the whole valuation).

The accounting and disclosure policies adopted by the Group require that the fair value of both financial and non-financial assets and liabilities be determined. Fair values are determined and disclosed using the methods presented below. In justified cases, further information concerning the assumptions used for the calculation of fair values have been presented in respective notes specific to the relevant assets or liabilities.

4.1 Property, plant and equipment

Fair value of property, plant and equipment acquired as a result of a business combination is based on the market value of such property, plant and equipment. Fair value of property, plant and equipment (with the exception of real property) is determined subject to market-based approach and cost methods that focus on market prices of similar assets, provided that such information is available, and in justified cases – on replacement costs. Estimated replacement cost decreased by cumulative amortisation reflects adjustments resulting from physical deterioration, as well as the loss of functional and economic usefulness of assets.

4.2 Inventories

Fair value of inventories acquired as a result of a business combination is determined based on the estimated selling price in the ordinary course of business, net of estimated cost of preparing the inventories for sale and executing the sale and a reasonable profit margin based on the expenditures incurred to prepare the inventories for sale and execute the sale.

4.3 Trade receivables

Fair value of trade and other receivables is estimated as the present value of future cash flows discounted using a market interest rate as at the reporting date.

4.4 Non-derivative financial liabilities

Fair value estimated only for the purpose of disclosure is calculated based on the present value of future cash flows from repayment of principal and payment of interest, discounted using the market interest rate effective as at the reporting period.

For finance lease liabilities, the market interest rate is determined with reference to similar lease agreements.

4.5 Share-based payment

Fair value is assessed on the basis of the Black–Scholes model. The expected volatility of prices is estimated using a historic mean of price volatility for the Parent and the market. The inputs to the valuation cover the price of share as at the date in which it has been granted, exercise price, implied volatility (estimated on the basis of historic mean of price volatility with respect to the Parent and the market), option life, expected dividends, and risk-free interest rate.

5. Financial risk management

5.1 Introduction

The Group is exposed to the following risks related to the use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Currency risk
- Interest rate risk

Note 28 presents information on the Group's exposure to each type of the above risks, the Group's objectives, policies and procedures for measuring and managing the risks, and the Group's management of capital.

5.2 Key policies of risk management

The Management Board of the Parent is responsible for establishing risk management system and procedures and for overseeing the application of risk management measures by the Group.

The Group's risk management policies are established to identify and analyse the types of risk faced by the Group, to set appropriate risk limits and controls, and to monitor risks and compliance with the limits. The risk management policies and systems are reviewed on a regular basis, to reflect changes in market conditions and the Group's activities.

The Group, through appropriate training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

5.3 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is primarily connected with receivables from customers and loans advanced.

The Group has adopted a credit policy which provides for ongoing monitoring of the credit risk exposure.

The Group's exposure to credit risk is limited because most of the Group's subsidiaries sell products and services to retail customers on a cash basis or by payment and credit cards, which is compatible with the nature of the duty-free industry. Other sales include marketing services sold to providers, where receivables due are set off or hedged against liabilities. The Partner that handles payment card authorisation by the Subsidiaries of the Group is one of the industry leader and the payment time frame is very short. Only direct subsidiaries, such as Baltona Shipchandlers Sp. z o.o. (accounting for 13% of the Group's revenue from the sale of goods in 2018) and members of the CDD Holding BV Group acquired in 2013 (accounting for nearly 8% of the Group's revenue from the sale of goods in 2018) are highly exposed to credit risk because their business model is based on merchant loans. In such a case, customers are assessed on the basis of their individual features. All customers requiring credit are subject to a creditworthiness assessment procedure. Each customer is assessed in terms of creditworthiness before they are offered ordinary payment and delivery time frames as well as other standard contractual terms and conditions. Credit limit is determined with respect to each customer by the Management Board. The customers who fail to comply with the creditworthiness requirements set out by the Group can make transactions only on the basis of prepayments.

The Group recognises impairment losses which represent its estimates of incurred losses on trade and other receivables.

At the end of the reporting period, loans advanced totalled PLN 1,071 thousand (2017: PLN 117 thousand).

As at 31 December 2018, the Group's cash and cash equivalents amounted to PLN 11,638 thousand (2017: PLN 12,340 thousand), which corresponds to its maximum exposure to credit risk in relation

to these assets. Cash and cash equivalents held at cash desks located at sales points and at reliable, licensed banks.

5.4 Liquidity risk

Liquidity risk is the risk of the Group being unable to meet in a timely manner its liabilities that are to be settled by delivery of cash or other financial assets. The Group's liquidity risk management policy is designed to ensure that the Group's liquidity is at all times sufficient to meet liabilities in a timely manner, both in a regular and crisis situation, without exposing the Group to a risk of loss or damage to its reputation. To do this, the Group maintains an appropriate level of financial means, and ensures the availability of financing thanks to the sufficient amount of credit sources awarded, and uses the payment terms and conditions offered by suppliers. The management monitors current forecasts of the Group's liquid funds based on the anticipated cash flows.

Usually, the Group has payable-on-demand funds of a sufficient amount to cover the anticipated operating expenses within 60 days, including the payment of financial liabilities. However, this policy does not include extreme situations which cannot be reasonable foreseen, such as natural disasters.

Only 3 companies of the Group are parties to credit agreements (chiefly with respect to overdrafts).

Credit facility agreements to which the Parent is a party:

The Group's Parent is a party to a multi-purpose credit facility agreement with the term of the facility ending on 8 February 2021 and current credit availability period (as at the end of the reporting period) ending on 18 June 2019. Under the agreement, to which an annex was signed on 21 September 2018, the Parent has available a multi-purpose credit facility for the financing of its day-to-day operations and providing bank guarantees. The total amount of the limit is PLN 76,000 thousand, with the following sublimits:

- sublimit of PLN 34,000 thousand – overdraft facility (PLN 34,000 thousand for the Company and PLN 20,000 thousand for a subsidiary BH Travel Retail Sp. z o.o., secured by, inter alia, registered pledge on inventories, security deposit, and corporate guarantee issued by Flemingo International Limited. Interest calculated on the basis of WIBOR plus the bank's margin; outstanding balance at the end of the reporting period amounted to PLN 23,984 thousand,
- sublimit of PLN 66,000 thousand – guarantee facility secured with the Company's assets (with the maximum guarantee validity period of up to 12 months).

In the annex of 19 June 2018, Przedsiębiorstwo Handlu Zagranicznego BALTONA S.A. approved the accession by BH Travel Retail Poland Sp. z o.o. to the multi-purpose credit facility and the debt under the facility agreement under joint and several liability in accordance with Art. 366 of the Civil Code.

The Parent is also a party to an agreement under which it has been provided a non-revolving credit facility for up to PLN 4,500 thousand with the final repayment date falling on 30 August 2019. In line with the agreement, the amount drawn under the facility by 31 December 2016 was PLN 2,577 thousand. The facility is secured by, inter alia, registered pledge on inventories, assignment of rights under an insurance policy, and corporate guarantee issued by Flemingo International. Interest

calculated on the basis of WIBOR plus the bank's margin, while outstanding balance at the end of the reporting period amounted to PLN 666 thousand.

In addition, on 29 September 2017 the Management Board of the Parent and BGŻ BNP Paribas S.A. entered into a non-revolving credit facility agreement for PLN 3,855 thousand to finance and refinance 80% of net costs related to the Parent's and its subsidiary Baltona Duty Free Estonia OÜ's investments made in 2017 and 2018 in furnishing of retail premises at the Tallinn airport. The agreement term expires on 5 December 2020. The facility is secured by, inter alia, registered pledge on inventories, assignment of rights under an insurance policy, and corporate guarantee issued by Flemingo International Limited. Interest calculated on the basis of WIBOR plus the bank's margin, while outstanding balance at the end of the reporting period amounted to PLN 3,819 thousand.

On 20 February 2018, the Management Board of the Company and BGŻ BNP Paribas S.A. entered into a non-revolving credit facility agreement for PLN 4,530 thousand, which will be used to finance and refinance the costs of investment related to the launch of business activity by the Baltona Group at the airports in Wrocław and Katowice and on Unity Line ferries. The term of the facility is 48 months. The facility is secured by, inter alia, registered pledge on inventories, assignment of rights under an insurance policy, and corporate guarantee issued by Flemingo International Limited. Interest calculated on the basis of WIBOR plus the bank's margin, while outstanding balance at the end of the reporting period amounted to PLN 3,912 thousand.

Credit facility agreements to which Subsidiaries are parties:

One of the Group's subsidiaries has a revolving credit in Polska Kasa Opieki S.A. whose balance as at the reporting date was PLN 2,928 thousand, whereas the available limit amounted to PLN 3,500 thousand until 18 February 2019 and stands at PLN 4,000 thousand from 19 February 2019 until 30 April 2020.

A subsidiary BH Travel Retail Sp. z o.o. is a party to a multi-purpose credit facility agreement with the term of the facility ending on 8 February 2021 and current credit availability period (as at the end of the reporting period) ending on 18 June 2019. Under the agreement, to which an annex was signed on 21 September 2018, the subsidiary has the following credit facilities available:

- PLN 20,000 thousand – overdraft facility, secured by, inter alia, registered pledge on inventories, deposit, and corporate guarantee issued by Flemingo International. Interest calculated on the basis of WIBOR plus the bank's margin; outstanding balance at the end of the reporting period amounted to PLN 6,027 thousand.

A subsidiary BH Travel Retail Sp. z o.o. is also a party to an agreement under which it has been provided a non-revolving credit facility for up to PLN 39,000 thousand. The term of the facility is 60 months from the agreement date. The facility is intended to finance investments in furnishing retail premises at the Warsaw airport. The facility is secured by, inter alia, registered pledge on inventories, assignment of rights under an insurance policy, and corporate guarantee issued by Flemingo International. Interest calculated on the basis of WIBOR plus the bank's margin, while outstanding balance at the end of the reporting period amounted to PLN 39,000 thousand.

Additionally, both in 2018 and in the comparative period, the companies of the Group used financing provided by associates of Flemingo International (BVI) Limited and Flemingo International Limited in the form of EUR and USD denominated loans. As at 31 December 2018, total debt of the Group

companies resulting from the above financing amounted to PLN 19,201 thousand, which was classified as long-term loans due to their final repayment dates, which were extended under an annex to 31 December 2010. The loans bear fixed interest at 5% per annum.

5.5 Market risk

Market risk is related to changes in market prices such as exchange rates and interest rates which may affect the Group's performance or value of financial instruments held. The objective behind market risk management is to maintain and control the Group's exposure to market risk within assumed limits, while seeking to optimise the rate of return.

In order to manage market risk, the Group acquires and disposes derivative instruments and assumes financial liabilities. As at 31 December 2018, the Group companies were parties to IRS contracts, whose value as at the reporting date totalled PLN -524 thousand.

5.6 Currency risk

The Group is exposed to currency risk in connection with sales, purchases, and borrowings that are denominated in a different currency than the functional currency of the Group's subsidiaries. Transactions are mainly denominated in EUR and USD.

Due to the fact that many products are purchased in EUR, there is a risk of fluctuations in margins on products sold which may decrease in the case of depreciation of PLN. In practice, the Group aims at minimising the EUR/PLN exchange rate fluctuations by appropriately adjusting the prices of products to maintain its target margins.

To secure its exposure to currency risk, the Group enters into forward contracts on the purchase of currencies with the maturity date shorter than one year from the reporting date that are used to fulfil the liabilities denominated in foreign currencies. As at As at 31 December 2018, no Group member was a party to a foreign exchange forward contract.

The Group's derivative instruments are kept solely for the purpose of hedging exposure to the currency risk. However, hedge accounting is not applied.

In relation to monetary assets and liabilities denominated in foreign currencies, the Group ensures through its policy that net exposure is maintained at the acceptable level and foreign currencies are bought or sold at spot rates, when needed, to cover short-term shortfall.

In the opinion of the Management Board, the Group's investments in foreign subsidiaries do not carry a significant currency risk that requires hedging.

5.7 Interest rate risk

According to the Group's policies, the loans advanced bear interest at fixed and floating rates, whereas financial liabilities are subject to floating rates, with the exception of the loans received from related entities Flemingo International (BVI) Limited and Flemingo International Limited.

The Group is exposed to cash flow volatility risk caused by changes in interest rates that is related with floating interest rate liabilities and fair value volatility risk resulting from fixed interest rate assets. The Group hedges against such risk by entering into IRS contracts.

5.8 Capital management

The Management Board's capital management policy is designed to secure a solid capital base necessary to maintain the trust of investors, lenders and other market participants, and to ensure future business growth.

The capital comprises share capital, share premium, other assets, and retained earnings.

The Management Board monitors the return on equity, defined by the Group as the ratio of operating profit/(loss) to equity.

The Management Board seeks to strike a balance between a higher rate of return achievable with higher debt levels and the benefits and security offered by a solid capital base.

At the end of the reporting period, the Group's debt to equity ratio was as follows:

	31.12.2018	31.12.2017
Total liabilities	194 879	93 742
Less: cash, cash equivalents and deposits	(11 638)	(12 340)
Net debt	**183 241**	**81 402**
Equity	96 832	4 409
Ratio of net debt to equity at the end of the reporting	**1,9**	**18,5**

The debt ratio dropped due to higher equity. In 2018, the Group repaid its liabilities and continued its development strategies by developing its existing chain shops and constructing new sales points (shops opened in previous periods on Unity Line ferries, in Wrocław, at the Tallinn airport, and new shops at the airport in Warsaw).

From the beginning of 2012, the Group proceeded with repurchasing own shares as part of the approved programme. The purchased shares will be used for the purpose of redemption or issuing to the shareholders or partners of the company acquired by the Group. Details of the buy-back are presented in Note 19. Under Resolution No. 4 of the Extraordinary General Meeting, the share buyback programme was carried out between 15 November 2017 and 15 November 2018.

The capital management approach did not change during the reporting period.

6. Operating segments

In the Group, three reporting segments can be distinguished, i.e. those operating segments which – according to IFRS 8 – must be disclosed.

1) Shops – a segment comprising the entities whose basic activity consists in retail trade, including duty-free and general shops primarily located at Polish and European airports. The following entities have been included in the segment: PHZ Baltona S.A., Baltona France S.A.S, Baltona Italy S.r.l., Gredy Company, Flemingo Duty Free Ukraine, Baltona Duty Free Estonia OÜ, Liege Airport Shop BVBA, and two companies which are members of the Chacalli-De Decker Group.
2) Catering – a segment comprising the entities whose basic activity consists in the sales of meals and beverages in food and café points located at airports or railway stations, or in their vicinity. The segment was assigned a single company i.e. Centrum Obsługi Operacyjnej Sp. z o.o.
3) B2B – a segment comprising wholesale trade, supply of diplomatic corps, as well as the sales of products to crews of vessels and ships (ship chandlery) and four companies which are members of the Chacalli-De Decker Group. On 11 July 2018, an agreement for the sale of three companies which are members of the Chacalli-De Decker Group was concluded; as a result of which the consolidated financial result for 2018 includes the performance of those companies only in the first half of 2018.

Reporting segments result from internal reports that are subject to a periodic verification by the Management Board of the Parent (the main decision-making body in the Company). The Management Board of the Parent primarily analyses the results of the operating segments at the level of profit (loss) on operating activities.

The table below presents the results before tax of each reporting segment – the Group does not allocate income tax to particular segments.

In the item "assets of operating segments", all assets have been allocated to relevant segments that are controlled by the Group as at 31 December 2018, with the exception of goodwill recognised in the consolidated statement of financial position as at 31 December 2018.

As compared to consolidated financial statements for 2017, no recognisable differences arose in terms of the basis for breaking down segments or measuring profits and losses thereof.

	Shops		Gastronomy		B2B		Total	
	01.01.2018-31.12.2018	**01.01.2017-31.12.2017**	**01.01.2018-31.12.2018**	**01.01.2017-31.12.2017**	**01.01.2018-31.12.2018**	**01.01.2017-31.12.2017**	**01.01.2018-31.12.2018**	**01.01.2017-31.12.2017**
Revenue from external recipients	376 878	235 614	27 980	34 167	81 236	96 668	486 094	366 449
Revenue from inter-segment sales	16 055	15 797	88	250	1 797	5 493	17 940	21 540
Total segment revenue	**392 933**	**251 411**	**28 068**	**34 417**	**83 033**	**102 161**	**504 034**	**387 989**
Depreciation and revaluation write-offs	(9 164)	(3 996)	(1 149)	(1 907)	(618)	(863)	(10 931)	(6 766)
Operating result	1 775	443	(57)	(577)	(587)	(617)	1 131	(751)
Interest revenue	226	655	2	4	(618)	53	(390)	712
Interest costs	(2 078)	(553)	(610)	(590)	(587)	(242)	(3 275)	(1 385)
Result before tax	**(827)**	**(975)**	**(670)**	**(1 171)**	**1 499**	**486**	**2**	**(1 660)**
Assets of the reporting segment	338 339	96 658	5 986	4 169	11 978	21 334	**356 303**	**122 161**
Investment expenditures	(72 749)	(6 021)	(4 558)	(1 256)	(434)	(324)	**(77 741)**	**(7 601)**
Liabilities of the reporting segment	221 501	55 653	18 223	16 061	13 239	40 614	**252 963**	**112 328**

Arrangement of revenue, profit, and loss, liabilities, and other significant items related to reporting segments

	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Revenue		
Total revenue of reporting segments	504 034	387 989
Elimination of revenue from inter-segment transactions	(17 940)	(21 540)
Consolidated revenue	**486 094**	**366 449**
(Loss) / Profit before tax		
Total profit or loss before tax from reported segments	2	-1 660
Elimination of profits from inter-segment	0	19
Profit or loss before tax	**2**	**-1 641**

Reconciliation of balance sheet items

	31.12.2018	31.12.2017
Assets		
Total assets of reporting segments	356 303	122 161
Elimination of inter-segment settlement	(69 040)	(29 729)
Goodwill	4 448	5 719
Total consolidated assets	**291 711**	**98 151**
Liabilities		
Total liabilities of reporting segments	252 963	112 328
Other liabilities - loan for acquisition of CDD shares	10 956	11 144
Elimination of inter-segment settlement	(69 040)	(29 729)
Total consolidated liabilities	**194 879**	**93 742**

	Total figures for segments	Adjustments	Total consolidated figures
Other significant items in current period			
Interest revenue	(390)	390	-
Interest costs	(3 275)	186	(3 089)
Investment expenditures	(77 741)		(77 741)
Depreciation and impairment write-offs	(10 931)	-	(10 931)

	Total figures for segments	Adjustments	Total consolidated figures
Other significant items in previous period			
Interest revenue	712	(611)	101
Interest costs	(1 385)	(236)	(1 621)
Investment expenditures	(7 601)	-	(7 601)
Depreciation and impairment write-offs	(6 766)	-	(6 766)

7. Revenue

7.1 By nature

	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Revenues from the sale of services		
Marketing services	0	39
Sublet the area	44	42
Revenues from DCC *	2 483	1 381
Others	48	93
Revenues from the sale of services in total	**2 575**	**1 555**
Revenues from the sale of goods and materials		
Retail sales to the public	79 107	79 306
Retail duty free	332 385	211 516
Others	68 901	72 848
Revenues from the sale of goods and materials in total	**480 393**	**363 670**
Total sales revenues	**482 968**	**365 225**

*In 2018 and 2017, the Group earned revenue from DCC (Dynamic Currency Conversion), i.e. revenue from the provision of services associated with the settlement of payment card operations directly in the currency of the card or of the country of its issuer.

7.2 By territory

	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Revenues from the sale of products		
Poland	2 575	1 488
Others	0	67
Revenues from the sale of products in total	**2 575**	**1 555**
Revenues from the sale of goods and materials		
Poland	372 021	251 413
Others	108 372	112 257
Revenues from the sale of goods and materials in total	**480 393**	**363 670**
Total sales revenues	**482 968**	**365 225**

8. Employee benefits expense

	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Remuneration	(36 454)	(32 561)
Social security	(5 762)	(5 788)
Retirement benefits (including change in liabilities due to this)	(92)	(44)
Payments in shares	-	-
Other employee benefits	(3 471)	(1 991)
Employee benefits in total	**(45 779)**	**(40 384)**

9. Other income and expenses

9.1 Other income

	01.07.2018-31.12.2018	01.07.2017-31.12.2017
Profit from disposal of non-financial fixed assets	38	370
Release of provisions	257	537
Change of allowance for stock	5	0
Reversal of impairment allowance for estimated credit losses	3	0
The dissolution of fixed assets revaluation	0	172
Other	248	145
Redemption of the loan	2 575	0
Other operating income in total	**3 126**	**1 224**

9.2 Other expenses

	01.07.2018-31.12.2018	01.07.2017-31.12.2017
Penalties and damages	(7)	(229)
Write-downs on receivables	-	(2)
Other	(132)	(265)
Other operating expenses in total	**(139)**	**(496)**

10. Finance income and costs

10.1 Finance income

	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Interest income	0	101
Net exchange differences	349	630
Other	0	0
Total financial revenues	**349**	**731**

10.2 Finance costs

	01.07.2018-31.12.2018	01.07.2017-31.12.2017
Interests costs from financial liabilities valued at amortised costs	(3 068)	(1 577)
Interests on benefit plan	(21)	(44)
Net exchange differences	(185)	-
Allowances for financial intruments	(524)	-
Other	(3)	-
Total financial costs	**(3 801)**	**(1 621)**
Net financial expenses recognized as a gain or loss on the current period	**(3 452)**	**(890)**

11. Income tax

11.1 Income tax

	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Income tax (current part)		
Income tax for the current period	2 627	867
	2 627	**867**
Income tax (deferred part)		
Establishment / reversal of temporary differences	1 717	(403)
	1 717	**(403)**
Total income tax	**4 344**	**464**

11.2 Reconciliation of effective tax rate

		01.01.2018-31.12.2018		01.01.2017-31.12.2017
(Loss) / Net profit for the reporting period		(4 342)		(2 105)
Income tax		4 344		464
(Loss) / Profit before tax		**2**		**(1 641)**
Tax based on the applicable tax rate	19,0%	-	19,0%	(312)
Costs not constituting tax deductible costs		2 630		362
Application of another tax rate in the Group companies		-		42
Tax deductible costs not constituting accounting costs		-		(659)
Revenues exempt from taxation		(28)		(34)
Tax losses for the reporting period not included in the deferred tax		-		496
Change in deferred tax		1 717		-
Others		25		257
Effective tax rate	**217200%**	**4 344**	**-28,3%**	**152**

The uncertainty of calculation of deferred tax assets and liabilities is described in Note 2.5 Judgements and estimates.

12. Property, plant and equipment

12.1 Gross value of property, plant and equipment

	Buildings and structures	Machines and devices	Means of transport	Other property, plant and equipment	Property, plant and equipment under construction	Total
Gross value on day 01.01.2017	15 983	5 135	3 510	19 696	942	**45 266**
Reclassifications	-	(1)	-	(14)	-	**(15)**
Increases	879	677	603	2 314	6 959	**11 432**
Reductions (sale / liquidation)	(3 754)	(2 021)	(333)	(7 561)	(6 164)	**(19 833)**
Translation differences	(185)	(142)	(93)	(326)	(1)	**(747)**
Gross value on day 31.12.2017	**12 923**	**3 648**	**3 687**	**14 109**	**1 736**	**36 103**
Gross value on day 31.12.2017	**12 923**	**3 648**	**3 687**	**14 109**	**1 736**	**36 103**
Reclassifications	-	-	-	-	-	**-**
Increases	14 605	3 127	231	12 411	79 727	**110 101**
Sales of subsidiaries	(810)	(408)	(1 411)	(146)	-	**(2 775)**
Reductions (sale / liquidation)	(240)	(248)	-	(836)	(28 557)	**(29 881)**
Translation differences	94	78	51	241	30	**494**
Gross value on day 31.12.2017	**26 572**	**6 197**	**2 558**	**25 779**	**52 936**	**114 042**

12.2 Accumulated depreciation and impairment losses

	Buildings and structures	Machines and devices	Means of transport	Other property, plant and equipment	Property, plant and equipment under construction	Total
Depreciation and impairment write-offs on day 01.01.2017	10 390	3 836	1 900	14 230	-	**30 356**
Depreciation	2 551	623	545	2 089	-	**5 808**
Reductions (sale / liquidation)	(3 710)	(1 771)	(326)	(7 421)	-	**(13 228)**
Translation differences	(125)	(158)	(86)	(107)	-	**(476)**
Depreciation and impairment write-offs on day 31.12.2017	**9 106**	**2 530**	**2 033**	**8 791**	**-**	**22 460**
Depreciation and impairment write-offs on day 01.01.2018	**9 106**	**2 530**	**2 033**	**8 791**	**-**	**22 460**
Depreciation	2 190	625	679	2 848	-	**6 342**
Impairment losses	-	544	-	-	-	**544**
Reductions (sale / liquidation)	(234)	(27)	-	(74)	-	**(335)**
Sales of subsidiaries	(567)	(722)	(1 223)	(89)	-	**(2 601)**
Translation differences	78	82	46	296	-	**502**
Depreciation and impairment write-offs on day 31.12.2018	**10 573**	**3 032**	**1 535**	**11 772**	**-**	**26 912**

12.3 Net value as at the reporting date

	Buildings and	Machines and devices	Means of transport	Other property,	Property, plant and equipment	Total
For the day 31.12.2017	**3 817**	**1 118**	**1 654**	**5 318**	**1 736**	**13 643**
For the day 31.12.2018	**15 999**	**3 165**	**1 023**	**14 007**	**52 936**	**87 130**

12.4 Impairment losses and their subsequent reversal

In these financial statements for the year ended 31 December 2018, the Group recognised impairment losses on property, plant and equipment of PLN 544 thousand in connection with the planned discontinuation of business activity at the Liege airport. In 2017, the Group reversed impairment losses on property, plant and equipment in the amount of PLN 172 thousand due to physical liquidation of the relevant items.

12.5 Property, plant and equipment under leases

Under finance lease agreements, the Group uses furniture, catering equipment, and vehicles. In the case of most of the agreements, the Group may purchase the above elements at a lower price. At the same time, these elements secure payments due to leasing. As at 31 December 2018, the net carrying amount of leased property, plant and equipment amounted to PLN 2,701 thousand (2017: PLN 2,528 thousand). During the year, the Group purchased leased property, plant and equipment worth PLN 1,260 thousand (2017: PLN 781 thousand).

12.6 Security

As at the end of the reporting period, no item of the Group's property, plant and equipment served as security for repayment of liabilities, with the exception of the items of property, plant and equipment used under finance leases referred to above, which also serve as security for lease liabilities. The formalities related to the creation of a pledge over property, plant and equipment of PLN 6,000 thousand as security for a non-revolving credit facility provided to a subsidiary are underway.

12.7 Property, plant and equipment under construction

At the end of the reporting period, the cost of property, plant and equipment under construction amounted to PLN 51,202 thousand and was higher than in 2017 when it was PLN 1,736 thousand. The increase in property, plant and equipment under construction was mainly attributable to investments in newly opened shops at the Warsaw airport.

External financing costs were not capitalised in the reporting period and comparative period.

13. Intangible assets

13.1 Gross value of intangible assets

	Goodwill	Computer software	Others	Right to conclude contract	Total
Gross value on day 01.01.2017	**7 764**	**2 719**	**26**	**-**	**10 509**
Increases	-	278	364	-	**642**
Decreases		(131)			**(131)**
Translation differences	-	(10)	(24)	-	**(34)**
Gross value on day 31.12.2017	**7 764**	**2 856**	**367**	**-**	**10 986**
Gross value on day 01.01.2018	**7 764**	**2 856**	**367**	**-**	**10 986**
Increases	-	285	317	94 992	**95 594**
Decreases	(3 315)	(400)	-	-	**(3 715)**
Translation differences	-	5	7	-	**12**
Gross value on day 31.12.2018	**4 449**	**2 746**	**691**	**94 992**	**102 877**

13.2 Accumulated amortisation and impairment losses

	Goodwill	Computer software	Others	Right to conclude contract	Total
Depreciation and impairment write-offs on day 01.01.2017	**2 045**	**1 892**	**10**	**-**	**3 947**
Depreciation	-	430	69	-	**499**
Decreases	-	(201)	-	-	**(201)**
Translation differences	-	(26)	(1)	-	**(27)**
Depreciation and impairment write-offs on day 31.12.2017	**2 045**	**2 095**	**78**	**-**	**4 218**
Depreciation and impairment write-offs on day 01.01.2018	**2 045**	**2 095**	**78**	**-**	**4 218**
Depreciation	-	376	259	3 364	**3 999**
Impairment losses	-	24	-	-	**24**
Decreases	-	(331)	-	-	**(331)**
Reversal of impairment losses	(2 045)	-	-	-	**(2 045)**
Translation differences	-	(153)	-	-	**(153)**
Depreciation and impairment write-offs on day 31.12.2018	**-**	**2 011**	**337**	**3 364**	**5 712**

13.3 Net value

	Goodwill	Computer software	Others		Total
For the day 31.12.2017	**5 719**	**761**	**289**	**0**	**6 768**
For the day 31.12.2018	**4 449**	**735**	**354**	**91 628**	**97 165**

On 24 April 2019, the Management Board of Przedsiębiorstwo Handlu Zagranicznego Baltona S.A. made a decision to recognise an intangible asset under the name “right to conclude an agreement”

amounting to PLN 94,992 thousand in the statement of financial position of both the Company and the Group. The right to conclude an agreement will be disclosed under non-current assets as "intangible assets" and, on the equity and liabilities side, as "Equity arising from transactions with owners", and will increase each of these items by the amount indicated above. The recognition of the right to conclude an agreement referred to above is related to the possibility of accounting for the waiver of claims by Flemingo Dutyfree Shop Private Limited, i.e. a member of the Flemingo Group, related to the dispute which ended with a ruling of the arbitral tribunal at the Permanent Court of Arbitration in The Hague, on which the Company reported in, inter alia, the Management Board's Report on the Operations of the Company in 2017. Flemingo's waiver of claims to compensation awarded by the Permanent Court of Arbitration in The Hague made it possible to execute a settlement and 14 agreements for the lease of space at the Warsaw Chopin Airport on 6 May 2018, as announced in Current Report No. 8/2018 of 6 May 2018. The amount of the right to conclude an agreement was determined based on the amount of compensation specified in the ruling of the arbitral tribunal at the Permanent Court of Arbitration in The Hague, plus interest accrued until the date of the settlement, i.e. 6 May 2018.

13.4 Impairment losses

The Group believes that as at the end of the reporting period there was no indication of impairment of goodwill. As a result of the sale of three subsidiaries, goodwill was reduced by PLN 3,315 thousand, which was attributable to those subsidiaries, and impairment losses on goodwill of PLN 2,045 thousand were sold together with other assets of the subsidiaries.

The Group is of the opinion that in the case of other intangible assets there was no indication of impairment.

13.5 Tests for impairment of cash-generating units which include goodwill

At the end of the reporting period, the Group tested goodwill for impairment. For this purpose, cash-generating units (CGUs) have been separated covering the acquired companies in which goodwill was recognised as at the moment of acquisition.

Apart from goodwill, as at 31 December 2018 there were no other assets with indefinite useful lives.

Cumulative goodwill allocated to particular cash-generating units is as follows:

	31.12.2018	31.12.2017
Baldemar (FDFU)	58	58
COO (ECO)	422	422
Chacalli-De Decker (Travel Retail)	3 969	3 969
Chacalli-De Decker (B2B)	0	1 270
Razem wartość firmy	**4 449**	**5 719**

The recoverable amount of each CGU has been determined based on its value in use. To do this, projections of cash flows have been used that are expected from a cash-generating unit due to their use, based on financial budgets of particular companies within the next 5 years. The key assumptions

with respect to cash flow forecasting include: discount rate, gross margin on sales, and average sales growth rate. The level of anticipated revenue and gross margin has been determined on the basis of financial projections based on the assumed increase in sales and costs in the years to come consistent with those achieved by the subsidiaries to date, as well as expectations concerning market growth. The discount rate reflects a specific risk related to a country, taking into account risk premium or was based on market data concerning competitors.

13.6 Key assumptions with respect to discounted cash flow forecasting

For the purpose of conducting an impairment test, goodwill was allocated to the following cash-generating units:
- goodwill arising from the acquisition of the Chacalli-De Decker Group: recognised in the Shops segment,
- goodwill arising from the acquisition of Baldemar: recognised in the Shops segment,
- goodwill arising from the acquisition of COO: recognised in the Gastronomy segment.

The fair value of the tested asset was measured using the income approach, i.e. the discounted cash flow method. The recoverable amount of cash-generating units is determined based on their respective values in use, calculated on the basis of a five-year cash flow projection and a discount rate specified individually for each CGU.

The tests conducted at the end of 2018 and 2017 for goodwill have not shown any indication of impairment.

The table below presents key assumptions with respect to each subsidiary that have been used for 5-year forecasting periods:

	average gross margin on sales 2018	average sales growth rate 2018	discount rate 2018	average gross margin on sales 2017	average sales growth rate 2017	discount rate 2017
Chacalli-De Decker (Travel Retail)	45%	2%	8%	47%	2%	11%
Chacalli-De Decker (B2B)	-	-	-	26%	2%	11%
Baldemar (FDFU)	53%	6%	8%	54%	7%	24%
COO	74%	3%	8%	60%	2%	11%

13.7 Sensitivity analysis

In accordance with the International Financial Reporting Standards, an analysis was carried out for the sensitivity of recoverable amount to key parameters that have a material impact on the measurement results. The Management Board of the Parent believes that the assumptions accepted for the tests are reasonable and in line with the Group’s experience. Three key factors with a material impact on the recoverable amount of the tested items were identified: discount rate, gross margin, and average sales growth rate.

The table below presents sensitivity analysis of value in use in terms of the change in the above assumptions. The table presents the change in the value in use that results from a respective increase or decrease in the assumed level of key assumptions by one percentage point.

	Change in discount rate		Change in revenue growth rate		Change in average gross	
	+1 p.p.	-1 p.p.	+1 p.p.	-1 p.p.	+1 p.p.	-1 p.p.
Chacalli-De Decker (segment sklepy)	-11%	14%	3%	-3%	6%	-6%
Baldemar (FDFU)	-12%	15%	3%	-3%	1%	-1%
COO	-15%	20%	4%	-4%	16%	-10%

As regards goodwill arising from the acquisition of Chacalli-De Decker, the Management Board believes that even if there were any changes in key assumptions used to determine the recoverable amount of the CGU, the total carrying amount of the CGU would not exceed its total recoverable amount.

As regards goodwill arising from the acquisition of Baldemar, the Management Board believes that even if there were any changes in key assumptions used to determine the recoverable amount of the CGU, the total carrying amount of the CGU would not exceed its total recoverable amount.

As regards goodwill arising from the acquisition of COO, the Management Board believes that even if there were any changes in key assumptions used to determine the recoverable amount of the CGU, the total carrying amount of the CGU would not exceed its total recoverable amount.

14. Investments

	31.12.2018	31.12.2017
Loans granted to related entities	1 071	117
	1 071	**117**

The balance relates to loans advanced to the sold entity and a natural person. Loans advanced recognised with the carrying amount of PLN 1,071 thousand (2017: PLN 117 thousand) bear interest at the rate of 6% and GBP LIBOR plus margin.

The Group's level of exposure to credit, currency, and interest rate risk in relation to other investments has been described in Note 28.

15. Deferred tax assets and liabilities

15.1 Unrecognised deferred tax assets

With respect to the items below, deferred tax has not been recognised:

	31.12.2018	31.12.2017
Valuation of a defined benefit plan	0	4 402
Tax losses	4 558	2 138
	4 558	**6 540**

The right to use tax losses of PLN 100 thousand expires in 2023, while the remaining loss balance constitutes tax losses recorded by the Group's companies operating outside Poland, in countries in which the right to settle incurred tax loss is indefinite.

15.2 Deferred tax assets and liabilities and deferred tax liabilities

	Assets		Provisions		The net value	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Property, plant and equipment	30	29	94	136	124	165
Intangible assets	(659)	(659)	-	-	(659)	(659)
Stocks	(42)	(42)	-	-	(42)	(42)
Long-term investment	-	-	744	339	744	339
Trade and other receivables	(36)	(37)	-	-	(36)	(37)
Liabilities due to loans, borrowings and other debt instruments	(1 818)	(1 173)	-	-	(1 818)	(1 173)
Liabilities for employee benefits	(176)	(113)	-	-	(176)	(113)
Deferred income	-	-	585	-	585	-
Reserves	(357)	(371)	-	-	(357)	(371)
Tax losses to be settled in future periods	-	(1 460)	-	-	-	(1 460)
Assets / provisions for deferred income tax	(3 058)	(3 826)	1 424	475	(1 634)	(3 351)
Compensation	(1 424)	(475)	1 424	475	-	-
Deferred income tax assets / provisions disclosed in the statement of financial position	**(1 634)**	**(3 351)**	**-**	**-**	**(1 634)**	**(3 351)**

The uncertainty of calculation of deferred tax assets and liabilities is described in Note 2.5 Judgements and estimates.

15.3 Change in temporary differences in the reporting period

	Status on 01.01.2017	Change in temporary differences recognized as a gain or loss of the current period	Status on 31.12.2017	Change in temporary differences recognized as a gain or loss of the current period	Status on 31.12.2018
Property, plant and equipment	153	12	**165**	(41)	**124**
Intangible assets	(881)	222	**(659)**	-	**(659)**
Long-term investment	348	(9)	**339**	405	**744**
Stocks	(42)	-	**(42)**	-	**(42)**
Trade and other receivables	(38)	1	**(37)**	1	**(36)**
Liabilities due to loans and advances	(426)	(747)	**(1 173)**	(645)	**(1 818)**
Liabilities for employee benefits	-	(113)	**(113)**	(63)	**(176)**
Deferred income	-	-	**-**	585	**585**
Reserves	(225)	(146)	**(371)**	15	**(356)**
Liabilities for deliveries and services and other	-	-	**-**	-	**-**
Tax losses to be settled in future periods	(1 837)	377	**(1 460)**	1 460	**-**
	(2 948)	**(403)**	**(3 351)**	**1 717**	**(1 634)**

16. Inventories

	31.12.2018	31.12.2017
Goods and finished products	42 915	36 904
	42 915	**36 904**

From 1 January 2018 to 31 December 2018, merchandise recognised under cost of sales amounted to PLN 315,785 thousand (2017: PLN 249,866 thousand). From 1 January 2018 to 31 December 2018, the inventory write-down to net realisable values amounted to PLN 315 thousand (2017: PLN 230 thousand).

The value of disposed goods in 2018 amounted to PLN 92 thousand (2017: PLN 63 thousand), whereas the value of shortfall recognised in the process of stock-taking amounted to PLN 623 thousand (2017: PLN 164 thousand). The resulting costs were recognised in cost of sales.

To secure the Group's liabilities under the multi-purpose credit facility agreement, to which the Parent is a party together with a subsidiary, a registered pledge was established on inventories of goods for sale that are stored in the warehouses and shops owned by the Group, along with the statement of the Parent and one of its subsidiaries as regards the submission to enforcement to surrender the items in question. At no time can the value of pledged assets be lower than PLN 34,000 thousand. As at the date of issue of these financial statements, the security had not been formally increased and was being updated.

17. Trade and other receivables

17.1 Total receivables

	31.12.2018	31.12.2017
Receivables due to deliveries and services	26 788	13 201
Budget receivables	18 376	4 667
Trade and other receivables	50	2 452
Receivables from deposit	3 869	1 881
Prepayments	971	2 691
Total receivables	**50 054**	**24 892**
Long-term	4 465	5 739
short-term	45 589	19 153
	50 054	**24 892**

Long-term receivables comprise, among other items, security deposit for guarantees amounting to PLN 4,000 thousand.

17.2 Trade receivables

	31.12.2018	31.12.2017
Receivables due to deliveries and services from related entities	11 074	880
Receivables due to deliveries and services from other entities	15 713	12 321
Receivables due to deliveries and services in total	**26 787**	**13 201**
Long-term	0	0
short-term	26 787	13 201
	26 787	**13 201**

The Group’s exposure to credit and currency risk and impairment losses have been described in Note 29 to these consolidated financial statements.

17.3 Accruals and deferrals

	31.12.2018	31.12.2017
Insurance	377	491
subscriptions	5	34
Guarantees of customs debt	11	54
Settlement of lease costs	0	999
Income not invoiced	13	842
Others	564	271
Total prepayments	**971**	**2 691**
Long-term part	258	1 208
Short-term part	713	1 482
	971	**2 690**

18. Cash and cash equivalents

	31.12.2018	31.12.2017
Cash at hand and in bank accounts	8 311	8 685
Cash on the way and cash equivalents	3 327	3 655
Cash and cash equivalents, the value shown in the statement of financial position	**11 638**	**12 340**
Overdrafts	(32 940)	(11 807)
Cash and cash equivalents decreased by overdraft	**(21 302)**	**533**

The Group's exposure to interest rate risk and sensitivity analysis of the financial assets and liabilities have been presented in Note 28.

19. Equity

19.1 Share capital

As at 31 December 2018, the Parent's share capital amounted to PLN 2,814 thousand and was divided into 11,256,577 shares with a par value of PLN 0.25 per share.

	31.12.2018	31.12.2017
Number of shares on January 1	11 257	11 257
Number of shares on December 31 (fully paid up)	**11 257**	**11 257**

19.2 Ordinary shares

As at 31 December 2018, the registered share capital was divided into 11,256,577 ordinary shares (2017: 11,256,577). All outstanding shares have been fully paid up.

Holders of ordinary shares are entitled to receive approved dividends and are entitled to one vote at the General Meeting of the Parent.

All shares confer the same rights to share in the distribution, if any, of the Parent's assets.

11,239,177 shares of Series A, B, C, D and E are bearer shares. As at the reporting date, 17,400 A series ordinary shares still constitute ordinary registered shares.

19.3 Share buyback programme

On 16 January 2012, the Company authorised its Management Board to buy back the Company's shares. The share buyback programme was implemented from 25 January 2012 to 1 January 2015, until the funds allocated for their purchase were used up. Within the framework of the programme, the Management Board of the Parent was authorised to acquire no more than 500,000 shares with the aggregate par value of PLN 125,000 thousand with a view to their cancellation or distribution to shareholders of an acquiree of the Parent. The Parent's share buyback process was conducted solely through Dom Inwestycyjny BRE Bank S.A. The minimum acquisition price of a single treasury share for the Parent was determined at PLN 0.25, while the maximum price was PLN 9.20. In total, the Parent has allocated no more than PLN 4,650,000 from the statutory reserve funds for the buyback of treasury shares. Details of the share buyback programme were disclosed by the Parent in current reports.

On 19 February 2015, the Extraordinary General Meeting of the Parent adopted a resolution based on which the share buyback programme was extended in time and quantity; the number of the Company's shares that may be acquired was increased to a total of 750,000. The redemption date for own shares was extended until 1 January 2017. The shares may be acquired for the purpose of their redemption, issue to the shareholders or partners of the company being taken over by the Company or issue to the holders of subscription warrants issued under a resolution of the Annual General Meeting. The maximum acquisition price was maintained at PLN 9.20 per share.

The Company's Extraordinary General Meeting was held on 14 November 2017. The Meeting adopted resolutions regarding buyback of the treasury shares with a view to their cancellation and regarding amendment of the Articles of Association and adoption of a consolidated text of the Articles of Association. Pursuant to Resolution No. 4 of the Extraordinary General Meeting, the Company will be entitled to buy back no more than 900,000 shares with the total par value of PLN 225,000.00 at the market price, but not higher than PLN 5.00 per share and not lower than PLN 0.25 per share. The Company may buy back its shares during the period from 15 November 2017 until 15 November 2018, but no longer than until the funds allocated to the buyback programme are exhausted. Moreover, the Extraordinary General Meeting decided to establish a reserve capital of PLN 4,520,000.00, allocated to financing the buyback of the Company shares and the related costs.

By 31 December 2018, as part of the programme, the Parent had bought back a total of 368,995 treasury shares, conferring the right to 3.278% votes at the General Meeting and representing 3.278% of the share capital of the Company. In 2018 and 2017, no ordinary shares of the Company were bought back.

19.4 Distribution of the Parent's net profit for 2017

Under Resolution No. 7 of 26 June 2018, the Annual General Meeting the Company decided to allocate the entire net profit for the financial year 2017 amounting PLN 464,728.11 for increasing its statutory reserve funds.

19.5 Dividends proposed by the Management Board

In 2017 and 2016, the Parent did not pay any dividend.

The Management Board of the Parent intends to propose that the loss generated by the Parent for the year ended 31 December 2018 be covered with future profits.

19.6 Exchange differences on translating foreign operations

Exchange differences on translation of foreign operations include all exchange differences on translation of financial statements of entities operating outside Poland.

19.7 Items of other comprehensive income

	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Items that may be settled in the future with the result		
Exchange differences from the conversion of units operating abroad	352	-167
Items that will not be settled in the future with the result		
Actuarial gains (losses) due to a defined benefit plan	0	366
Other comprehensive net income for the reporting period	**352**	**199**

20. Earnings/(loss) per share

20.1 Basic earnings (loss) per share

Basic earnings per share for the year ended 31 December 2018 were calculated based on net loss attributable to owners of the Parent (holding ordinary shares) of PLN 4,806 thousand (2017: net loss of PLN 1,604 thousand) and the weighted average number of shares as at the date of preparation of the financial statements of 10,887.6 thousand (2017: 10,887.6 thousand).

and was made as follows:

	31.12.2018	31.12.2017
Net profit attributable to shareholders of the Parent Entity (basic)	(4 806)	(1 604)
Net profit / (Loss) of the shareholders of the Parent	**(4 806)**	**(1 604)**

Weighted average number of ordinary shares		
in thousands of shares	**31.12.2018**	**31.12.2017**
Number of ordinary shares on January 1	11 257	11 257
The impact of the acquisition of own shares	(369)	(369)
Weighted average number of ordinary shares as at 31 December	**10 888**	**10 888**

20.2 Diluted earnings per share

As at 31 December 2018, diluted earnings per share were calculated using the net loss attributable to the owners of the Parent (holding ordinary shares) of PLN 4,806 thousand (2017: net loss of PLN 1,604 thousand), and the weighted average number of shares adjusted by the impact of dilution factors (subscription warrants) which as at the date of preparation of these financial statements amounted to 10,887.6 thousand (2017: 10,887.6 thousand).

	31.12.2018	31.12.2017
Net profit attributable to shareholders of the Parent Entity (basic)	(4 806)	(1 604)
(Loss) / Net profit attributable to equity holders of the Parent Entity (diluted)	**(4 806)**	**(1 604)**

Weighted average number of ordinary shares (diluted)		
in thousands of shares	**31.12.2018**	**31.12.2017**
Weighted average number of ordinary shares	10 888	10 888
Issue of subscription warrants regarding series H shares	-	-
(diluted)	**10 888**	**10 888**

21. Share-based payment

The exercise dates of warrants issued in 2011 and 2013 lapsed on 30 June 2016 and 31 July 2016 and the right to subscribe for shares was not exercised. Therefore, the Annual General Meeting of Przedsiębiorstwo Handlu Zagranicznego Baltona S.A., under Resolution No. 18 of 27 June 2017, decided to consider the conditional share capital increase provided for in Resolution No. 6 of 30 August 2011, Resolution No. 5 of 12 June 2013, as amended by Resolution No. 5 and 6 of 21 December 2015, as unrealised.

22. Liabilities under borrowings and other debt instruments

22.1 Non-current liabilities

	31.12.2018	31.12.2017
Secured loans and borrowings	34 953	1 236
Loans from related parties	19 123	20 933
Liabilities due to financial leasing	1 277	949
	55 431	**23 118**

The above loans from related parties are subordinated to the repayment of liabilities under credit facilities. Although the final repayment dates fall within 12 months from the reporting date, the Group presents loans from related parties Flemingo International Limited (BVI) and Flemingo International Limited, except for interest due, as non-current liabilities due to written assurances made by the lender that it will not demand repayment within 12 months from the date of these financial statements.

22.2 Current liabilities

	31.12.2018	31.12.2017
Overdrafts	32 940	11 804
Secured loans and borrowings	12 445	1 130
Loans from related parties	78	74
Valuation of derivatives (IRS)	524	0
Short-term part of liabilities due to financial leasing	703	607
	46 690	**13 615**

22.3 Repayment terms and schedule for borrowings and other debt instruments

Repayment dates and conditions under open-ended credit contracts:

	Currency	Nominal rate	Year of maturity	Carrying amount 31.12.2018	Carrying amount 31.12.2017
Loan from related parties - unsecured	USD	5%	2020	3 278	2 960
Loan from related parties - unsecured	EUR	5%	2020	14 144	16 459
Loan from related parties - unsecured	USD	5%	2020	43	40
Loan from related parties - unsecured	USD	5%	2020	1 701	1 514
Loan from related parties - unsecured	EUR	5%	2020	35	34
Overdraft	EUR	EURIBOR + marża	2019	0	3 365
Overdraft	PLN	WIBOR3M+marża banku	2021*	23 984	7 499
Overdraft	PLN	WIBOR1M+marża banku	2019	6 027	0
Short-term loan	PLN	WIBOR3M+marża banku	2019	2 928	940
Non-renewable credit	PLN	WIBOR3M+marża banku	2019	667	1 637
Non-renewable credit	PLN	WIBOR3M+marża banku	2020	3 819	729
Non-renewable credit	PLN	WIBOR3M+marża banku	2021	3 912	0
Non-renewable credit	PLN	WIBOR3M+marża banku	2022	39 000	0
Liabilities due to financial leasing	PLN, EUR	WIBOR1M / LIBOR1M + marża	2017-2018	1 980	1 556
Total interest bearing liability				**101 519**	**36 733**

* The loan term ends on 8 February 2021. Current credit availability term falls on 18 June 2019.

Overdraft facilities, covered by annexes signed on 21 September 2018, are secured on the Group's assets, as follows:

- blank promissory note with a promissory note declaration, issued by the Company, guaranteed by Baltona Shipchandlers Sp. z o.o., Centrum Usług Wspólnych Baltona Sp. z o.o., Centrum Obsługi Operacyjnej Sp. z o.o., together with a representation of the promissory note issuer on submission to enforcement up to PLN 114,000 thousand in connection with the issued promissory note,
- creation of a registered pledge on the inventory of goods constituting the property of the Company and its subsidiary BH Travel Retail Poland Sp. z o.o., located at warehouses and shops, for PLN 34,000 thousand (joint security of the overdraft facility agreement, non-revolving credit facility agreement of 30 August 2016, non-revolving credit facility agreement of 29 September 2017, non-revolving credit facility agreement of 20 February 2018 and non-revolving credit facility agreement of 19 June 2018),
- assignment of rights under the insurance policy concerning the inventory (together with the agreement on assignment of receivables from the policy) in favour of the bank, up to PLN 34,000 thousand (joint security of the overdraft facility agreement, non-revolving credit facility agreement of 30 August 2016, non-revolving credit facility agreement of 29 September 2017, non-revolving credit facility agreement of 20 February 2018 and non-revolving credit facility agreement of 19 June 2018),

- corporate guarantee issued by Flemingo International Limited for PLN 106,500 thousand, along with the Guarantor's representation on submission to enforcement for the benefit of the Bank,
- corporate guarantee issued by Chacalli – De Decker N.V. for PLN 49,500 thousand, along with the Guarantor's representation on submission to enforcement for the benefit of the Bank,
- power of attorney for the bank over the account of Baltona France SAS maintained by BNP Paribas (France),
- power of attorney for the bank over accounts of Centrum Obsługi Operacyjnej Sp. z o.o., Centrum Usług Wspólnych Baltona Sp. z o.o.,
- subordination of 100% of all current and future loans granted to the Baltona Group companies by entities controlling it indirectly or directly (joint security of the overdraft facility agreement, non-revolving credit facility agreement of 30 August 2016, non-revolving credit facility agreement of 29 September 2017, non-revolving credit facility agreement of 20 February 2018 and non-revolving credit facility agreement of 19 June 2018),
- additional insurance on overdraft facility in the form of a bank guarantee issued by Barclays Bank PLC in the amount of USD 1,150 thousand or its equivalent in the Polish złoty.

In the annex of 19 June 2018, Przedsiębiorstwo Handlu Zagranicznego BALTONA S.A. approved the accession by BH Travel Retail Poland Sp. z o.o. to the multi-purpose credit facility and the debt under the facility agreement under joint and several liability in accordance with Art. 366 of the Civil Code.

The non-revolving credit facility of 30 August 2016 is secured on the Parent's assets as follows:

- blank promissory note with a promissory note declaration, issued by the Company, guaranteed by Baltona Shipchandlers Sp. z o.o., Centrum Usług Wspólnych Baltona Sp. z o.o., BH Travel Retail Poland Sp. z o.o., Centrum Obsługi Operacyjnej Sp. z o.o., together with a representation of the promissory note issuer on submission to enforcement up to PLN 6,750 thousand in connection with the issued promissory note,
- creation of a registered pledge on the inventory of goods constituting the property of the Parent and BH Travel Retail Poland Sp. z o.o., located at warehouses and shops, for PLN 14,000 thousand until 29 November 2018 and for PLN 34,000 thousand until 30 November 2018 (joint security of the overdraft facility agreement, non-revolving credit facility agreement of 30 August 2016, non-revolving credit facility agreement of 29 September 2017, non-revolving credit facility agreement of 20 February 2018 and non-revolving credit facility agreement of 19 June 2018),
- assignment of rights under the insurance policy concerning the inventory (together with the agreement on assignment of receivables from the policy) in favour of the bank, *up to* PLN 14,000 thousand until 29 November 2018 and up to PLN 34,000 thousand until 30 November 2018 (joint security of the overdraft facility agreement, non-revolving credit facility agreement of 30 August 2016, non-revolving credit facility agreement of 29 September 2017, non-revolving credit facility agreement of 20 February 2018 and non-revolving credit facility agreement of 19 June 2018),
- corporate guarantee issued by Flemingo International Limited for PLN 6,750 thousand,
- power of attorney for the bank over the account of Baltona France SAS maintained by BNP Paribas (France),

- power of attorney for the bank over accounts of Centrum Obsługi Operacyjnej Sp. z o.o., BH Travel Retail Poland Sp. z o.o., and Centrum Usług Wspólnych Baltona Sp. z o.o. maintained by BGŻ BNP Paribas S.A.,
- subordination of 100% of all current and future loans granted to the Company by entities controlling it indirectly or directly (joint security of the overdraft facility agreement, non-revolving credit facility agreement of 30 August 2016, non-revolving credit facility agreement of 29 September 2017, non-revolving credit facility agreement of 20 February 2018 and non-revolving credit facility agreement of 19 June 2018).

The non-revolving credit facility of 29 September 2017 is secured on the Parent's assets as follows:

- blank promissory note with a promissory note declaration, issued by the Company, guaranteed by Baltona Shipchandlers Sp. z o.o., Centrum Usług Wspólnych Baltona Sp. z o.o., BH Travel Retail Poland Sp. z o.o., Centrum Obsługi Operacyjnej Sp. z o.o., together with a representation of the promissory note issuer on submission to enforcement up to PLN 5,782.5 thousand in connection with the issued promissory note,
- corporate guarantee issued by Flemingo International Limited for PLN 5,782.5 thousand,
- corporate guarantee issued by Baltona Duty Free Estonia OÜ for PLN 5,782.5 thousand,
- creation of a registered pledge on the inventory of goods constituting the property of the Parent and BH Travel Retail Poland Sp. z o.o., located at warehouses and shops, for PLN 14,000 thousand until 29 November 2018 and for PLN 34,000 thousand until 30 November 2018 (joint security of the overdraft facility agreement, non-revolving credit facility agreement of 30 August 2016, non-revolving credit facility agreement of 29 September 2017, non-revolving credit facility agreement of 20 February 2018 and non-revolving credit facility agreement of 19 June 2018),
- assignment of rights under the insurance policy concerning the inventory (together with the agreement on assignment of receivables from the policy) in favour of the bank, up to PLN 14,000 thousand until 29 November 2018 and up to PLN 34,000 thousand until 30 November 2018 (joint security of the overdraft facility agreement, non-revolving credit facility agreement of 30 August 2016, non-revolving credit facility agreement of 29 September 2017, non-revolving credit facility agreement of 20 February 2018 and non-revolving credit facility agreement of 19 June 2018),
- power of attorney over bank accounts of Centrum Obsługi Operacyjnej Sp. z o.o., BH Travel Retail Poland Sp. z o.o., Centrum Usług Wspólnych Baltona Sp. z o.o., and Baltona Duty Free Estonia OÜ,
- power of attorney for the bank over the account of Baltona France SAS maintained by BNP Paribas (France),
- subordination of 100% of all current and future loans granted to the Company by entities controlling it indirectly or directly (joint security of the overdraft facility agreement, non-revolving credit facility agreement of 30 August 2016, non-revolving credit facility agreement of 29 September 2017, non-revolving credit facility agreement of 20 February 2018 and non-revolving credit facility agreement of 19 June 2018).

The non-revolving credit facility of 20 February 2018 is secured on the Company's assets as follows:

- blank promissory note with a promissory note declaration, issued by the Company, guaranteed by Baltona Shipchandlers Sp. z o.o., Centrum Usług Wspólnych Baltona Sp. z o.o., BH Travel Retail Poland Sp. z o.o., Centrum Obsługi Operacyjnej Sp. z o.o., together with

a representation of the promissory note issuer on submission to enforcement up to PLN 6,795 thousand in connection with the issued promissory note,

- corporate guarantee issued by Flemingo International Limited for PLN 6,795 thousand,
- corporate guarantee issued by Chacalli De-Decker N.V. for PLN 6,795 thousand,
- creation of a registered pledge on the inventory of goods constituting the property of the Parent and BH Travel Retail Poland Sp. z o.o., located at warehouses and shops, for PLN 14,000 thousand until 29 November 2018 and for PLN 34,000 thousand until 30 November 2018 (joint security of the overdraft facility agreement, non-revolving credit facility agreement of 30 August 2016, non-revolving credit facility agreement of 29 September 2017, non-revolving credit facility agreement of 20 February 2018 and non-revolving credit facility agreement of 19 June 2018),
- assignment of rights under the insurance policy concerning the inventory (together with the agreement on assignment of receivables from the policy) in favour of the bank, up to PLN 14,000 thousand until 29 November 2018 and up to PLN 34,000 thousand until 30 November 2018 (joint security of the overdraft facility agreement, non-revolving credit facility agreement of 30 August 2016, non-revolving credit facility agreement of 29 September 2017, non-revolving credit facility agreement of 20 February 2018 and non-revolving credit facility agreement of 19 June 2018),
- power of attorney for the bank over the account of Baltona France SAS maintained by BNP Paribas (France),
- subordination of 100% of all current and future loans granted to the Company by entities controlling it indirectly or directly (joint security of the overdraft facility agreement, non-revolving credit facility agreement of 30 August 2016, non-revolving credit facility agreement of 29 September 2017, non-revolving credit facility agreement of 20 February 2018 and non-revolving credit facility agreement of 19 June 2018).

The non-revolving credit facility of 19 June 2018 is secured on the assets of the subsidiary BH Travel Retail Poland Sp. z o.o. as follows:

- blank promissory note with a promissory note declaration, issued by the company, guaranteed by Przedsiębiorstwo Handlu Zagranicznego BALTONA S.A., Centrum Usług Wspólnych Baltona Sp. z o.o., Centrum Obsługi Operacyjnej Sp. z o.o., together with a representation of the promissory note issuer on submission to enforcement up to PLN 58,500 thousand in connection with the issued promissory note,
- creation of a registered pledge on the inventory of goods constituting the property of the Parent and BH Travel Retail Poland Sp. z o.o., located at warehouses and shops, for PLN 14,000 thousand until 29 November 2018 and for PLN 34,000 thousand until 30 November 2018 (joint security of the overdraft facility agreement, non-revolving credit facility agreement of 30 August 2016, non-revolving credit facility agreement of 29 September 2017, non-revolving credit facility agreement of 20 February 2018 and non-revolving credit facility agreement of 19 June 2018),
- assignment of rights under the insurance policy concerning the inventory (together with the agreement on assignment of receivables from the policy) in favour of the bank, up to PLN 14,000 thousand until 29 November 2018 and up to PLN 34,000 thousand until 30 November 2018 (joint security of the overdraft facility agreement, non-revolving credit facility agreement of 30 August 2016, non-revolving credit facility agreement of 29 September 2017, non-revolving credit facility agreement of 20 February 2018 and non-revolving credit facility agreement of 19 June 2018),

- corporate guarantee issued by Flemingo International Limited BVI for PLN 58,500 thousand,
- power of attorney for the bank over accounts of surety providers,
- subordination of 100% of all current and future loans granted to the Company by entities controlling it indirectly or directly (joint security of the overdraft facility agreement, non-revolving credit facility agreement of 30 August 2016, non-revolving credit facility agreement of 29 September 2017, non-revolving credit facility agreement of 20 February 2018 and non-revolving credit facility agreement of 19 June 2018),
- creation of a registered pledge on equipment of shops owned by the Borrower for not less than PLN 6,000 thousand (until creation of the pledge – transfer of the ownership title in favour of the Bank),
- assignment in favour of the bank of rights under the insurance policy covering the shop equipment, provided however that the sum insured cannot be lower than PLN 6,000 thousand.

In addition, there were the following collaterals as at the balance sheet date:

- corporate guarantee issued by Flemingo International Limited for up to PLN 3,000 thousand to secure foreign-exchange contract transactions.

22.4 Breach of terms of credit facility agreements

The Group uses overdraft facilities, the carrying amount of which as at 31 December 2018 totalled PLN 32,940 thousand. Under the agreements, the terms of the facilities expires on 8 February 2021, with the current availability period expiring on 18 June 2019.

Under the existing credit facility agreements, the Group is obliged to meet the following covenants by maintaining the relevant indicators at the following levels:

- the debt-service coverage ratio (DSCR) – not less than 1.2 (where DSCR is defined as the quotient of EBITDA less tax paid and the total of instalments of principal and interest on the Baltona Group's bank debt, as well as other financial liabilities repaid together with interest, with relevant financing provided by related parties and other financial institutions),
- the ratio of net financial liabilities to EBITDA – not higher than 3 (where net financial liabilities are defined as the total of long-term and short-term loans, borrowings, securities issues and other financial liabilities towards other and related entities (except for financial liabilities subordinated to repayments of credit facilities) less cash and cash equivalents),
- current ratio – 1, where the ratio is defined as the quotient of (inventories less non-transferable inventories increased by short-term receivables net of uncollectible receivables and receivables under court proceedings and increased by short-term investments) and (current liabilities to related parties and to other entities, excluding special funds).

The ratios are reviewed based on consolidated financial data of the Baltona Group. The analysis performed as at the reporting date demonstrated that the ratio of net financial liabilities to EBITDA exceeded 3 as a result of additional financing received in 2018 for newly opened shops in Tallinn, Wrocław and Warsaw.

In view of the additional financing and the estimated impact of application of IFRS 16, which may result in breach of further covenants, the Management Board of the Parent commenced talks with the bank to adjust the covenants to the current law and the Group's capabilities.

22.5 Finance lease liabilities

	Future minimal payment from the title leasing 31.12.2018	Odsetki 31.12.2018	Bieżąca wartość przyszłych minimalnych płatności z tytułu leasingu 31.12.2018	Przyszłe minimalne płatności z tytułu leasingu 31.12.2017	Odsetki 31.12.2017	Bieżąca wartość przyszłych minimalnych płatności z tytułu leasingu 31.12.2017
Liabilities due to financial leasing						
To year	770	67	703	655	48	607
From 1 to 5 years	1 376	99	1 277	1 010	61	949
	2 146	**166**	**1 980**	**1 665**	**109**	**1 556**

The Group uses the means of transport and some of the equipment as part of finance lease. The Group’s obligations under finance leases are secured by the lessors’ title to the leased assets or assets held under promissory notes.

23. Trade and other payables

	31.12.2018	31.12.2017
Liabilities for deliveries and services to related entities	8 686	498
Liabilities for deliveries and services to other entities	50 773	39 277
Budget commitments	10 796	4 434
Other liabilities	138	83
Prepayments	11 386	1 329
Special funds	226	226
	82 005	**45 847**
in this part:		
- long-term	10 836	0
- short-term	71 169	45 847

The entire long-term portion of the payables is attributable to the payment of fees/penalties related to rent and delays in commencing operations at individual premises due to Przedsiębiorstwo Państwowe Porty Lotnicze, which under the settlement of 4 March 2019 the Group undertook to pay in monthly payments in the period from May 2020 to December 2020.

24. Employee benefits

24.1 Balance of liabilities as at the reporting date

	31.12.2018	31.12.2017
Liabilities due to retirement benefits	356	264
Liabilities under a defined benefit plan	0	3 806
Commitments remuneration	2 277	1 843
Other liabilities	1 426	1 737
	4 059	**7 650**
in this part:		
- long-term	340	4070
- short-term	3 719	3 580

24.2 Changes in the present value of liabilities due to retirement severance payments

	2018	2017
Liabilities due to retirement benefits on January 1	264	220
Increases	92	44
Liabilities due to retirement benefits as at 31 December	**356**	**264**

24.3 Expense charged to profit or loss

	2018	2017
Benefits of the current period	92	44
	92	**44**

24.4 The costs of benefits have been recognised in the following items of the statement of comprehensive income.

	2018	2017
Costs of employee benefits	92	44
	92	**44**

24.5 Defined benefit plan at a subsidiary

In connection with the sale in 2018 of three subsidiaries whose business consisted in, among other things, providing supplies to diplomatic establishments, belonging to the B2B segment, the defined benefit pension plan for employees ceased to operate at the Group.

A member of the Chacalli-De Decker NV Group had a defined benefit pension plan for the employees that has been measured using the actuarial method as at 31 December 2017. The conditions and parameters of the plan are described in the consolidated financial statements for 2017.

25. Provisions

	Lawsuits	Other reserves	The disputed case	Total
Value on 01.01.2017	52	32	1 042	**1 126**
Increases	0	0	0	**0**
Provisions terminated in the period	0	-30	0	**-30**
Value on 31.12.2017	**52**	**2**	**1 042**	**1 096**
- long-term	52	0	1 042	**1 094**
- short-term	0	2	0	**2**

	Lawsuits	Other reserves	The disputed case	Total
Value on 01.01.2018	52	2	1 042	1 096
Increases	0	0	0	0
Provisions terminated in the period	0	0	-1 042	-1 042
Value on 31.12.2018	**52**	**2**	**0**	**54**
- long-term	52	0	0	52
- short-term	0	2	0	2

The reversed provision for the dispute for the amount of PLN 1,042 thousand was related to the dispute between the Group's subsidiary BH Travel Retail Poland Sp. z o.o. and Przedsiębiorstwo Państwowe Porty Lotnicze, which was resolved with a settlement made on 6 May 2018, determining the rules of settling mutual claims related to disputes concerning the lease of retail space at the Warsaw Chopin Airport.

26. Contractual commitments to acquire property, plant and equipment

Contractual commitments related to the purchase of property, plant and equipment and intangible assets made as at the end of the reporting period but not yet recognised in the statement of financial position amount to PLN 11,178 thousand and relate to adaptation works at new shops in Warsaw and the extension of the shop in Montpellier.

27. Performance obligations

	31.12.2018	31.12.2017
Marketing services - deferred income	3 680	5
Development subsidy	0	148
Others	0	0
	3 680	**153**
in this part:		
- long-term	69	148
- short-term	3 611	5

The balance of performance obligations mainly includes marketing services, which will be settled in subsequent periods.

28. Financial instruments

28.1 Credit risk

Carrying amounts of financial assets reflect the maximum exposure to credit risk.

Below is presented the maximum exposure to credit risk as at the end of the reporting period:

	31.12.2018	31.12.2017
Loans granted	1 071	117
Own receivables	30 707	17 534
Cash and cash equivalents	11 638	12 340
	43 416	**29 991**

28.2 Impairment losses

The maturity structure of trade and other receivables as at the end of the reporting period is presented below:

	Gross value on 31.12.2018	Revaluation write-off for 31.12.2018	Gross value on 31.12.2017	Revaluation write-off for 31.12.2017
Not due	12 224	-	4 113	-
Expired from 0 to 30 days	3 682	-	4 541	-
Expired from 31 to 60 days	3 850	-	738	-
Expired over 61 days	11 149	(198)	8 343	(201)
	30 905	**(198)**	**17 735**	**(201)**

Changes in impairment losses on trade and other receivables were as follows:

	31.12.2018	31.12.2017
Opening balance on January 1	201	203
An impairment loss recognized in the reporting period	-	(2)
An impairment loss recognized in the reporting period	(3)	-
Closing balance	**198**	**201**

In accordance with the requirements of IFRS 9, the Group has developed a model for estimating expected losses from its portfolio of receivables. As at 31 December 2018, the impairment losses on trade and other receivables amounted to PLN 198 thousand. (2017: PLN 201 thousand).

28.3 Liquidity risk

Below are presented the contractual terms of financial liabilities:

31.12.2018	Carrying amount	Cash flows resulting from the contract	Below 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Financial liabilities other than derivatives							
Bank loans secured	(47 398)	(49 571)	(6 607)	(6 278)	(22 160)	(14 526)	-
Liabilities due to financial leasing	(1 981)	(2 128)	(415)	(360)	(586)	(767)	-
Loans from a related one	(19 201)	(20 353)	(78)	-	(20 275)	-	-
Trade and other liabilities	(64 310)	(64 310)	(64 310)	-	-	-	-
Overdrafts	(32 939)	(39 486)	(6 287)	(33 199)	-	-	-
	(165 829)	**(175 848)**	**(77 697)**	**(39 837)**	**(43 021)**	**(15 293)**	**-**

The Group does not expect the projected cash flows, discussed in the maturity analysis, to occur significantly earlier or in amounts materially different from those presented.

31.12.2017	Carrying amount	Cash flows resulting from the contract	Below 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Financial liabilities other than derivatives							
Bank loans secured	(1 637)	(1 746)	-	-	(1 746)	-	-
Liabilities due to financial leasing	(1 556)	(1 624)	(368)	(308)	(466)	(482)	-
Loans from a related one	(21 007)	(22 276)	(74)	-	(22 202)	-	-
Trade and other liabilities	(39 858)	(39 858)	(39 858)	-	-	-	-
Overdrafts	(11 804)	(12 211)	(4 505)	(7 706)	-	-	-
	(75 862)	**(77 715)**	**(44 805)**	**(8 014)**	**(24 414)**	**(482)**	**-**

28.4 Currency risk

Exposure to currency risk

Details of the Group's exposure to currency risk as at the end of the reporting period are presented below:

	31.12.2018			31.12.2017		
in thousands of PLN	**EUR**	**USD**	**GBP**	**EUR**	**USD**	**GBP**
Trade and other receivables	2 740	547	301	2 515	652	296
Cash	408	172	7	1 360	814	61
A loan from a related one	(14 388)	(4 751)	-	(16 688)	(4 319)	-
Trade and other liabilities	(5 275)	(513)	-	(9 281)	(431)	-
Net balance sheet exposure	**(16 515)**	**(4 545)**	**308**	**(22 094)**	**(3 284)**	**357**

The following exchange rates with respect to the major foreign currencies were applied during the year:

in PLN	Average exchange rates		The end of the reporting period spot rate	
	01.01.2018-31.12.2018	**01.01.2017-31.12.2017**	**01.01.2018-31.12.2018**	**01.01.2017-31.12.2017**
EUR	4,2669	4,2447	4,3000	4,1709
USD	3,6227	3,7439	3,7597	3,4813
GBP	4,8142	5,3355	4,7895	4,7001
RON	0,9165	0,9282	0,9229	0,8953
UAH	0,1330	0,1402	0,1357	0,1236

Sensitivity analysis

The strengthening or weakening of Polish złoty in relation to EUR, USD, and GBP on 31 December 2018 would increase (or decrease) the equity and profit before tax by the amounts presented below.

The analysis is based on fluctuation in exchange rates that the Group considered legitimate as at the end of the reporting period. The analysis also assumes that other variables, in particular interest rates, remain unchanged. It does not take into account the impact of the forecast level of currency pairs with respect to sell and buy rates. The analysis conducted at the end of December 2017 has been carried out on the basis of the same premises.

	Strengthening of the PLN		**PLN weakening**	
The effect in thousands of PLN	**Equity**	**Profit or loss of the current period**	**Equity**	**Profit or loss of the current period**
31.12.2018				
EUR (change by 6%)	991	991	(991)	(991)
USD (change by 6%)	273	273	(273)	(273)
GBP (change by 6%)	(18)	(18)	18	18
31.12.2017				
EUR (change by 6%)	1 326	1 326	(1 326)	(1 326)
USD (change by 6%)	197	197	(197)	(197)
GBP (change by 6%)	(21)	(21)	21	21

28.5 Interest rate risk

At the end of the reporting period, the structure of interest-bearing financial instruments is as follows:

	31.12.2018	31.12.2017
Financial instruments with a fixed interest rate		
Financial assets	1 071	117
Financial liabilities	(19 201)	(21 007)
	(18 130)	**(20 890)**
Financial instruments with a variable interest rate		
Financial assets	8 311	8 685
Financial liabilities	(82 318)	(15 726)
	(74 007)	**(7 041)**

A change by 100 basis points in the interest rate would result in the increase (or decrease) of the equity and loss before tax by the amounts presented below. The following analysis is based on the assumption that other variables, in particular exchange rates, remain unchanged.

	Profit or loss of the current		**Equity**	
The effect in thousands of PLN	**Increase by 100 bp**	**Fall by 100 bp**	**Increase by 100 bp**	**Fall by 100 bp**
31.12.2018				
Financial instruments with a variable interest rate	-740	740	-740	740
Sensitivity of cash flows (net)	**-740**	**740**	**-740**	**740**
31.12.2017				
Financial instruments with a variable interest rate	-740	740	-740	740
Sensitivity of cash flows (net)	**-740**	**740**	**-740**	**740**

28.6 Comparison of fair values with carrying amounts

The fair values of financial instruments disclosed in the financial statements do not materially differ from their carrying amounts.

28.7 *Items of revenue, expenses, gains and losses recognised in the statement of profit or loss by category of financial instrument*

31.12.2018	Income / (costs) for interest	Profits / (losses) due to exchange differences	Solution / (creation) of write-downs	Profits / (losses) due to the valuation	Profits / (losses) from the sale of financial instruments
Own receivables	-	-	-	537	-
Cash and cash equivalents	2	-	-	-	-
Liabilities due to financial leasing	(56)	-	-	-	-
Loans received from related parties	(661)	243	-	-	-
Liabilities for deliveries and services	-	-	-	(545)	-
Bank loans	(2 003)	-	-	-	-
Total	**(2 718)**	**243**	**-**	**(8)**	**-**

31.12.2017	Income / (costs) for interest	Profits / (losses) due to exchange differences	Solution / (creation) of write-downs	Profits / (losses) due to the valuation	Profits / (losses) from the sale of financial instruments
Own receivables	-	-	170	458	-
Cash and cash equivalents	93	-	-	-	-
Liabilities due to financial leasing	(75)	-	-	-	-
Loans received from related parties	(506)	1 195	-	-	-
Liabilities for deliveries and services	-	-	-	(617)	-
Bank loans	(509)	-	-	-	-
Total	**(997)**	**1 195**	**170**	**(159)**	**-**

29. Contingent liabilities and litigation

Proceedings instigated by a natural person with respect to the abolition of joint ownership of property located in Gdynia at ul. 10 Lutego 7 are pending before the District Court in Gdynia. The proceedings cover a request for the reimbursement by the Parent of benefits from the property. The expert appointed to estimate potential benefits for the period from 20 December 1994 to 25 September 1998 issued an opinion that rental income in the period could amount to over PLN 3,300 thousand. The Management Board believes that the opinion is completely wrong. To date, the Court focused on the abolition of joint ownership and did not handle the settlement of benefits and expenses incurred and borne by particular owners. After two years of identifying the circumstances concerning the usefulness of the abolition of joint ownership of the property, the Court proceeded with the analysis of the subject and manner of property management in the period when the Parent was one of its owners as well as the subject that earned benefits from the property, along with the amounts of such benefits. On 2 May 2017, the District Court suspended the proceedings, but the decision was subsequently repealed by the Regional Court. In the meantime, the other co-owner sold his shares to the original petitioner in the said proceedings.

On 8 May 2018, the Court suspended the proceedings upon the petitioner's request. In its decision of 15 January 2019, the Regional Court in Gdańsk repealed the decision appealed against by the other co-owner. As a result, the case was referred back to the District Court and according to the opinion of lawyers representing the Parent, the relevant proceedings will not be concluded within the next few years.

At present, it is not possible to estimate potential liabilities of the Parent which may result from the proceedings. In the opinion of the Management Board, any liabilities that may result from the proceedings would not have a material impact on Parent's financial performance. In the opinion of the Management Board, the proceedings will last several years. The Parent recognised a provision of PLN 52 thousand for the proceedings.

On 6 May 2018, the Parent, BH Travel, Flemingo Dutyfree Shop Private Limited (Flemingo Duty Free), Ashdod Holding Limited (Ashdod) concluded with Przedsiębiorstwo Państwowe Porty Lotnicze ("PPL") a settlement under which the Parties determined the principles of settlement of mutual claims connected with termination in 2012 of retail space lease agreements at Warsaw Chopin Airport by PPL ("Settlement"). In connection with conclusion of the Settlement, the Parent and PPL concluded 14 retail space lease agreements, as a result of which in 2018 retail activity was partly resumed by the Baltona Group at Warsaw Chopin Airport.

In 2012, the subsidiary BH Travel Retail Poland Sp. z o.o. (BH Travel) suspended its retail activity at the Warsaw Chopin Airport as a result of the notice of termination of the lease agreements submitted by Przedsiębiorstwo Państwowe Porty Lotnicze. The dispute connected with termination of the lease agreements by PPL and activities related to preparing modernisation of Terminal 1 at Warsaw Chopin Airport included several proceedings which, by the date of issue of these financial statements, have been discontinued as a result of conclusion of the Settlement.

In connection with the above dispute, the case brought by Vistula Group S.A. against BH Travel is still pending. Until 2012, Vistula Group S.A. was a sub-tenant of one of the premises leased by BH Travel from PPL. In connection with termination of the lease agreements by PPL, BH Travel terminated the sublease agreement with Vistula Group. However, Vistula Group failed to return the premises to BH Travel or pay the rent. BH Travel required payments from the bank guarantee issued upon the instruction of Vistula Group S.A. In the suit of 12 August 2012 Vistula Group S.A. requested that BH Travel be ordered payment of PLN 279,947.33 with interest (the amount charged under the bank guarantee). The payment order issued on 1 October 2012 in the writ-of-payment proceedings was appealed against by BH Travel in whole. On 26 April 2017, the court of first instance issued a judgement in which ordered BH Travel to pay PLN 279,947.33 with statutory interest and costs of proceedings. On 19 June 2017, BH Travel appealed against the judgement and Vistula Group S.A. responded to the appeal. By judgement of 6 February 2019, the Court of Appeals in Warsaw set aside the appealed judgement and referred the case back to the Regional Court in Warsaw. The date of the hearing has not yet been determined. The said proceedings are not covered by the Settlement.

In connection with conclusion by the Parent and PPL of 14 agreements for lease of retail space at the Warsaw Okęcie Airport, the former tenant Lagardere Travel Retail Sp. z o.o. of Warsaw ("LTR") filed a petition against the Parent and PPL for cancellation of the above-mentioned 14 lease agreements. 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.

In the said proceedings, LTR submitted two motions requesting security of the claims, namely: (a) requesting 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, (b) requesting issuance of an order to furnish the court with monthly statements on performance of the said lease agreements.

By the date of publication of these financial statements, the court has dismissed the motion requesting security of the claims related to submission of reports. LTR's objection against the ruling of the Regional Court dismissing the motion was also dismissed. To the best of the Parent's knowledge, the other motion requesting security has not been considered to date. Still, by the date of issue of these financial statements the Parent had been delivered all the premises covered by the aforementioned lease agreements.

According to the information furnished to the Parent by PPL, the previous tender procedure concerning lease of retail space at the Warsaw Chopin Airport was closed by PPL without selecting a successful bid. The Parent did not participate in the procedure and the lease agreements were concluded by way of negotiations.

The Parent Entity is not aware of any circumstances which could substantiate the conclusion that signing of the lease agreements occurred as a result of violation of the law or good habits.

Due to the above, the Parent does not see any reasons why LTR's petition for cancellation of the lease agreements concluded with PPL should be granted. Therefore, despite the value of the claim identified by LTR at PLN 78.9m, the Parent has not recognised any provision for such liabilities.

On 25 January 2019, the Court delivered a copy of the statement of claim to the Parent's attorney-in-fact. On 25 February 2019, the Parent filed its reply to the claim, requesting its dismissal in whole. The Regional Court set the date of the first hearing to 4 April 2019.

Moreover, on 7 November 2018, the Parent was furnished with a copy of the petition filed by LTR against Port Lotniczy Wrocław S.A. (hereinafter: Wrocław Airport) and the Parent. The claim made in the suit is a request to cancel the agreement concluded between the Wrocław Airport and the Parent 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. 70^5 of the Civil Code, which refers to conducting the tender procedure in conflict 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 competition and alleged violation of the petitioner's right of priority to occupy a part of the leased premises. LTR determined the value of the dispute at PLN 250,000 thousand.

On 28 November 2018, the Parent filed its reply to the claim, requesting its dismissal in whole. On 7 March 2019, the Regional Court in Warsaw, 16th Commercial Division, dismissed the claim in whole. The ruling is not final.

30. Operating leases

30.1 Operating lease agreements with the Group as a lessee

Below are detailed minimum lease payments under irrevocable operating lease agreements:

	31.12.2018	31.12.2017
To year	99 808	45 065
1 to 5 years	353 714	102 815
Over 5 years	164 186	0
	453 522	**147 880**

The Group is a party to a lease agreement in Warsaw and a party to the lease of shop, warehouse, and office space located at airports, border checkpoints, and river harbours. The said contracts are classified as operating lease contracts. Lease contracts are entered into for a various period of time (up to 9 years or for an indefinite period of time). Most rental rates are subject to price growth index.

Some lease contracts include additional fees that depend on the level of revenue from goods sold in a given location, or commission-based rent. In the case of several locations, there is no fixed part of the rent; there is only the commission-based rent. The amount of rent for these location was excluded from the calculation of minimum payments under irrevocable lease agreements. In the case of contracts concluded for an indefinite period of time, the rent due for the notice period was defined as minimum payment due to operating lease.

In the year ended on 31 December 2018, a total of PLN 51,492 thousand has been recognised in the statement of profit or loss as costs of fees charged as part of operating lease contracts (2017: PLN 47,396 thousand). Contingent rental fees recognised as commission-based rents amounted to PLN 36,922 thousand (2017: PLN 24,378 thousand).

30.2 Operating lease agreements with the Group as a lessor

In 2018, revenue from space sublease amounted to PLN 44 thousand (2017: PLN 42 thousand).

31. Related party transactions

31.1 Parent and ultimate parent

Flemingo International Limited with the registered office in the British Virgin Islands is the ultimate parent of the group including the Parent as a subsidiary.

Ashdod Holdings Limited of Cyprus is the parent at the grassroot level in the group including the Parent as a subsidiary. At the same time, Ashdod Holdings Limited is a member of the group referred to above.

31.2 Transactions with the management staff

Below is presented information on the remuneration payable to the members of the Group's key management personnel:

	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Salaries of management members	2 554	1 845
	2 554	**1 845**

31.3 Other related-party transactions

	Transaction value for the period		Balances as the end of period	
	01.01.2018-31.12.2018	01.01.2017-31.12.2017	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Sale of goods and services				
Flemingo International Ltd. - sale of services	0	1	488	489
Ashdod Holdings Ltd.	0	0	29	29
Flemingo Brasil Importacao Limitada	0	0	363	363
Flemingo Tanger	0	4	0	4
Flemingo Duty Free Shop Pvt. Ltd	0	0	110	0
Chacalli-De Decker NV	350	0	7 410	0
Chacalli Den Haag BV	125	0	2 102	0
Chacalli-De Decker Limited	53	0	572	0
	528	**5**	**11 074**	**885**
Other income - loans				
Rafał Kazimierski - revenues from titles percentage	7	7	124	117
Chacalli-De Decker NV- interests income	28	0	0	0
Chacalli-De Decker Limited - interests income	26	0	947	0
	61	**7**	**1 071**	**117**
Purchase of raw materials, goods and services				
Flemingo International Ltd. - other services	165	108	443	451
Flemingo Duty Free Shop Pvt. Ltd	97	0	19	0
Flemingo International Tortola - other services	230	138	19	19
Ashdod Holdings Ltd. - other services	0	1	24	24
Chacalli-De Decker NV	7 575	0	5 314	0
	8 067	**247**	**5 820**	**494**
other costs				
Flemingo International Ltd. - loans / costs from Percentage	739	571	19 201	21 007
Chacalli-De Decker NV - aquiring shares in LAS	0	0	2 866	0
	739	**571**	**22 067**	**21 007**

* The Group took out loans from related entities Flemingo International (BVI) Limited and Flemingo International Limited with a final repayment date falling on 31 December 2020 (PLN 19,123 thousand) and 31 December 2020 (PLN 78 thousand), respectively.

Under overdraft agreements and guarantee facility agreements referred to in Note 23.3, the companies belonging to the Group have been provided with corporate guarantees issued by Flemingo International Limited, totalling PLN 187,327.5 thousand as at 31 December 2018.

All unsettled balances with related entities are measured at market values and must be settled in cash 12 months from the end of the reporting period in the case of trade and other settlements, or – in the case of loans received – within the time frames provided for in Note 22.

32. Financial instruments at fair value

As at 31 December 2018, Przedsiębiorstwo Handlu Zagranicznego BALTONA S.A. had an open Interest Rate Swap valued at PLN -38,087.89 as at that date.

As at 31 December 2018, a subsidiary BH Travel Retail Poland Sp. z o.o. had an open Interest Rate Swap valued at PLN -485,558.56 as at that date.

33. Notes to the statement of cash flows

The tables below present the reconciliation of balance-sheet changes to the items disclosed in the statement of cash flows:

	31.12.2018
Change in inventory resulting from the balance sheet	(6 011)
correction by change of adequate lines in financials of sold subsidiaries	939
Change in inventory disclosed in the cash flow statement	**(5 072)**

	31.12.2018
Change in receivables resulting from :	
Change in receivables resulting from the balance sheet	(25 162)
correction by change of adequate lines in financials of sold subsidiaries	(120)
Change in receivables shown in the cash flow statement	**(25 282)**

	31.12.2018
change in short-term liabilities resulting from the balance sheet	36 158
correction by change in liabilities from investment	(5 794)
correction by change of adequate lines in financials of sold subsidiaries	(1 273)
correction by other changes	-
Change in liabilities disclosed in the cash flow statement	**29 091**

Change in liabilities due to employee benefits	31.12.2018
change in short-term liabilities resulting from the balance sheet	(3 591)
correction resulting from a correction of the presentation of provisions	(1 042)
correction by change of adequate lines in financials of sold subsidiaries	614
Change in liabilities disclosed in the cash flow statement	**(4 019)**

34. Composition of the Group

As at 31 December 2018, the composition of the PHZ Baltona Group was as follows:

Company	Country	Share %	Share %
		31.12.2018	31.12.2017
BH Travel Retail Poland Sp. z o.o.	Poland	100	100
Baltona Shipchandlers Sp. z o.o.	Poland	100	100
Gredy Company SRL	Romania	100	100
Centrum Usług Wspólnych Baltona Sp. z o.o.	Poland	100	100
Baltona France S.A.S.	France	100	100
Baldemar Holdings Limited *i jej spółka zależna:*	Cyprus	100	100
Flemingo Duty Free Ukraine LLC	Ukraine	100	100
Magna Project Sp. z o.o.	Poland	100	100
Centrum Obsługi Operacyjnej Sp. z o.o.	Poland	100	100
KW Shelf Company Sp. z o.o.	Poland	100	100
Baltona Duty Free Estonia OÜ	Estonia	100	100
Sandpiper 3 Sp z o.o.	Poland	100	100
Baltona Italy S.R.L.	Italy	100	100
CDD Holding BV *and its subsidiaries:*	Netherlands	62	62
Chacalli-De Decker NV	Belgium	0	62
Chacalli Den Haag BV	Netherlands	0	62
Rotterdam Airport Tax-Free Shop BV	Netherlands	62	62
Niederrhein Airport Shop GmbH	Germany	62	62
Chacalli-De Decker Limited	UnitedKingdom	0	62

The share in the share capital is equal to the share in the total vote.

On 11 July 2018, the Company, CDD Holding B.V. (the “Seller”) and Flemingo International (BVI) Limited (the “Buyer” or “Flemingo”) concluded a share sale agreement concerning shares in indirect subsidiaries of the Chacalli Group, i.e. Chacalli-De Decker N.V. (Belgium), Chacalli Den Haag B.V. (the Netherlands) and Chacalli-De Decker Limited (United Kingdom). The business of these companies consists in providing supplies to diplomatic establishments. Moreover, the Agreement identifies the terms on which the Travel Retail business currently conducted by Chacalli-De Decker N.V. (Belgium) will be transferred in whole as an organised part of business to the 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 Company of Travel Retail assets currently held by Chacalli-De Decker N.V. (Belgium). On 11 September 2018, the Company and CDD Holding B.V. as the Seller and Flemingo International (BVI) Limited as the Buyer signed an annex to the aforementioned agreement. Under the annex, the parties decided that the initial deadline of 60 days after the date of conclusion of the sale agreement, for the transfer of the ownership title to shares in Chacalli companies, would be extended until the end of November 2018. Concurrently, it is the Company’s intention to extend the time limit for the finalisation of the above-mentioned transfer of the ownership title to shares in Chacalli Den Haag B.V. The annex introduced no other amendments to the above agreement concerning the sale of shares in Chacalli companies.

The formal and registration related activities were completed in 2018 and the ownership title to the shares of two Chacalli companies was transferred on the following dates: the transfer of shares in Chacalli De Decker N.V. was completed on 25 October 2018, the transfer of shares in Chacalli De Decker Ltd. was completed on 26 October 2018. As at the date of these financial statements, the process related to the transfer of the ownership title to the shares in a third Chacalli company was still pending.

The Management Board of the Parent 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 consolidated financial statements, while fair value of consideration received as a result of the transaction was included, as well as the result on sale and respective adjustments of equity of owners of the parent and minority interests.

In August 2018, the share capital of the subsidiary Liege Airport Shop BVBA was increased, while 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 increased share capital of Liege Airport Shop BVBA. As the agreement is related to the agreement of 11 July 2018 on the transfer of the Travel Retail business to the Baltona Group, its effects have been disclosed in these consolidated financial statements. On 1 October 2018, the organised part of business covering the activities at the Liege airport were formally transferred from Chacalli-De Decker N.V. to Liege Airport Shop BVBA.

35. Result on the sale of shares in subordinates

As described in the previous section, in July 2018 the Group sold shares in its indirect subsidiaries which are members of the Chacalli Group, i.e. Chacalli-De Decker N.V. (Belgium), Chacalli Den Haag B.V. (the Netherlands) and Chacalli-De Decker Limited (United Kingdom). The transaction resulted in recognition of a gain in the consolidated financial result and a change in consolidated equity.

The result on the sale of shares in subordinates was as follows:

	31.12.2018
The fair value of the payment received	0
The value of net assets of the companies sold as at the date of loss of control	2 323
Goodwill less the share of minorities as at the date of loss of control	0
Correction for items previously recognized in total income	0
Result on the sale of shares in subordinated entities	**2 323**

36. Events subsequent to the reporting date

On 15 January 2019, the Management Board of the Company was notified of the bilateral signing of an annex to the framework commercial cooperation agreement concerning the sale of cigarettes, pharmaceuticals, hygienic and food articles between Przedsiębiorstwo Handlu Zagranicznego Baltona S.A., its subsidiaries Baltona Shipchandlers Sp. z o.o. and Centrum Obsługi Operacyjnej Sp. z o.o., and Eurocash Serwis Sp. z o.o. Under the annex the term of the Agreement was extended until the end of March 2019. The total turnover in the period until the end of March 2019 is estimated at approximately PLN 27m (VAT-exclusive). Other terms of the Agreement remained unchanged.

On 25 January 2019, the Court delivered to the Company’s attorney-in-fact a copy of the statement of claim for annulment of 14 lease agreements concluded between the Company and PPL on 6 May 2018 and set a deadline for the Company to submit its reply.

On 14 February 2019, the Management Board of the Parent resolved to correct the tax return for 2015, which will result in the need to make an additional payment of approximately PLN 0.5m to the tax authorities. The decision is related to the ongoing customs and tax inspection carried out by the Podkarpackie Province Customs and Tax Office in Przemyśl to verify the accuracy of the declared amount of taxable income and the correctness of calculation and payment of the 2015 corporate income tax. The inspection was completed and the Parent submitted a correction to the 2015 CIT-8 tax return covering all irregularities disclosed during the inspection. Moreover, the Parent intends to correct its tax returns for 2013–2017 covering all irregularities identified during the inspection of 2015. In these consolidated financial statements a correction of fundamental errors was made, amounting to PLN 2,185 thousand.

On 19 February 2019, the Management Board of Przedsiębiorstwo Handlu Zagranicznego Baltona S.A. entered into a warehouse logistics agreement with Loxxess Polska Sp. z o.o. The Agreement defines the framework rules and terms of cooperation as part of implementation of a project consisting in the provision of logistics and warehousing services to the Baltona Group by the said logistics operator. Under the Agreement, Loxxess will carry out warehousing operations in its own warehouse for the benefit of the Baltona Group companies, together with other services necessary for the entry into and removal from storage, as well as storage of goods, as agreed by the parties. The Agreement was concluded for a period of 36 months from the date of commencement of warehouse operations, which should take place in Q1 2019, and each party has the right to terminate the Agreement in writing with 12 months' notice, with the proviso that the Agreement cannot be terminated earlier than as of 1 March 2022. The value of the Agreement is estimated at approximately PLN 6.5m. The Company also reports that as of the end of March 2019 the agreement on the supply of agreed range of goods with Gebr. Heinemann SE & Co. KG will become ineffective.

On 4 March 2019, PPL and the Company made a settlement and agreed to engaged a third party that will verify the technical aspects of the existing cooperation and adaptation process for all lease agreements, which will constitute the basis for agreeing on a proper mechanism for settlement of disputed rent claims. The amount of claims for fees related to rent covered by the agreement is PLN 9.6m (VAT-exclusive), while for penalties related to delays in commencing operations at individual premises is PLN 5.3m, resulting in a total amount of claims of PLN 14.9m. In connection with the above, PLN 1.7m was recognised in the statement of financial position under accrued expense. To the Company's best knowledge and based on its own calculations, the PLN 1.7m indicated above should satisfy the Company's potential liability to PPL for the settlement of the disputed rent claims referred to above. In the parties agree to make a settlement based on the opinion of the engaged third party, the Company's liabilities to PPL will be paid in three monthly instalments in the fourth quarter of 2019. If by the end of August 2019 the engaged third party will not issue any opinion, the parties will enter into further negotiations in order to make mutual settlements on the basis of the previous arrangements. Notwithstanding the above, in accordance with the provisions of the executed documents the Company decided to acknowledge PPL's claims relating to settlements under three lease agreements in respect of which the periods of temporary activity occurred in the period from July to August/October 2018. These settlements cover fees related to rent in the amount of PLN 7.4m (VAT-exclusive) and penalties related to delays in commencing operations at individual premises in the amount of PLN 1m, i.e. PLN 8.4m (VAT-exclusive) in total. The amount resulting from the settlement is recognised in full in the financial statements under non-current liabilities. The Company undertook to pay the above-mentioned amount of liabilities monthly payments in the period from May 2020 to December 2020. In addition, the parties agreed on rules for the payment of the above liabilities in the event of potential delays in relation to the originally agreed dates. Moreover, in connection with the Settlement, the terms of the standard security for lease

agreements, i.e. a bank guarantee and the related representation on submission to enforcement, will be updated. However, the change of the guarantee terms will not involve an increase in the guarantee amount, except in cases provided for in lease agreements (e.g. rent indexation).

On 7 March 2019, the Regional Court in Warsaw, 16th Commercial Division, dismissed the action brought by Lagardere Travel Retail Sp. z o.o. (LTR) against Port Lotniczy Wrocław S.A. and Przedsiębiorstwo Handlu Zagranicznego Baltona S.A. in its entirety. Lagardere Travel Retail Sp. z o.o. demanded that the agreement on the lease of space between Port Lotniczy Wrocław S.A. and the Company be annulled. Moreover, LTR raised the alternative claim concerning adjudication of invalidity of the above-mentioned agreement. The ruling is not final.

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

These consolidated financial statements were prepared and approved for issue by the Management Board of Przedsiębiorstwo Handlu Zagranicznego Baltona S.A. on 30 April 2019.

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 maintaining
the accounting records