THE PHZ BALTONA GROUP
MANAGEMENT BOARD'S REPORT ON THE OPERATIONS OF THE GROUP
IN THE YEAR ENDED 31 DECEMBER 2018

(including the disclosures required for the Management Board's Report on the Operations of PHZ BALTONA S.A. in the year then ended)

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

Warsaw, date of issue: 30 April 2019

Table of contents

1. FINANCIAL HIGHLIGHTS

1.1. Financial highlights of the Baltona Group

	for the period of 12 months ended on 31 December		for the period of 12 months ended on 31 December	
	2018	2017	2018	2017
		in thousands PLN		in thousands EUR
Net revenue from sales of products, goods and materials	482 968	365 225	113 189	86 043
Operating profit	1 131	(751)	265	(177)
EBITDA from operating activity*	12 062	6 006	2 827	1 415
Net profit / (loss) attributable to owners of the parent entity	(4 806)	(1 604)	(1 126)	(378)
Weighted average number of issued shares, in units	10 887 582	10 887 582	10 887 582	10 887 582
Number of diluting potential ordinary shares	-	-	-	-
Earnings/(Loss) per share (in PLN/EUR)	(0,44)	(0,15)	(0,10)	(0,04)
Diluted earnings /(loss) per share (in PLN/EUR)	(0,44)	(0,15)	(0,10)	(0,03)

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

	2018-12-31	2017-12-31	2018-12-31	2017-12-31
		in thousands PLN		*in thousands EUR*
Total assets	291 711	98 151	67 840	23 532
Share capital	2 814	2 814	654	675
Equity attributable to owners of the parentt entity	96 616	4 495	22 469	1 078
Long-term liabilities	66 650	28 430	15 500	6 816
Short-term liabilities	128 229	65 312	29 821	15 659
Liabilities and liability provisions	194 879	93 742	45 321	22 475
Book value per share (in PLN/EUR)	8,87	0,41	2,06	0,10
Diluted book value per share (in PLN/EUR)	8,87	0,41	2,06	0,10

	for the period of 12 months ended on 31 December		for the period of 12 months ended on 31 December	
	2018	2017	2018	2017
		in thousands PLN		*in thousands EUR*
Operating cash flows	10 084	8 088	2 363	1 905
Investment cash flows	(77 703)	(7 381)	(18 211)	(1 739)
Financial cash flows	45 782	(2 383)	10 730	(561)
Total net cash flows	(21 837)	(1 676)	(5 118)	(396)

1.2. Financial highlights of PHZ Baltona S.A.

	for the period of 12 months ended on 31 December		for the period of 12 months ended on 31 December	
	2018	2017	2018	2017
	in thousands PLN		in thousands EUR	
Net revenue from sales of products, goods and materials	277 090	188 953	64 939	44 515
Operating profit / (loss)	(11 151)	(8 274)	(2 613)	(1 949)
EBITDA from operating activity*	(4 880)	(5 327)	(1 144)	(1 255)
Net profit / (loss)	(9 583)	464	(2 246)	109
Weighted average number of issued shares, in units	10 887 582	10 887 582	10 887 582	10 887 582
Number of diluting potential ordinary shares	-	-	-	-
Earnings/(Loss) per share (in PLN/EUR)	(0,85)	0,04	(0,20)	0,01
Diluted earnings /(loss) per share (in PLN/EUR)	(0,88)	0,04	(0,21)	0,01

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

	2018-12-31	2017-12-31	2018-12-31	2017-12-31
	in thousands PLN		*in thousands EUR*	
Total assets	214 952	85 612	49 989	20 526
Share capital	2 814	2 814	654	675
Total equity	109 545	24 136	25 475	5 787
Long-term liabilities	30 624	18 125	7 122	4 346
Short-term liabilities	74 783	43 351	17 391	10 394
Liabilities and liability provisions	105 407	61 476	24 513	14 739
Book value per share (in PLN/EUR)	10,06	2,22	2,34	0,53
Diluted book value per share (in PLN/EUR)	10,06	2,22	2,34	0,53

	for the period of 12 months ended on 31 December		for the period of 12 months ended on 31 December	
	2018	2017	2018	2017
	in thousands PLN		*in thousands EUR*	
Operating cash flows	(5 748)	4 329	(1 347)	1 020
Investment cash flows	(20 240)	(5 930)	(4 743)	(1 397)
Financial cash flows	7 083	(1 361)	1 660	(321)
Total net cash flows	(18 905)	(2 962)	(4 431)	(698)

1.3. Mid-market PLN/EUR exchange rates quoted by the National Bank of Poland

	for the period of 12 months ended on 31 December	
	2018	2017
average exchange rate during the period	4,2669	4,2447

	as at	
	2018-12-31	2017-12-31
exchange rate at the end of the period	4,3000	4,1709

2. STRUCTURE, ORGANISATION, RELATIONS AND EQUITY INVESTMENTS OF THE COMPANY AND THE GROUP

2.1. Structure of the Baltona Group

2.1.1. Structure of the Baltona Group as at 31 December 2018

The BALTONA Group is composed of the parent: Przedsiębiorstwo Handlu Zagranicznego BALTONA S.A. (the "Company", "Baltona", "PHZ Baltona S.A.") and its subsidiaries.

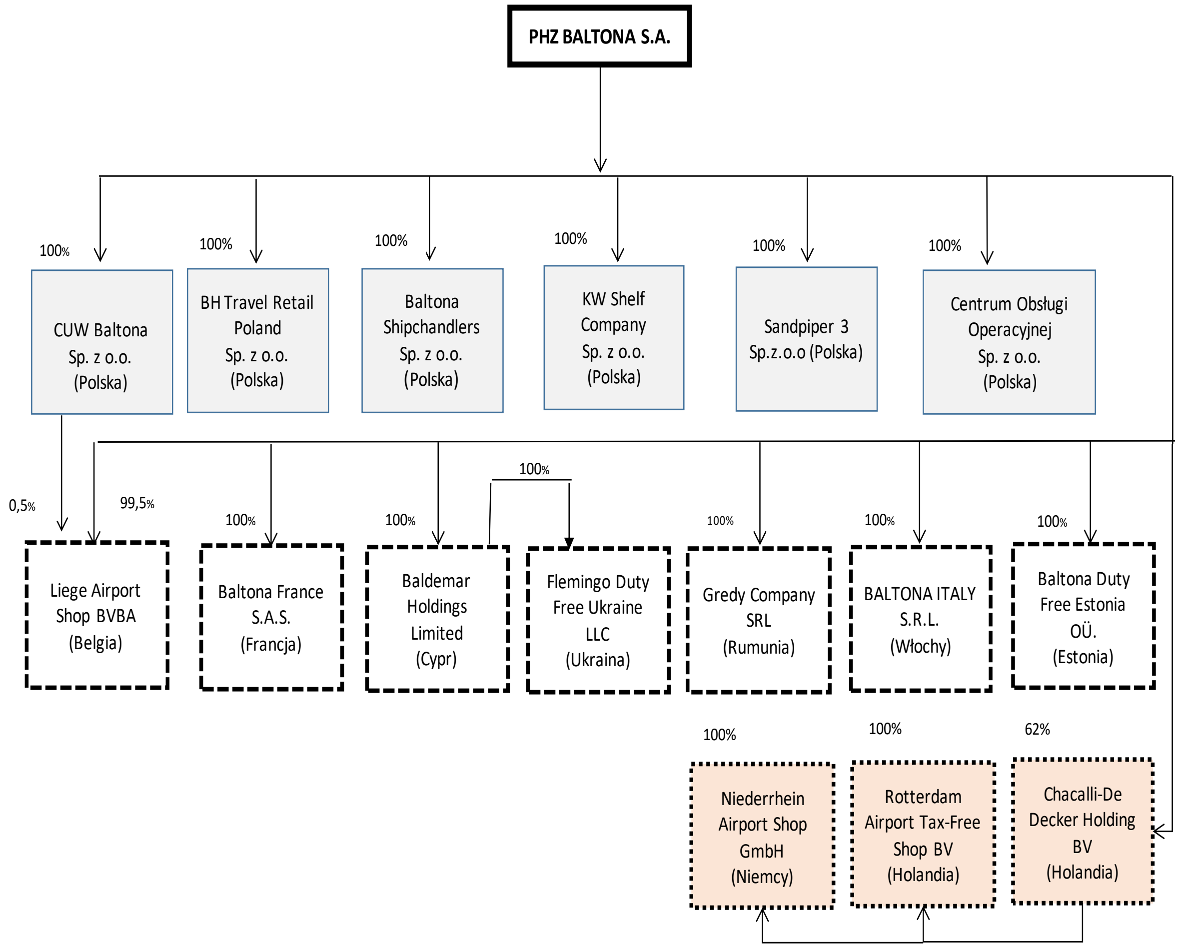
PHZ Baltona S.A. was registered in the register of companies of the National Court Register kept by the District Court for the capital city of Warsaw, 13th Commercial Division, under the number 0000051757. The Parent company was assigned with a statistical ID (REGON) 00014435. The registered office of the Parent company is located at ul. Flisa 4 in Warsaw (postal code: 02-247).

For the purposes of this Report, the Parent and its subsidiaries are referred to as the Baltona Group (the "Group").

The Group's composition as at 31 December 2017 and 31 December 2018 is presented below:

Company name	Share capital	Currency	Registered office	Share as at 31.12.2018	Share as at 31.12.2017
BH Travel Retail Poland Sp. z o.o.	3.000.000	PLN	Polska	100%	100%
Baltona Shipchandlers Sp. z o.o.	2.233.000	PLN	Polska	100%	100%
Gredy Company SRL	200	RON	Rumunia	100%	100%
Centrum Usług Wspólnych Baltona Sp. z o.o.	28.081.850	PLN	Polska	100%	100%
Baltona France S.A.S.	1.000	EUR	Francja	100%	100%
Baldemar Holdings Limited	1.432	USD	Cypr	100%	100%
Flemingo Duty Free Ukraine LLC	439.587,50	UAH	Ukraina	100%	100%
Centrum Obsługi Operacyjnej Sp. z o.o.	5.000	PLN	Polska	100%	100%
Sandpipier 3 Sp z o.o.	5.000	PLN	Polska	100%	100%
KW Shelf Company Sp. z o.o.	5.000	PLN	Polska	100%	100%
Baltona Duty Free Estonia OÜ	2.500	EUR	Estonia	100%	100%
Baltona Italy S.r.l.	10.000	EUR	Włochy	100%	100%
Liege Airport Shop BVBA	18.600	EUR	Belgia	100%	100%
CDD Holding BV	2.035.000	EUR	Holandia	62%	62%
Chacalli-De Decker NV	1.200.000	EUR	Belgia	0%	62%
Chacalli Den Haag BV	15.881,31	EUR	Holandia	0%	62%
Rotterdam Airport Shop BV	45.378,02	EUR	Holandia	62%	62%
Niederrhein Airport Shop GmbH	25.000	EUR	Niemcy	62%	62%
Chacalli-De Decker Limited	121.000	GBP	Wielka Brytania	0%	62%

The following chart represents capital relationships between companies of the Baltona Group as at 31 December 2018:



* The Parent company holds shares in Flemingo Duty Free Ukraine LLC through its subsidiary Baldemar Holdings Limited

** The Parent holds shares in Rotterdam Airport Shop BV and Niederrhein Airport Shop GmbH through the subsidiary Chacalli-De Decker Holding BV.

The companies do not have branches (establishments).

2.1.2. Changes in the structure and organisation of the Baltona Group

In 2018 and until the date of preparation of this report, the following changes occurred in the Group's structure:

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 consisted in providing supplies to diplomatic establishments. Moreover, the Agreement identified the terms on which the Travel Retail business conducted by Chacalli-De Decker N.V. (Belgium) was transferred in whole as an organised part of business to the Baltona Group. Information about the process was disclosed by the Company in Current Report No. 19/2018 and 23/2018 and its consolidated report for Q3 2018.

As a result of the above, the formal and registration related activities were completed in 2018 and the ownership title to the shares of two Chacalli companies (i.e. Chacalli De Decker N.V. and Chacalli De Decker Ltd.) was transferred. The transfer of shares in a third Chacalli company, i.e. Chacalli De Decker N.V. (the Netherlands) was pending as at the date of this report.

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 the 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.

2.1.3. Description of the consolidated entities

As at 31 December 2018 and as at the date of this report, consolidation covered PHZ Baltona S.A. as the Parent and the following subsidiaries:

Both the Parent and other Group entities have been established for indefinite time.

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

In 2018, no material changes in principles applicable to the management of the Company and Baltona Group took place.

2.2. Key products, goods and services, markets and sources of supply for the Baltona Group

The Group sells:

- tobacco, alcohol, cosmetic, food and other articles mainly at duty-free and generally accessible shops at airports in Poland;
- catering services, mainly at airports in Gdańsk, Poznań, Katowice, Rzeszów and Modlin (under the logo of Coffee Corner, Coffee Express, Cavarious, and Travel Chef);
- goods for ship and vessel crews (shipchandler sale) and other B2B sale;
- other B2B operations;
- marketing services for brands (suppliers);
- commercial space rental services.

The Group operates in Poland, mainly in the airports (airports in Bydgoszcz, Poznań, Modlin, Kraków, Katowice, Rzeszów, and Wrocław) and a border shop in Świnoujście and at newly opened shops at the Warsaw airport. Outside Poland, the Group operates mainly in the airports in Montpellier (France), Alghero (Italy), Tallinn (Estonia), and Lvov (Ukraine), as well as at river ports in Galati and Tulcea (Romania). In 2017, the Parent commenced trading activities on Unity Line ferries operating on the Poland-Sweden route. Following the acquisition of Chacalli-De Decker Holding BV, since 2013 the Group has been also present in the Netherlands, Belgium and Germany. The entities operating in the United Kingdom, the Netherlands and Belgium, providing supplies to diplomatic facilities, were sold outside the Group in 2018.

As the Group addresses its sale mainly to retail customers, no concentration of or dependence on a single customer occurs both at the level of the Parent and the entire Group.

As at 31 December 2018, the Parent and the Group were not dependent on any suppliers. The entity whose supplies exceed 10% of separate revenue is Eurocash Serwis Sp. z o.o. (previously KDWT Sp. z o.o. and KDWT S.A.), with a share of 43% of separate revenue, and Gebr. Heinemann SE & Co. KG with a share of 10% of separate revenue. The share of Eurocash Serwis Sp. z o.o. and Gebr. Heinemann SE & Co. KG in consolidated revenue was 25% and 6%, respectively. Apart from commercial cooperation, there are no formal relations between the above counterparty and the Group companies.

As it sells small quantities of various goods, the Group does not present the structure of sales earned in 2018 by quantity.

After the end of the reporting period, i.e. on 19 February 2019, the Company and Loxxess Polska Sp. z o.o. entered into a warehouse logistics agreement, which 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. As of the end of March 2019, the agreement on the supply of agreed range of goods with Gebr. Heinemann SE & Co. KG (see the Company's Current Report No. 20/2018) became ineffective. As a result, the agreement with Loxxess, under which the Baltona Group has access to warehouses, enables the Company to independently handle deliveries necessary to provide supplies to the operated retail shops.

3. FACTORS CRUCIAL FOR THE DEVELOPMENT OF PHZ BALTONA S.A. AND THE GROUP

3.1. Material risk factors and threats

3.1.1. Risks related to PHZ Baltona S.A.'s operating environment

Risk connected with the macroeconomic situation in the Company's operating markets
The financial standing of the Company depends on an economic situation in Poland, European markets, and the world. Financial results generated by Baltona are influenced, among others, by the rate of GDP growth, changes in foreign exchange rates, inflation rate, unemployment rate, public fiscal policy, interest rates, and money buying power in those markets. These factors influence real pays, household budgets, the society's wealth and demand for passenger air transport and goods offered by the Company. World prices of crude oil also have an impact on the economic situation of the air transport industry. An unfavourable level of the above factors may have a negative impact on financial results and growth prospects of the Company.

Currency risk
Majority of revenues of the Company is earned in PLN and a significant amount of expenses (the purchase of goods) is expressed in foreign currencies, mainly EUR. Despite of possible minimisation of the impact of foreign exchange rate impact through the adjustment of product prices, potential unfavourable fluctuations of foreign exchange rates (strengthening foreign exchange rates in relation

to PLN) may have a negative impact on expenses incurred by the Company and the profitability of its operating activities.

Risk connected with the Company's operating market and market competition

The activities of Baltona are mostly dependent on the economic situation of the air transport industry, which is influenced by such factors like: weather conditions and other Force Majeure events, prices of raw materials (crude oil) and the wealth of consumers. The number of passengers and customers at the Company's shops is influenced by the above factors.

The duty-free shop sector, where Baltona operates, is characterised by high competition in terms of the acquisition of commercial space. The better macroeconomic development of the country and economic standing of consumers, the more absorptive market which attracts foreign entities. Competitors may contribute to the Company obtaining less favourable terms and conditions for the rental of commercial space (including in particular rent rates), terminating the existing rental agreements, and losing customers in favour of competitors.

Risk connected with new locations

The availability of new locations for the Company's outlets is an important factor that conditions the success of the Company's development strategy providing, among others, for the development of its sales network in Poland and abroad. The availability of new premises is directly connected with a situation at airports, the construction of new and expansion of existing airports, as well as the availability of external funding for such projects. Any delays in the construction of new and expansion of existing airports in Poland and abroad may have a negative impact on operating activities, financial results and growth prospects of Baltona.

In addition, if the Company is absent in newly opened terminals (as a result of unsuccessful bids for commercial space), it may lose its existing customers, who will start using newly opened airport terminals and will stop using the existing airports where Baltona is present. The above circumstances may have a negative impact on the Company's financial results and growth prospects.

Risk connected with smoking restrictions

Sales of tobacco products have a significant share in Baltona's total revenue (46% in 2018, based on the Company's management data). In the world, there is a trend of smoking limitation both as a result of a change in consumers' habits, as well as legal regulations (in November 2010, a ban on smoking at public places was enforced in Poland). In future, this trend may have an impact on many areas of the Company's operations, including turnover, cash flows, inventories, demand for working capital and, as a consequence, financial results and growth prospects.

Risk connected with consumer preferences

Consumer behaviour patterns and buying habits may have a direct impact on demand for goods offered by the Company. From the point of view of Baltona's growth prospects, its flexible response to all changes in consumer preferences and ability to adjust the Company's offer fast to changing customer tastes is crucial. In particular, an inadequate identification of various consumer tastes and preferences in foreign markets, including markets where the Company plans to expand in future, may result in delayed achievement of planned revenues during the development of the Company's sales network.

Risk of the macroeconomic conditions affecting availability of debt financing

To implement its development strategy, the Company must obtain additional external funding. There is a risk that the existing macroeconomic situation which has a direct impact on the financial standing and lending policy of banks will also influence the acquisition of external funding by the Company and may, as consequence, contribute to an increase in lending costs and a need to provide higher own contribution. In addition, additional fiscal charges imposed on the banking sector, if any, may contribute to the growth of lending costs and the availability of external funding for business entities, including to PHZ Baltona S.A.

Risk of amendments in legal regulations and the interpretation and application of law

Legal regulations in Poland are subject to quite frequent amendments. The interpretation and application of law also changes. Legal regulations may change in favour of business entities, but may also bring about negative consequences. Changing legal regulations and various interpretations of law, in particular tax law, excise law, customs law, as well as legal regulations on business activity, alcohol trading, labour and social security and securities, may bring about negative consequences for the Company. The interpretation of tax regulations is in particular subject to frequent changes. Tax authorities and courts do not apply uniform interpretation of tax regulations. If tax authorities apply tax law interpretation other than interpretation applied by the Company, this may worsen the Company's financial standing and have an adverse impact on the Company's results and growth prospects.

An example of materialisation of this risk was the correction of the tax return for 2015, which resulted in the need to make an additional payment of approximately PLN 0.5m to the tax authorities in connection with 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 corporate income tax. Following the inspection, 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 view of the above, in the separate and consolidated financial statements a relevant correction of fundamental error was made, totalling approximately PLN 2.2m (including the PLN 0.5m related to the correction of the tax return for 2015 referred to above). Concurrently, the Company clarifies that the above-mentioned accounting recognition relates to tax liabilities of the Parent. As at the date of this report, the Company did not expect any steps to be taken to correct the tax returns of subsidiaries. If any such corrections would be necessary, the Company estimates that the potential additional tax liabilities may amount to approximately PLN 1.8m.

Risk connected with the regulation and operation of free zones and free warehouses

The Company operates shops in the area of free zones. Applicable regulations on the operation of free zones and free warehouses provide for their liquidation ex officio or at a request of their administrator, provided that they may be liquidated ex officio for example if the administrator materially violates tax or customs regulations. The Company does not have a status of an administrator of free zones where they operate their shops. Baltona may not warrant that a given free zone where it operates will not be liquidated at a request of the administrator of the free zone, material violation of tax or customs regulations by the administrator, amendments to legal regulations on the operation of free zones and principles for operation in free zones, or for any other reason. The liquidation of a free zone where the Company's shops operate may have a negative impact on the Company's financial standing and growth prospects.

3.1.2. Risks related to the operations of the Baltona Group

Risk related to the action brought by Lagardere Travel Retail Sp. z o.o. of Warsaw

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 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.

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.

An adverse outcome of court proceedings instigated by the competitor may have an adverse effect on the Group's operations and financial performance.

Risk of failure to achieve the Group's strategic objectives

The Management Board takes up all possible actions in order to achieve the Group's development strategy, which must be considered as a commitment to act with due diligence required from persons professionally dealing with capital company management and not only as a guarantee of goal achievement. The achievement of strategic goals by the Group is influenced by many external factors being beyond the Management Board's control, which, despite of due diligence and top professional standards, are unpredictable. Such factors may include unpredictable market events, changes in legal regulations or their interpretation, as well as natural calamities.

In addition, in the assessment of chances for the achievement of strategic goals by the Group, errors made by responsible persons in the evaluation of market situation and wrong decisions made on the basis of such evaluation, which may have a negative impact on activities, financial standing, results and growth prospects of the Group and the Company, may be also possible.

In addition, the Baltona Group's development strategy provides for further strengthening of its market position, for example, by acquiring foreign entities of a similar operating profile. There is a risk that such a strategy will not bring about expected economic results in the period planned by the Company because of typical risks connected with capital investments. The acquisition of new entities, the unification of an organisational structure of acquired entities and differences in organisation culture may have a temporary, but adverse, impact on the Baltona Group's activities and financial results. In addition, acquired entities may have liabilities, be parties to disputes and proceedings or have other organisational, legal or financial problems which may have an adverse impact on the Group's operations after acquisition.

Risk of IT systems' failure

IT systems used by the Company to provide for effective and timely supplies and sale are important assets of Baltona and its subsidiaries. Any partial or complete loss of data in connection with a computer system failure and any breaks in the operation of those systems could have a negative impact on the companies' ongoing operations and financial results.

Seasonality risk

The activities of Baltona and its subsidiaries operating shops and cafes are characterised by seasonal demand, profitability and sale. This is due to the specific nature of the air industry and related seasonal character of air traffic. The Group records the smallest sales in the period from November to April and the biggest from May to October. As a consequence, revenues earned in the third quarter are usually significantly greater than those of the first quarter. The seasonal character of operations has an impact on mark-ups and financial results achieved in particular months of quarters and results in the Company's diversified demand for working capital.

Risk connected with the specific character of airport logistics

The maintenance of a relevant inventory of goods is a key factor for the continuity of sale by the Group. As at this report date, the Group companies rented warehouse space at individual airports (intermediate storage). Warehouse space of local warehouses located at airports is limited and rental costs are relatively high. That is why a decision was made to open a central warehouse and 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. 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. In connection with the above, there is a risk of a periodical shortage of warehouse stock at some outlets of the Group or delays in supplies in supplies to shops, which may influence sales and financial performance of the Group.

In addition to the need to finance capital expenditures related to adaptation work in new locations, an important area requiring the availability of financing for ongoing activities is the achievement of satisfactory stock levels at in individual locations where trading activities are carried out. This aspect is particularly important for shops operating at the Chopin Airport, because insufficient level of stock may result in a reduction of expected revenue as compared to the original assumptions related to the performance of lease agreements in this location. In that respect, in Q4 2018 and Q1 2019 the Group carried out a number of optimisation measures related to the structure of its warehouse items. The main initiatives completed in this area included inventory review with a view to ensuring its optimal status, relocation of goods and clearance of slow-moving goods. Similar actions will be consistently implemented in subsequent periods.

Nonetheless, due to the change in the airport logistics model, which is currently based on deliveries from own central warehouse, thus on direct relations with producers, the Company identifies a temporary risk related to the availability of a full range of products, in particular at commercial locations located at the Warsaw airport. The existence of the risk is caused by the identified delays in arranging commercial terms with producers as well as organisational constraints related to the possibility of making deliveries (e.g. delays in delivery of merchandising structures and elements by individual producers or delays in the completion of adaptation works at such locations). In the opinion of the Company, the above constraints will reduce of sales potential in Q2 2019. The Company's intention is to achieve an optimum level of stock at retail outlets at the Warsaw airport until Q3 2019.

Operational risk related to the Group's business

PHZ Baltona S.A. and its subsidiaries have defined internal procedures related to various aspects of their operations in place (operational procedures), like business continuity procedures, procedures for the payment of liabilities to administration authorities and business partners. Nevertheless, the Group companies are subject to a risk of loss or unexpected costs caused by inappropriate or unreliable internal procedures, people, IT systems or external events, damages to the Group's assets, frauds, illegal actions or omissions by employees of the Group or other entities whose actions or omissions the Group is liable for.

At present, the Group does not have a centralised compliance programme in place. The Group also commenced work on the implementation of a compliance programme, including a separate internal audit function, within its group. An internal auditor was engaged and assigned specific internal control responsibilities. If the development of the compliance programme will continue, the Group will ensure that persons responsible for risk management are independent and report directly to the Supervisory Board.

Risk of losing experienced management staff

The Group operates in the sector where human resources and employee skills are important assets and one of the most important success factors. The knowledge, skills and experience of the Management Board members and other key personnel of the Group are factors of critical importance for Baltona's strategic interests. If the Group loses its key employees, it may not be able to replace them with new persons in a short time, which may have an adverse impact on activities, financial standing, results and growth prospects of the Group.

Risk connected with dependence on the air transport sector

Most commercial outlets of the Baltona Group are located in the airports and are accessible only to airport passengers. Therefore, demand for products offered by the Group depends directly on the standing of airports and airlines. Any worsening in the financial standing of those entities, airport strikes or other airport events which disturb the operation of airports, as well as bad weather conditions (storms, volcano explosions or other natural calamities) may contribute to reduction in passenger number. the Baltona Group is also exposed to a force majeure risk, including system failures, terrorist attacks, military conflicts, epidemics, and other events influencing the air transport sector. The existence of any of the above circumstances may have an adverse impact on the Group's sales and financial results.

Risk of entering new markets

The Baltona Group's strategy provides for expansion by strengthening the Group's position in its present markets (development in its existing operating areas, i.e. strengthening its market position in the local duty-free market), entering new geographical markets (development through acquisitions and new concessions at airports), and acquiring new product markets (expansion, among others, by sale at aircraft and ferry boards, implementation of new sales forms).

Entering a new market involves expenditure on adapting the range of offered services and goods sold to the local requirements (including consideration of legal barriers on the local markets) and developing completely different sales strategies. In addition, potential cultural differences between the existing and planned markets of the Group should be taken into account.

Thus, there is a risk that benefits connected with the Group entering new markets may be smaller than planned or may be achieved in a period longer than planned by the Baltona Group, which means that financial results achieved by the Group, including the Company, may be also smaller than planned.

Risk connected with rental agreements

The Group carries out its commercial activities on the basis of rental agreements concerning commercial and warehouse facilities at six airports in Poland and abroad. There is limited supply of commercial space which may be rented in the airports. Rental agreements concerning commercial space in the airports are usually subject to detailed bid or competition procedures. In most cases, the Baltona Group companies enter into lease agreements for an unlimited period subject to notice periods set out therein or for a term of 5 or 7 years. The Group must also assume that other rental agreements may be also terminated before the end of their term or that they will be extended after the end of their term. The above circumstances could have a significant adverse impact on the Company's financial results.

Risk connected with supplier concentration

The Group's activities are characterised by supplier concentration. The Group's largest supplier is Eurocash Serwis Sp. z o.o. (former KDWT Sp. z o.o. and KDWT S.A., supplier of tobacco products). As of 31 March 2019, the agreement on the supply of agreed range of goods with Gebr. Heinemann SE & Co. KG, the former second largest supplier of the Company, became ineffective. Given the above, in 2019 an agreement was executed with Loxxess, under which the Baltona Group has access to warehouses and which enables the Company to independently handle deliveries necessary to provide supplies to the operated retail shops. In addition, the market of tobacco product suppliers in Poland is strongly concentrated (four major players hold 50% of the wholesale distribution market), as a result of which a bargaining power of the Group's suppliers in this segment is relatively high. If one of its major suppliers is lost, the Group is able to establish cooperation with a new entity in a relatively short period. However, this may cause temporary short-term disturbances to supplies to the Group's outlets and temporary worsening of commercial terms and conditions, which could have a negative impact on the Group's financial results and growth prospects.

Risk connected with the violation of information duties

PHZ Baltona S.A., as an entity whose shares are traded in the regulated market of the Warsaw Stock Exchange, must fulfil information obligations, including the provision of current and periodical information to the extent and under the terms and conditions set out, among others, in the MAR, the Public Offering Act, the Financial Instrument Trading Act or the Warsaw Stock Exchange Act, which companies listed in the regulated market of the Warsaw Stock Exchange must comply with. The above regulations and acts providing for an obligation and scope of information disclosure may be interpreted in various ways. The Company is of the opinion that as a company listed in the stock exchange market fulfils its information duties correctly and uses all efforts to inform the market and investors on an ongoing basis about all events important for the operations of its Group. The Company must assume, however, that the Stock Exchange may take a different position to this extent in future and sanctions set out in the Stock Exchange Rules will be charged on the Company. In addition, it is possible that, as a consequence of the Company using a wrong interpretation of regulations on reporting or of unfavourable circumstances, it will fulfil its information duties incorrectly and it will be subject to sanctions set out by the Offering Act, which may influence the Company's financial results or disturb its shares trading.

Financial risk

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

- credit risk, including cash flow risk;
- liquidity risk;
- market risk;
- foreign-exchange risk;
- interest rate risk; and
- risk connected with the Group's debts.

The risks are also described in detail in Note 5.3 *Credit risk management* of the separate financial statements for 2018 and Note 5.3 *Credit risk management* of the consolidated financial statements for 2018.

Key policies of risk management

The management boards of individual companies are responsible for establishing risk management procedures and for overseeing their application by a given company. The Company's risk management policies are established to identify and analyse risks faced by the Company, 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 Company's activities.

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

The Group's exposure to credit and cash flow risks is limited because the Company sells goods against cash basis or payment by the use of payment and credit cards, which is compatible with the nature of duty-free industry. Other sales, remaining at 14% in 2018 and 20% in 2017, include the sale of services, including marketing services to suppliers, where the related receivables are offset or secured with liabilities, sale to diplomatic posts (terminated in the second half of 2018 following the sale of subsidiaries), and wholesale to related and unrelated entities. The Partner through which a company authorises payment cards is one of the industry leader and the time limit for payment is very short. The Group is also exposed to credit risk associated with agreements for loans granted to its subsidiaries. In the opinion of the Management Board, the credit risk is minimal.

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 companies' liquidity risk management policies are designed to ensure that a given company's liquidity is at all times sufficient to meet liabilities in a timely manner, both in a regular and crisis situation, without exposing the company to a risk of loss or damage to its reputation. Each Group company is usually provided with a sufficient amount of cash, payable on demand, to cover its anticipated operating costs within 30 days, including those associated with the handling of its financial liabilities. However, this policy does not cover extreme situations which cannot reasonably be foreseen, such as natural disasters.

Also in the event of a periodical significant drop in sales and if it is impossible to generate cash that would enable the implementation of planned investments and finance working capital, the Group companies may experience cash shortages. As a result, the above may cause delays in payments to suppliers, which could ultimately translate into suspension of deliveries to the Group's shops.

The table below presents the structure of past due trade payables to unrelated entities as at 31 December 2018 and 31 March 2019:

	2019-03-31			2018-12-31		
category	1-30 days	31-60 days	over 61 days	1-30 days	31-60 days	over 61 days
overdue payables	13 754	9 625	3 496	6 461	2 237	2 554

In Q1 2019, the amount of past due trade liabilities increased in connection with the following circumstances:

- the need to incur capital expenditures to open retail outlets at the Warsaw airport as soon as possible;
- incurring expenses to stock the above locations;
- lower than originally assumed sales in locations at the airport in Warsaw related to rescheduling of the launch of individual outlets.

In the Company's opinion, the increase in past due liabilities seen in recent months was temporary. The Company believes that due to the expected increase in revenue from commercial activities at the Warsaw airport, the amount of past due liabilities will be consistently reduced in the following months.

Irrespective of the above, the Company intends to obtain external financing, which will be used to secure the financing of the Company's day-to-day operations. The Company expects that the need to finance day-to-day operations from external sources will be successively reduced in the next quarters, as a result of:

- completion in April 2019 of adaptation work at locations at the Chopin Airport, which required significant capital expenditure to be incurred in the recent quarters;
- the above will result in a significant year-on-year reduction in capital expenditure planned to be incurred by the end of 2019;
- achievement by the newly opened shops located at Chopin Airport of an optimum sales level, which should take place in late Q2 2019 and early Q3 2019.

At the turn of Q1 2019, the Group provided stock at the central warehouse operated by Loxxess Polska Sp. z o.o. The target stock level will be reached by the end of Q2 2019.

To secure current payments, the Group has also taken the following measures:

- arrangements with counterparties to receive prepayments for the provided marketing services,
- optimisation of inventories of goods,
- negotiations with suppliers of goods and services on extending payment deadlines.

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 companies may acquire and sell derivative instruments and accept financial liabilities. All transactions are conducted as part of the policy pursued by the Management Board.

Currency risk

The Group companies are exposed to currency risk in connection with sales, purchases, and loans that are denominated in a different currency than the functional currency of a given company. These transactions are mainly denominated in EUR and USD. Due to the fact that a significant part of goods is purchased in EUR, there is risk of fluctuations in margins on sold goods, which may fall in the case of a weakening of the Polish currency. 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. As of 31 December 2018, the Group was not a party to any foreign exchange forward contract. In relation to monetary assets and liabilities denominated in foreign currencies, the Group makes sure that its net exposure is maintained at an acceptable level and follows a policy under which it buys or sells foreign currencies at spot rates, when needed, in order to cover short-term shortages. In the opinion of the Management Board, the Parent's investments in foreign subsidiaries do not involve a significant foreign exchange risk for which hedging would be required.

Interest rate risk

Until 2016, the Group applied a policy under which loans advanced bore interest at fixed interest rates, whereas financial liabilities were subject to floating rates, with the exception of the loans received from related entities Flemingo International (BVI) Limited and Flemingo International Limited, which bore interest at fixed interest rate. In 2016, certain intra-group loans (other than loans from a related party) were consolidated and their interest rates were changed to floating interest rates. Apart from loans, financial liabilities include overdraft facilities, the balance of which changes every day. The Group is exposed to the risk of volatility of cash flows due to interest rates, associated with liabilities with floating interest rates, and to the risk of volatility of the fair value of assets and liabilities with fixed interest rates. There is a risk that a growth of market interest rates in Poland will contribute to the growth of the Group's ongoing financial expenses and new debt repayment costs, which may have a negative impact on the operations, financial standing, results and growth prospects of the Group. The Group hedges against such risk by entering into IRS contracts.

Risk connected with the Group's debts

PHZ Baltona S.A. and its subsidiaries use and intend to use debt financing in the form of bank credit facilities (for its day-to-day operations), finance leases (vehicles, equipment), other debt instruments and loans (including from related parties) to finance investment and capital expenditure. If the Group companies' liquidity worsens, they may not be able to pay their interest liabilities and principal under financial agreements. In that case, the Group's debt under bank loans may be subject to partial or full immediate repayment or, if not repaid, financial institutions may use collaterals established on the Group's assets.

Debt under financing agreements (credit facilities, loans and lease agreements) as at 31 December 2018 and 31 March 2019 was as follows:

Non-current financial liabilities

	2019-03-31	31.12.2018
Secured loans and borrowings	31 998	34 953
Loans from related parties	19 415	19 123
Liabilities due to financial leasing	1 087	1 277
	52 500	**55 353**

Current financial liabilities

	2019-03-31	31.12.2018
Overdrafts	31 369	32 940
Secured loans and borrowings	12 213	12 445
Loans from related parties	78	78
Valuation of derivatives (IFRS)	567	524
Short-term liabilities due to financial leasing	684	703
	44 911	**46 690**

The table does not include finance lease liabilities, which will be recognised in 2019 in accordance with IFRS 16. A detailed description of the impact of IFRS 16 on the financial statements for 2019 is presented in Note 3.19 to the consolidated financial statements for 2018.

As at 31 December 2018, the Group companies' undrawn credit facilities totalled PLN 572 thousand, while as at 31 March 2019 they were PLN 1,037 thousand.

3.2. Description of factors and events, including of non-recurring nature, which had a significant impact on the Company's and the Baltona Group's activities and financial performance in 2018

The Group's development is conditioned both by external factors independent of the Group, as well as internal factors that are directly related to the Group's operations. In the opinion of the Management Board of the Company, the above factors are key factors influencing 2018 results and, in certain cases, 2019 results.

Macroeconomic situation in Baltona's operating markets

Both in Poland and in foreign markets the year 2018 saw stable GDP growth and an increase in the number of passengers using air transport services relative to 2017. Economists project that such stable economic growth will be also maintained in 2019.

Situation of the tourism industry

Charter traffic may be affected by potential financial problems and bankruptcies of businesses operating in the tourism industry. Lower charter traffic at regional airports outside Warsaw, where Baltona operates, may contribute to a reduction in the number of customers visiting the locations managed by the Group.

Competition in Poland

Bids/competitions for commercial space at newly constructed and expanded airports in Poland, which were completed in 2018, indicate that pressure on greater rents increases and this factor will also influence results in the following periods.

Foreign exchange rates

In 2018, the EUR/PLN exchange rate, which is a key factor affecting the Company's financial performance, increased relative to the previous year, and the mid-market rate rose by 3% over 2017.

Reorganisation of the Group's operations

To streamline logistics processes, 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. 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.

As part of optimisation of the Group's structure, on 11 July 2018 the Company, CDD Holding B.V. and Flemingo International (BVI) Limited 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 identified the terms on which the Travel Retail business currently conducted by Chacalli-De Decker N.V. (Belgium) was transferred in whole as an organised part of business to the Baltona Group.

To optimise/simplify the structure and areas of the Group's operations, taking of further steps related to the Group's composition may be considered in the future. However, as at the date of this report, no strategic decisions were made in that matter.

Resumption of operations at the Warsaw Chopin Airport

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.

On 4 March 2019, PPPL 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. 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 covering fees/penalties related to rent and delays in commencing operations at individual premises in are the Company's liabilities to PPL totalling approximately PLN 8.5m (VAT-exclusive). 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. 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, were updated. However, the change of the guarantee terms did not involve an increase in the guarantee amount, except in cases provided for in lease agreements (e.g. rent indexation).

Irrespective of PPL's claims described above concerning invoices for rent and debit notes related to penalties for delays in performance of certain activities as part of adaptation, the Company explains that in connection with the rescheduling of opening of individual shops at the Chopin Airport the expected revenue from operations of further locations was postponed. This resulted in the fact that revenue in 2018 and in Q1 2019 was lower than the revenue assumed in the original schedule of operations and financial projections related to the presence at the Chopin Airport. Nonetheless, the Company reports that the adaptation work at the Chopin Airport were fully completed in April 2019. As indicated in the previous sections of this report, steps are currently taken to stock these locations before the upcoming summer season.

Recognition of intangible assets in the financial statements

After the end of the reporting period, i.e. on 24 April 2019, the Management Board of the Company 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", instead of "Retained earnings" as originally assumed. This had an impact on the financial result for 2018 due to retrospective recognition in Q4 2018 of amortisation charges related to the asset in the total amount of approximately PLN 3,364 thousand. This operation was entered into the Company's accounting records on 25 April 2019.

3.3. Material events, including executed agreements significant to the Company's and the Group's operations

- On 22 February 2018, the Group received a set of documents signed by both parties, in particular an annex to a multi-purpose credit facility agreement under which the limit granted under the facility will be increased from PLN 30m to PLN 33m and sublimits to be used under the overdraft facility and the guarantee facility determined at PLN 14m and PLN 33m, respectively. Together with the annex referred to above, the Group received a non-revolving credit facility agreement for PLN 4.53m signed by both parties.

- On 6 May 2018 the Company, its subsidiary BH Travel Retail Poland Sp. z o.o., Flemingo Dutyfree Shop Private Limited, Ashdod Holdings Limited and Przedsiębiorstwo Państwowe Porty Lotnicze concluded a settlement defining the principles related to mutual settlements connected with litigations relating to lease of retail space at Warsaw Chopin Airport. Pursuant to the provisions of the Settlement, the Parties waived towards one another any mutual claims (current and future) connected with the litigations referred to above, including in particular with respect to proceedings conducted before domestic courts upon the suits of, respectively, BH Travel and PPL, as well as claims of Flemingo against the Republic of Poland, pursued under the Agreement of 7 October 1996 between the Government of the Republic of Poland and the Government of the Republic of India for the Promotion and Reciprocal Protection of Investments, and resulting from the judgement of the arbitration tribunal at the Permanent Court of Arbitration in The Hague (Kingdom of the Netherlands), as well as from litigation notification performed by Ashdod under the Agreement between the Republic of Poland and the Republic of Cyprus for the Promotion and Reciprocal Protection of Investments, made in Warsaw on 4 June 1992. In connection with conclusion of the Settlement, the Company and PPL concluded, also on 6 May 2018, a package consisting of a total of 14 agreements for the lease of retail space, covering 14 shops at both Airport Terminals with the total area of approximately 2,818.75 m². The Lease Agreements foresee gradual delivery of individual premises. The term of individual Lease Agreements is defined as 9 years after handing over of the premises covered by a given Lease Agreement, provided, however, that in the case of two premises with the total area of 1,326 m², the Parties outlined their mutual rights and obligations applicable in the case if redevelopment of the building of Airport Terminal 2 occurs during the term of the agreements in such a way that the redevelopment would have a significant impact on the operations of the said premises. In particular, the Parties foresee the possibility of early termination of the Lease Agreements covering those premises, in whole or in part. The total estimated value of the Lease Agreements during the term thereof will be approximately PLN 710m (VAT-exclusive). The estimated value of individual agreements includes, among other things, the total of monthly rents agreed by the Parties, and service charges.
- On 19 June 2018, the Management Board of Przedsiębiorstwo Handlu Zagranicznego Baltona S.A. and Bank BGŻ BNP Paribas S.A. (the "Bank") signed an annex to the multi-purpose credit facility agreement (multi-purpose credit facility agreement), pursuant to which, among other things: (i) the Company's subsidiary BH Travel Retail Poland sp. z o.o. ("BH Travel") acceded to the agreement and became jointly and severally liable with the Company for the liabilities under the multi-purpose credit facility agreement, (ii) the amount of limit granted under the agreement increased to PLN 71m (provided, however, that the limit will be reduced by PLN 5m per year as of year-end in 2019–2021, to reach PLN 56m at the end of 2021), (iii) the crediting period was set until 8 February 2021. Moreover, independent sublimits to be used within the overdraft facility were identified within the above-mentioned limit: at PLN 14m for the Company and PLN 15m for BH Travel (i.e. a total of PLN 29m for the two entities) as

well as a sublimit of PLN 56m to be used as part of a guarantee facility exclusively by the Company. In connection with the increase of the above limit, an update of the securities under the agreement was made. In particular, the security currently includes: (i) granting of up to PLN 106.5m identified in the promissory note declaration concerning blank promissory note guaranteed by the subsidiaries Centrum Usług Wspólnych Baltona Sp. z o. o., Baltona Shipchandlers Sp. z o.o. and Centrum Obsługi Operacyjnej Sp. z o.o. ("Subsidiaries"), (ii) increasing, as of 30 November 2018, of the amount of secured assets under the registered pledge on the goods for sale owned by the Company and BH Travel, to PLN 29m, (iii) assignment for the benefit of the Bank of rights under the insurance policy concerning the above-mentioned inventories, (iv) corporate guarantee issued by Flemingo International Limited BVI for up to PLN 106.5m with the expiry date on 1 January 2028, (v) corporate guarantee issued by a related company Chacalli – De Decker N.V. for up to PLN 49.5m with the expiry date on 8 February 2024. Irrespective of the above, in connection with conclusion of annexes to the above agreement, security for three non-revolving credit facility agreements concluded between the Company and the Bank were also updated, in particular by increasing to PLN 29m the amount of secured assets under the registered pledge on the inventory of goods for sale owned by the Company.

- On 11 July 2018, the Company, CDD Holding B.V. and Flemingo International (BVI) Limited 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. The annex introduced no other amendments to the above agreement concerning the sale of shares in Chacalli companies.
- 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 the consolidated financial statements.
- On 21 September 2018, the Management Board of Przedsiębiorstwo Handlu Zagranicznego Baltona S.A. and Bank BGŻ BNP Paribas S.A. (the "Bank") signed an annex to the multi-purpose credit facility agreement (multi-purpose credit facility agreement), pursuant to

which the amount of limit granted under the agreement increased to PLN 76m (provided, however, that the limit will be reduced by PLN 5m per year as of year-end in 2019–2021, to reach PLN 56m at the end of 2021), and the current facility's availability period was set to end on 18 June 2019. In connection with the increase of the above limit, an update of the securities under the agreement was made. In particular, the security currently includes: (i) granting of up to PLN 114m identified in the promissory note declaration concerning blank promissory note guaranteed by the subsidiaries Centrum Usług Wspólnych Baltona Sp. z o.o., Baltona Shipchandlers Sp. z o.o. and Centrum Obsługi Operacyjnej Sp. z o.o. ("Subsidiaries"), (ii) increasing, as of 30 November 2018, of the amount of secured assets under the registered pledge on the goods for sale owned by the Company and BH Travel, to PLN 34m, (iii) assignment for the benefit of the Bank of rights under the insurance policy concerning the above-mentioned inventories, (iv) corporate guarantee issued by Flemingo International Limited BVI for up to PLN 106.5m with the expiry date on 1 January 2028, (v) bank guarantee issued by Barclays Bank for up to USD 1.15, (vi) corporate guarantee issued by a related company Chacalli – De Decker NV for up to PLN 49.5m with the expiry date on 8 February 2024.

- 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.
- 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 14 February 2019, the Management Board of the Company 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 Company also points out that the control proceedings concerning 2015 conducted by the Podkarpackie

Province Customs and Tax Office in Przemyśl have not yet been formally completed. In view of the above, the Company cannot determine precisely the impact of the decision to correct the tax return for 2015 on the Baltona Group's settlement of other years, but taking a particularly prudent approach the Company notes that the potential estimated amount of additional payment related to tax return correction in future years may be approximately PLN 4m plus interest. In the financial statements for 2018 a correction of fundamental error was made related to the settlements referred to above, 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).

In the reporting period, other than those referred to above, the Group companies did not execute any significant shareholder agreements, insurance agreements or cooperation agreements.

3.4. Material related-party transactions executed by the Company or its subsidiary, other than arm’s length transactions

In 2018, the Parent and its subsidiaries did not execute any related-party transactions other than on arm's length terms. Information on related-party transactions executed by the Company is presented in Section 30 (Related-party transactions) of the separate financial statements.

3.5. Growth prospects for PHZ Baltona S.A. and the Group

Major development goals of the Company for 2018 are as follows:

- Development of the existing operations;
- Acquisition of new sources of income.

Development of the existing operations

The Company intends to take up actions aimed at strengthening its position in the Polish duty-free market at airports through organic development by the use of the projected growth of air (business and tourism) passenger traffic, the growth of population’s wealth, as well as development plans of Polish airports.

The Company intends to strengthen its market position with regard to sale at airport shops by:

- improving the operating effectiveness of shops and catering facilities through effectively converting passengers being near the shop into shop customers and increasing the value of a single transaction;
- optimising shop area and decoration;
- optimising shop offer, actively monitoring current trends in customer preferences and expectations;
- optimising prices, maximising financial results in a long run;
- active marketing and promotion actions aimed at refreshing, promoting and improving the awareness of the Group’s brands.

Acquisition of new sources of income

The second strategic direction of the Baltona Group's development in the following years is expansion through the development of a sales network in the Polish market, the development of a sales network abroad, and entrance into new product markets (new operating areas).

Development of a sales network in Poland

Baltona intends to take an active part in bids/competitions for commercial space in new terminals in newly constructed or expanded airports. In addition, the Group intends to acquire new commercial space at airports where it is already present.

Foreign expansion

In the Management Board's opinion, thanks to the Group's well-established position in the Polish market, it is prepared for active foreign expansion. The Group intends to actively expand its operations in foreign markets by taking part in the consolidation of the European market (acquisition of local and regional operators of duty-free shops).

New business areas

The Group plans to diversify its revenues by expanding its offer with new operating areas.

Shop opening

In 2018, three new shops were opened in Wrocław, two new shops in Tallinn and nine shops at the Warsaw Chopin Airport. In addition, in 2018 two new cafes were opened in Warsaw: at the Central Railway Station and on Nowy Świat street.

Total capital expenditure related to the opening, renovation and adaptation of locations planned for 2018 (including in particular the expenditure on works related to the resumption of operations at the Chopin Airport) amounted to PLN 67,728 thousand. However, due to delays in the preparation for the construction of shops at the Chopin airport, the actual capital expenditure incurred in 2018 amounted to PLN 77,741 thousand. The factors that contributed to the fact that the expenditure was higher than planned included higher market prices of materials and services, additional, unforeseen construction works and the need to carry out some works faster than assumed in the original schedules.

In Q1 2019, capital expenditure incurred for adaptation of locations amounted to approximately PLN 24.5m, while the capital expenditure planned to be incurred until the end of 2019 is estimated as at the date of this report at approximately PLN 11m. The planned capex covers mainly the completion of the investment at the Warsaw Chopin Airport and the construction of a new shop at the Montpellier Airport in France.

Shop closing

In 2018, the last café in Gdańsk was closed due to discontinuation in 2017 of trading activities in the Passenger Terminals at the Gdansk Lech Walesa Airport. In addition, in 2018 crew shops in Warsaw, Rzeszów and Bydgoszcz were closed. On 30 September 2018, the Landside shop at the Liege Airport was closed and on 31 March 2019 the second shop at Liege Airport discontinued its operations.

Equity investments

In 2018, the following subsidiaries were recapitalised by way of advancing loans: Baltona Duty Free Estonia OÜ in the amount of PLN 7,148 thousand, Baltona Italy in the amount of PLN 504 thousand and Chacalli-De Decker NV in the amount of PLN 958 thousand.

Loan offsetting

On 31 December 2018, Flemingo Duty Free (BVI) Limited and PHZ Baltona S.A. signed loan offset agreements under which a loan of up to EUR 598,872.71 was cancelled in correspondence with the payments made by the subsidiaries of CDD Holding BV.

Sales markets - territorial structure of revenues

The Group sells both in domestic and foreign markets, where the domestic market is Poland and foreign markets are all other geographical markets.

The following table reflects PHZ Baltona S.A.'s sales distribution by market (data in thousands PLN) :

	01.01.2018-31.12.2018	**01.01.2017-31.12.2017**
Revenues from the sale of services		
Poland	2 822	1 710
Others	96	25
Revenues from the sale of services in total	**2 918**	**1 735**
Revenues from the sale of goods and materials		
Poland	270 157	166 279
Others	4 015	20 939
Revenues from the sale of goods and materials in total	**274 172**	**187 218**
Total sales revenues	**277 090**	**188 953**

The following table reflects the Baltona Group's sales distribution by market (data in thousands PLN):

	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**

Effect of recognition of the right to conclude an agreement in the Company's statement of financial position

On 25 April 2019, the right to conclude an agreement was recognised in the amount of PLN 94,992 thousand. The recognition of the asset will result in the retrospective recognition of amortisation charges in 2018 as well as the need to charge amortisation in subsequent months at the adopted annual amortisation rate of approximately 10.6%. The amortisation charges will significantly increase the cost base, but the Company reminds that they are non-monetary in nature and will not affect EBITDA.

4. OVERVIEW OF THE FINANCIAL SITUATION

4.1. Situation of the PHZ Baltona Group

Statement of profit or loss and other comprehensive income, including the assessment of factors and non-recurring events affecting the financial performance

Revenue

	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Revenues from the sale of services		
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 Company 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.

The major source of the Group's revenue in 2018 was the sale of goods at generally accessible and duty-free shops located mainly at airports, which constituted approximately 85% of total revenue.

The increase in revenue in 2018 was mainly attributable to the opening of shops and resumption of operations at the Warsaw Chopin Airport. However, revenue growth was lower than expected due to delays in opening shops at the Chopin Airport.

The following table reflects the structure of the Group's sales by group of goods in 2017-2018.

Category	2018 (unaudited)	2017 (unaudited)	*Dynamics*	*2018, % share in sales*	*2017, % share in sales*
Tobacco products	220 596	118 676	85,9%	45,7%	32,5%
Alcoholic products	84 926	45 659	86,0%	17,6%	12,5%
Cosmetic products	55 471	39 824	39,3%	11,5%	10,9%
Foods	58 942	98 435	-40,1%	12,2%	27,0%
Clothes and accessories	9 120	5 479	66,5%	1,9%	1,5%
Other goods	51 338	55 597	-7,7%	10,6%	15,2%
DCC revenue	2 483	1 381	79,8%	0,5%	0,4%
Marketing services	0	39	-100,0%	0,00%	0,0%
Sublease of space	44	42	4,8%	0,01%	0,0%
Other services	48	93	-48,4%	0,01%	0,03%
Total revenue from sales	**482 968**	**365 225**	**32,2%**	**100,0%**	**100,0%**

The list was prepared on the basis of management data.

In 2018, the share of individual product categories in total sales increased due to the resumption of operations at the Warsaw Chopin Airport.

Operating costs

in 000 PLN

Category	2018	2017	*Dynamics*	*share, 2018*	*share, 2017*
Depreciation and impairment write-offs	10 931	6 757	161,8%	2,3%	1,8%
Consumption of raw materials and materials	3 943	3 220	122,5%	0,8%	0,9%
Third party services	102 455	61 078	167,7%	21,1%	16,6%
Costs of employee benefits	45 779	40 384	113,4%	9,4%	11,0%
Taxes and fees	1 715	1 836	93,4%	0,4%	0,5%
Other cost items	4 217	3 563	118,4%	0,9%	1,0%
Value of goods and materials sold	315 785	249 866	126,4%	65,1%	68,0%
Other operating costs	138	496	27,8%	0,0%	0,1%
Total operating costs	**484 963**	**367 200**	**132,1%**	**100,0%**	**100,0%**

The value of goods and materials sold, which constituted 65.1% of operating costs in comparison to 68% in the previous year, was the largest item of costs in 2018. The value of goods and materials sold is directly connected with a gross mark-up on the sale of goods at shops. The calculation of the mark-up is presented in the following table.

in 000 PLN

	2018	2017
Sales of goods and materials	480 393	363 670
Value of goods and materials sold	315 785	249 866
Margin on sales of goods	**34%**	**31%**

Mark-up on the sale of goods = (sales of goods and materials - value of goods and materials sold) / sales of goods and materials

The mark-up on the sale of goods of the Company was 34% in 2018, relative to 31% in 2017, which was a result of the fact that revenue moved forward faster than the cost of sales.

Services, including mainly the cost of rental of commercial space at airports and the cost of rental of office and warehouse facilities, are very important for the Baltona Group's operations. The total share of services in total costs in 2018 increased by 4.5 percentage points, from 16.6% to 21.1%, due to resumption of operations at the Warsaw Chopin Airport.

The cost of employee benefits, including salaries of shop and office staff, constitutes the third most significant group of operating costs of the Group. In 2018, salaries and wages, including overheads (social security and other benefits), constituted 9.4% of the Group's operating costs and their share in operating costs did not change materially compared with the previous year.
In connection with the recognition of the right to conclude an agreement, in 2018 amortisation charges of PLN 3,364 thousand were recognised, as a result of which amortisation charges were higher than in the previous period.
Summing up, during 12 months ended 31 December 2018, operating costs increased by 32.1% relative to 2017.

Operating result

In 2018, the Group recognised operating profit of PLN 1,131 thousand, up by 251% compared with operating loss of PLN 751 thousand posted in 2017. The operating profit results from an increase in sales with concurrent a rise in cost of sales.

Finance income and costs

In 2018, the Group's finance income comprised mainly interest income connected with invested funds and positive exchange rate differences.
In the same period, Baltona's finance costs comprised interest expenses connected with the Group's debt under bank credit facilities, loans received, lease liabilities, and foreign currency translation losses. The increase in finance costs results from higher liabilities under loans related to the financing of capital expenditure on adaptation works at new locations.

Net profit/(loss)

During 12 months ended 31 December 2018, the Baltona Group recorded a net loss of PLN (-)4,342 thousand relative to a net loss of PLN (-)2,105 in 2017.

EBITDA

In 2018, the Group's EBITDA, calculated as operating profit before depreciation and amortisation and impairment losses, including on goodwill, was PLN 12,062 thousand in comparison to PLN 6,006 thousand in 2017.

Financial position

The following table presents the structure and rate of growth of the Group's assets in the reporting period.

ASSETS	31.12.2018	*Structure %*	31.12.2017	*Structure %*	*Dynamics %*
	in 000 PLN		*in 000 PLN*		
Non-current assets	**190 395**	**65%**	**29 501**	**30%**	**545%**
Property, plant and equipment	87 130	30%	13 643	14%	539%
Intangible assets	92 716	31,8%	1 049	1,1%	8736%
Goodwill	4 449	2%	5 719	6%	-22%
Trade and other receivables	4 465	2%	5 739	6%	-22%
Deferred income tax assets	1 634	1%	3 351	3%	-51%
Current assets	**101 316**	**35%**	**68 650**	**70%**	**48%**
Inventories	42 915	15%	36 904	38%	16%
Trade and other receivables	45 589	16%	19 153	20%	138%
Short-term investments	1 071	0,4%	117	0,1%	815%
Receivables due to current income tax	103	0%	136	0%	-24%
Cash and cash equivalents	11 638	4%	12 340	13%	-6%
TOTAL ASSETS	**291 711**	**100%**	**98 151**	**100%**	**197%**

As at 31 December 2018, the Baltona Group's total assets amounted to PLN 291,711 thousand in comparison to PLN 98,151 thousand in 2017, which means an increase by 197%. The reason for the increase was the purchase of property, plant and equipment related to alteration and furnishing of newly opened shops at the Warsaw Chopin Airport and recognition of a new category of intangible assets: right to conclude an agreement in the amount of PLN 94,992 thousand. The right to conclude an agreement is related to the resumption of operations at the Warsaw Chopin Airport. As regards current assets (up by 47.6%), there was a noticeable increase in inventories by 16.3% as well as trade and other receivables by 138% resulting from stronger sales driven by the resumption of operations at the Warsaw Chopin Airport.

LIABILITIES	31.12.2018	Structure %	31.12.2017	Structure %	*Dynamics %*
Equity	**96 832**	**33,2%**	**4 409**	**1,5%**	**2096,3%**
Share capital	2 814	1,0%	2 814	1,0%	0,0%
Capital from sale of shares above face value	4 655	1,6%	4 655	1,6%	0,0%
Reserve capital	23 529	8,1%	23 064	7,9%	2,0%
Treasury shares	-2 042	-0,7%	-2 042	-0,7%	0,0%
Capital from transaction with owner	94 992	32,6%	0	0,0%	-
Retained profits	-22 187	-7,6%	-20 574	-7,1%	7,8%
Current result	-4 342	-1,5%	-2 105	-0,7%	106,3%
Exchange differences from conversion	-803	-0,3%	-1 317	-0,5%	-39,0%
Non-controlling shares	216	0,1%	-86	0,0%	-350,8%
Liabilities and provisions for liabilities	**194 879**	**66,8%**	**93 742**	**32,1%**	**107,9%**
Long-term liabilities	66 650	22,8%	28 430	9,7%	134,4%
Liabilities for loans, borrowings and other debt instrumer	55 353	19,0%	23 118	7,9%	139,4%
Liabilities for deliveries and services and other	10 836	3,7%	0	0,0%	-
Revenue of future periods	69	0,0%	148	0,1%	-53,4%
Reserves	52	0,0%	1 094	0,4%	-95,2%
Liabilities due to employee benefits	340	0,1%	4 070	1,4%	-91,6%
Current liabilities	**128 229**	**44,0%**	**65 312**	**22,4%**	**96,3%**
Liabilities for loans, borrowings and other debt instrumer	46 690	16,0%	13 615	4,7%	242,9%
Liabilities for deliveries and services and other	71 169	24,4%	45 847	15,7%	55,2%
Income tax liabilities	3 038	1,0%	2 263	0,8%	34,2%
Liabilities due to employee benefits	3 719	1,3%	3 580	1,2%	3,9%
Revenue of future periods	3 611	1,2%	5	0,0%	72120,0%
Reserves	2	0,0%	2	0,0%	15,7%
TOTAL LIABILITY	**291 711**	**100,0%**	**98 151**	**33,6%**	**197,2%**

As at 31 December 2018, the Baltona Group's equity was greater than at the end of 2017 and amounted to PLN 96,832 thousand in comparison to PLN 4,409 thousand in the previous period. The increase in equity was driven by equity from transactions with owners in the amount of PLN 94,992 thousand, with a concurrent adverse effect of the recognition of a fundamental error in the amount of PLN 2,185 thousand related to tax settlements and the net loss for 2018.

The rise in non-current liabilities results mainly from taking out investment loans in connection with opening of shops in Tallinn, Wrocław and Warsaw, and disclosure of the long-term portion of liabilities to Przedsiębiorstwo Państwowe Porty Lotnicze, which in accordance with the settlement of 4 March 2019 the Group undertook to pay in the form of monthly payments in 2020.
Also, a significant item of liabilities were loans received from companies, which are members of a shareholder's group, i.e. from the Flemingo Group. The loans are described in detail in the financial statements.

Loans received are presented in the table below (in PLN thousand):

Lender	Currency	Interest rate	Year of maturity	Book value 31.12.2018	Book value 31.12.2017
Flemingo International Limited	USD	5%	2020	35	34
Flemingo International Limited	EUR	5%	2020	3 188	5 315
Flemingo International (BVI) Limited	EUR	5%	2020	10 956	11 144
Flemingo International Limited	EUR	5%	2020	43	40
Flemingo International Limited	USD	5%	2020	1 701	1 514
Flemingo International Limited	USD	5%	2020	3 278	2 960
Total				**19 201**	**21 007**

On 31 December 2018, annexes to loan agreements were signed to extend their repayment date until 31 December 2020.

In 2018, current liabilities increased from PLN 65,314 thousand as at the end of 2017 to PLN 139,069 thousand, which means that they financed over 47.7% of the Company's assets. The largest item of current liabilities was trade and other payables, which constituted 28.1% of total equity and liabilities as at 31 December 2018 in comparison to 46.7% in 2017.
The second largest category of current liabilities was liabilities under loans, borrowings and other debt instruments. As at the end of December 2018, their share in total equity and liabilities increased from 13.9% in 2017 to 16% in 2018. The increase in liabilities under loans stemmed from new investment loans taken out.

Summing up, the sources of funding of the Baltona Group were as follows:

- equity,
- bank loans: working-capital credit facilities used to finance ongoing operations,
- bank loans: non-revolving credit facilities used to finance investment projects,
- finance lease: used to finance vehicles and shop and warehouse furniture and equipment,
- merchant loan: trade and other liabilities,
- loans from related parties.

Cash flows

	for the period of 12 months ended on 31 December	
	2018	**2017**
	in 000 PLN	*in 000 PLN*
Operating cash flows	10 084	8 088
Investment cash flows	(77 707)	(7 381)
Financial cash flows	45 782	(2 383)
Total net cash flows	(21 837)	(1 676)

As at 31 December 2018, the balance of cash recognised in the Company's statement of cash flows (understood as cash and cash equivalents less actually used amount of the overdraft facility) was negative at PLN (-)21,302 thousand relative to PLN 533 thousand as at beginning of the reporting period.

In 2018, the Baltona Group recorded positive net cash flows from operating activities of PLN 10,088 thousand. In 2018, net cash flows from investing activities were negative and amounted to PLN -77,707, which were mainly attributable to expenditure for the purchase of property, plant and equipment in connection with the newly opened shops at the Warsaw Chopin Airport. Positive net cash flows from financing activities in 2018 were connected mainly with the receipt of new loans.

Ratio analysis

Group's profitability ratios

Company profitability ratios

Ratio	2018	2017
Return on sales (ROS)	34,6%	31,6%
EBITDA profitability*	2,5%	1,6%
Gross profitability	0,0%	-0,4%
Net profitability	-0,9%	-0,6%
Return on assets (ROA)	-1,5%	-2,1%
Return on equity (ROE)	-4,5%	-47,7%

**EBITDA calculated as operating result before depreciation and amortisation and impairment losses.*
Formulas used to calculate the ratios:
Return on sales (ROS): gross mark-up/sales for the period
EBITDA profitability = EBITDA of the period/sales of the period
Gross profitability = profit before tax of the period/sales of the period
Net profitability = profit after tax of the period/sales of the period
Return on assets (ROA) = profit after tax of the period/assets
Return on equity (ROE) = profit after tax/equity

During 12 months ended 31 December 2018, the net profitability ratio, ROA and ROE were negative. The profitability ratios did not change significantly as compared to the previous year, except for ROE, which grew as a result of an increase in equity resulting from the recognition of a right to conclude an agreement.

Debt ratios

Ratio	2018	2017
Debt ratios	0,7	1,0
Debt to equity ratio	2,1	21,3
Non-current assets coverage ratio	0,9	1,1
Long-term debt ratio	0,2	0,3
Short-term debt ratio	0,4	0,7
Interest coverage ratio	1,0	-0,01

Formulas used to calculate the ratios:
Total debt ratio – total liabilities / total equity and liabilities
Debt to equity ratio – total liabilities / total equity
Equity to non-current assets ratio = (equity + non-current liabilities) / non-current assets
Short-term debt ratio = current liabilities / total equity and liabilities
Long-term debt ratio = non-current liabilities / total equity and liabilities
Interest cover ratio = (profit before tax + interest expense) / interest expense

Debt ratios in 2018 were at a safe level, given the specific nature of the Group's retail activities and debt structure, mostly comprising shareholder loans. The Management Board does not expect to find any difficulties in achieving its investment plans, including capital investments in comparison to the size of funds owned by the Group, including changes in the structure of such activities funding.

In 2018, the total debt ratio was reduced to 0.7 relative to 1 in the previous year. The debt to equity ratio fell from 21.3 to 2.1 in 2018 due to the increase in equity referred to above resulting from the recognition of equity from transactions with owners in the amount of PLN 94,992 thousand. The interest cover ratio in 2018 stood at 1, while in 2017 it was -0.01. Despite a higher ratio related to taking out of new loans, in the reporting period the Group paid its interest liabilities as they fell due. Also, the Management Board does not expect any difficulties in payment of interest liabilities.

Liquidity ratios

Ratio	2018	2017
Current ratio	0,8	1,1
Quick ratio	0,5	0,3
Cash ratio	0,1	0,2

Formulas used to calculate the ratios:
Current ratio – total current assets / total current liabilities
Quick ratio – (total current assets - inventories) / total current liabilities
Cash ratio = (cash and cash equivalents) / total current liabilities

Current ratio decreased in 2018 in comparison to the previous year.

Working capital analysis

No.	Ratio	2018	2017
1	Inventory turnover ratio	49,6	53,9
2	Days sales outstanding	20,2	13,2
3	Liabilities turnover ratio	48,3	39,5
4	Operating cycle (1+2)	69,8	67,1
5	Cash conversion cycle (4-3)	21,5	27,6

Formulas used to calculate the ratios:
*Inventory cycle = inventories as at the period end / value of goods and materials sold in the period * number of days in the period*
*Average collection period = trade receivables as at the period end / sales for the period * number of days in the period*
*Average payment period = trade liabilities as at the period end / operating costs for the period * number of days in the period*

In 2018, the inventory cycle was reduced from 53.9 to 49.6 due to an increase in inventories caused by the resumption of operations at the Warsaw Chopin Airport and a rise in cost of sales. The average collection period lengthened from 13.2 to 20.2 days due to an increase in both trade receivables and revenue. The average payment period lengthened from 39.5 days in 2017 to 48.3 days in the period covered by this report. In effect, the cash conversion cycle shortened to more than 21 days in 2018 from nearly 28 days in the previous year.

4.2. Situation of the Parent

Statement of profit or loss and other comprehensive income, including the assessment of factors and non-recurring events affecting the financial performance

Revenue

	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Revenues from the sale of services		
Sublet the area	44	42
Revenues from DCC	2 269	4 239
Other	605	454
Revenues from the sale of services in total	**2 918**	**1 735**
Revenues from the sale of goods and materials		
Retail sale generally available	29 807	20 888
Duty free retail sale	234 429	140 647
Wholesale	6 568	22 596
Export sales	3 368	3 087
Other	0	0
Revenues from the sale of goods and materials in total	**274 172**	**187 218**
Total sales revenues	**277 090**	**188 953**

The major source of the Company's revenue in 2018 was the sale of goods at generally accessible and duty-free shops located mainly at airports, which constituted more than 95% of total revenue.

The following table reflects the structure of the Company's sales by group of goods in 2017-2018.

Category	2018 (unaudited)	2017 (unaudited)	Dynamics	2018, % share in sales	2017, % share in sales
Tobacco products	147 896	97 943	51,0%	53,4%	51,8%
Alcoholic products	42 775	26 114	63,8%	15,4%	13,8%
Cosmecit products	18 763	15 141	23,9%	6,8%	8,0%
Foods	28 645	14 991	91,1%	10,3%	7,9%
Clothes and accessories	1 981	1 666	18,9%	0,7%	0,9%
Other goods	34 015	31 363	8,5%	12,3%	16,6%
DCC revenue	2 269	1 239	83,1%	0,8%	0,7%
Sublease of space	44	42	4,3%	0,02%	0,0%
Other services	701	454	54,5%	0,3%	0,2%
Total revenue from sales	**277 090**	**188 953**	**46,6%**	**100,0%**	**100,0%**

The statement was prepared on the basis of management data.

In 2018, almost all sales categories, except for cosmetics, clothing and accessories, and other, increased their share in total sales.

Operating costs

in 000 PLN

Category	2018	2017	Dynamics	share, 2018	share, 2017
Depreciation and impairment write-offs	6 271	2 947	112,8%	2,2%	1,5%
Consumption of raw materials and materials	1 422	1 147	24,0%	0,5%	0,6%
Third party services	73 106	42 042	73,9%	25,1%	21,3%
Costs of employee benefits	14 481	10 819	33,8%	5,0%	5,5%
Taxes and fees	937	946	-1,0%	0,3%	0,5%
Other cost items	2 079	1 447	43,7%	0,7%	0,7%
Value of goods and materials sold	192 552	138 176	39,4%	66,2%	69,9%
Other operating costs	62	185	-66,5%	0,0%	0,1%
Total operating costs	**290 910**	**197 709**	**47,1%**	**100,0%**	**100,0%**

The value of goods and materials sold, which constituted more than 66% of operating costs in comparison to 69.9% in the previous year, was the largest cost group of the Group in 2018. The value of goods and materials sold is directly connected with a gross mark-up on the sale of goods at shops. The calculation of the mark-up is presented in the following table.

in 000 PLN

	2018	2017
Sales of goods and materials	274 172	187 218
Value of goods and materials sold	192 552	138 176
Margin on sales of goods	**30%**	**26%**

Mark-up on the sale of goods = (sales of goods and materials - value of goods and materials sold) / sales of goods and materials

Services, including mainly the cost of rental of commercial space at airports and the cost of rental of office and warehouse facilities, are very important for Baltona's operations. This item also includes costs of fees for the use of Baltona trademark payable by the Company since the fourth quarter of 2011 for its subsidiary, Centrum Usług Wspólnych Baltona Sp. z o.o.

The total share of services in total costs in 2018 increased by 3.9 percentage points, to 25.1%% from 21.3% in 2017. The rise was caused by higher cost of rent in connection with the expansion of operations in Wrocław and on the Unity Line ferries.

The cost of employee benefits, including salaries of shop and office staff, constitutes the third most significant group of operating costs of the Company. In 2018, salaries and wages, including overheads (social security and other benefits), constituted 5% of the Company's operating costs, i.e. their share changed by 0.5 percentage point compared with 2017.

In connection with the recognition of the right to conclude an agreement, in 2018 amortisation charges of PLN 3,364 thousand were recognised, as a result of which amortisation charges were higher than in the previous period.

The share of depreciation and amortisation in total operating costs grew from 1.5% in 2017 to 2.2% in 2018, while in nominal terms depreciation and amortisation increased by 112.8%. The rise resulted from higher investment purchases (shop equipment) in 2018, which inflated depreciation.

Other categories of Baltona's operating costs, i.e. energy and materials used, taxes and charges and other costs by nature and operating costs constituted less than 2% of total expenses in 2018.

Summing up, during 12 months ended 31 December 2018, operating costs increased by 47.1% relative to 2017.

Operating result

In 2018, the Company posted operating loss of PLN 11,151 thousand, while in 2017 the operating loss amounted to PLN 8,274 thousand. This was attributable to the growth of Baltona's operating costs.

Finance income and costs

In 2018, the Company's finance income comprised mainly interest income connected with invested funds (bank deposits, loans granted), dividends paid by subsidiaries, and positive exchange rate differences.

In the same period, Baltona's finance costs comprised interest expenses connected with the Company's debt under bank credit facilities, loans received, lease liabilities, and foreign currency translation losses. The increase in finance costs results from higher liabilities under loans related to the financing of capital expenditure on adaptation works at new locations.

Net profit/(loss)

During 12 months ended 31 December 2018, Baltona recorded a net loss of PLN (-)9,583 thousand relative to a net profit of PLN (-)464 in 2017.

EBITDA

In 2018, EBITDA, calculated as profit (loss) from operating activities before depreciation and amortisation and impairment losses, was PLN (-)4,880 thousand, relative to PLN (-)5,327 thousand in 2017.

Financial position

The following table presents the structure and rate of growth of the Company's assets in the reporting period.

ASSETS	31.12.2018	*Structure %*	31.12.2017	*Structure %*	*Dynamics %*
	in 000 PLN		*in 000 PLN*		
Non-current assets					
Property, plant and equipment	10 725	5%	5 175	6%	107%
Intangible assets	92 264	42,9%	390	0,5%	23557%
Trade and other receivables	3 535	2%	2 779	3%	27%
Long-term investments	48 423	23%	40 018	47%	21%
Deferred income tax assets	38	0%	2 228	3%	-98%
Non-current assets	**154 985**	**72%**	**50 590**	**59%**	**206%**
Current assets					
Inventories	17 688	8%	17 248	20%	3%
Trade and other receivables	38 984	18%	12 066	14%	223%
Short-term investments	124	0,1%	117	0,1%	6%
Cash and cash equivalents	3 171	1%	5 591	7%	-43%
Current assets	**59 967**	**28%**	**35 022**	**41%**	**71%**
TOTAL ASSETS	**214 952**	**100%**	**85 612**	**100%**	**151%**

As at 31 December 2018, Baltona's total assets amounted to PLN 214,952 thousand in comparison to PLN 85,612 thousand at the end of 2017, which means a 151% growth. The increase mainly stemmed from investment purchases of property, plant and equipment related to alteration and furnishing of newly opened shops at the Warsaw Chopin Airport and recognition of a new category of intangible assets: right to conclude an agreement in the amount of PLN 94,992 thousand. On the current assets side, the increase in total assets resulted from higher trade and other receivables related to stronger sales.

LIABILITIES	31.12.2018	Structure %	31.12.2017	Structure %	*Dynamics %*
Equity					
Share capital	2 814	1%	2 814	3%	0%
Capital from sale of shares above face value	4 655	2%	4 655	5%	0%
Reserve capital	21 467	10%	21 003	25%	2%
Treasury shares	(2 043)	-1%	(2 043)	-2%	0%
Capital from transaction with owner	94 992	44%	-	0%	-
Retained profits	(12 340)	-6%	(2 293)	-3%	438%
Total equity	**109 545**	**51%**	**24 136**	**28%**	**354%**
Liabilities					
Liabilities under credits and loans	19 687	9%	18 038	21%	9%
Trade and other liabilities	10 836	5%	-	0%	-
Provisions	52	0%	52	0,1%	0%
Liabilities under employee benefits	49	0%	35	0,0%	40%
Long-term liabilities	**30 624**	**14%**	**18 125**	**21%**	**69%**
Liabilities under credits and loans	30 163	14%	8 828	10%	242%
Trade and other liabilities	38 788	18%	30 960	36%	25%
Liabilities under corporate income tax	2 237	1%	2 185	3%	2%
Liabilities under employee benefits	1 469	1%	1 373	2%	7%
Deferred income	2 126	0,99%	5	0,0%	42420%
Short-term liabilities	**74 783**	**35%**	**43 351**	**51%**	**73%**
Liabilities	**105 407**	**49%**	**61 476**	**72%**	**71%**
TOTAL LIABILITIES	**214 952**	**100%**	**85 612**	**100%**	**151%**

As at 31 December 2018, Baltona's equity was greater than at the end of 2016 and amounted to PLN 109,545 thousand in comparison to PLN 24,136 thousand in the previous period. The increase in equity was driven by equity from transactions with owners in the amount of PLN 94,992 thousand, with a concurrent adverse effect of the recognition of a fundamental error in the amount of PLN 2,185 thousand related to tax settlements and the net loss for 2018.

The rise in non-current liabilities results mainly from taking out investment loans in connection with opening of shops in Tallinn and Wrocław and on Unity Line ferries, and disclosure of the long-term portion of liabilities to Przedsiębiorstwo Państwowe Porty Lotnicze, which in accordance with the settlement of 4 March 2019 the Group undertook to pay in the form of monthly payments in 2020.

Also, a significant item of liabilities were loans received from companies, which are members of a shareholder's group, i.e. from the Flemingo Group.

Loans received are presented in the following table (in PLN thousand):

Lender	Currency	Interest rate	Year of maturity	Book value 31.12.2018	Book value 31.12.2017
Flemingo International Limited	USD	5%	2020	35	34
Flemingo International Limited	EUR	5%	2020	3 188	5 315
Flemingo International (BVI) Limited	EUR	5%	2020	10 956	11 144
Flemingo International Limited	EUR	5%	2020	43	40
Total				**14 222**	**16 533**

In 2018, current liabilities increased from PLN 43,350 thousand as at the end of 2017 to PLN 74,783 thousand, which means that they financed over 51% of the Company's assets. Among current liabilities, trade and other payables, which constituted 23% of total equity and liabilities as at 31 December 2018 in comparison to 36% in 2017, were the largest category.

The second largest category of current liabilities was liabilities under loans, borrowings and other debt instruments. As at the end of December 2018, their share in total equity and liabilities was 14% in comparison to 10% in the previous year. The increase in liabilities under loans and borrowings resulted from a higher amount outstanding under the overdraft facility and disbursement of further tranches of non-revolving credit facilities.

Summing up, the sources of funding of PHZ Baltona S.A. were as follows:

- equity,
- bank loans: working-capital credit facilities used to finance ongoing operations,
- bank loans: non-revolving credit facilities used to finance investment projects,
- finance lease: used to finance vehicles and shop and warehouse furniture and equipment,
- merchant loan: trade and other liabilities,
- loans from related parties.

Cash flows

	for the period of 12 months ended on 31 December	
	2018	**2017**
	in 000 PLN	*in 000 PLN*
Operating cash flows	(5 748)	4 329
Investment cash flows	(20 240)	(5 930)
Financial cash flows	7 083	(1 361)
Total net cash flows	(18 905)	(2 962)

As at 31 December 2018, the balance of cash recognised in the Company's statement of cash flows (understood as cash and cash equivalents less actually used amount of the overdraft facility) remained negative at PLN (-)20,813 thousand relative to a negative balance of PLN (-)1,908 thousand as at beginning of the reporting period.

In 2018, Baltona's net cash flows from operating activities were negative and amounted to PLN (-)5,748 thousand. Net cash flows from investing activities in 2018 were negative and amounted to PLN (-)20,240 thousand, which mainly resulted from loans advanced to subsidiaries of PLN (-)11,283 thousand and expenditure for the purchase of property, plant and equipment of PLN (-)13,464 thousand. Positive net cash flows from financing activities in 2018 were connected mainly with the disbursement from credit facilities and receipt of a loan from a related party.

Ratio analysis

Company profitability ratios

Ratio	2018	2017
Return on sales (ROS)	30,5%	26,9%
EBITDA profitability*	-1,74%	-2,81%
Gross profitability	-2,6%	-0,7%
Net profitability	-3,4%	0,2%
Return on assets (ROA)	-4,5%	0,5%
Return on equity (ROE)	-8,7%	1,9%

**EBITDA calculated as operating result before depreciation and amortisation and impairment losses.*
Formulas used to calculate the ratios:
Return on sales (ROS): gross mark-up/sales for the period
EBITDA profitability = EBITDA of the period/sales of the period
Gross profitability = profit before tax of the period/sales of the period
Net profitability = profit after tax of the period/sales of the period
Return on assets (ROA) = profit after tax of the period/assets
Return on equity (ROE) = profit after tax/equity

During 12 months ended 31 December 2018, the profitability ratios were negative, except for return on sales, due to the recorded net loss.

Debt ratios

Ratio	2018	2017
Debt ratios	0,71	0,71
Debt to equity ratio	1,0	2,5
Non-current assets coverage ratio	0,7	0,5
Long-term debt ratio	0,1	0,2
Short-term debt ratio	0,3	0,5
Interest coverage ratio	-2,65	0,07

Formulas used to calculate the ratios:
Total debt ratio – total liabilities / total equity and liabilities
Debt to equity ratio – total liabilities / total equity
Equity to non-current assets ratio = (equity + non-current liabilities) / non-current assets
Short-term debt ratio = current liabilities / total equity and liabilities
Long-term debt ratio = non-current liabilities / total equity and liabilities
Interest cover ratio = (profit before tax + interest expense) / interest expense

Debt ratios in 2018 were at a satisfactory level, given the specific nature of the Group's retail activities and debt structure. The Management Board does not expect to find any difficulties in achieving its investment plans, including capital investments in comparison to the size of funds owned by the Group, including changes in the structure of such activities funding.

In 2018, the total debt ratio remained similar to that recorded in the previous year. It should be noted that the interest cover ratio in 2018 was negative. In the reporting period the Company paid its interest liabilities as they fell due.

Liquidity ratios

Ratio	2018	2017
Current ratio	0,80	0,81
Quick ratio	0,57	0,41
Cash ratio	0,04	0,13

Formulas used to calculate the ratios:
Current ratio – total current assets / total current liabilities
Quick ratio – (total current assets - inventories) / total current liabilities
Cash ratio = (cash and cash equivalents) / total current liabilities

Current liquidity ratio decreased slightly in 2018 in comparison to the previous year. Liquidity ratios remain at a sufficient level.

Working capital analysis

No.	Ratio	2018	2017
1	Inventory turnover ratio	33,5	45,6
2	Days sales outstanding	9,2	6,0
3	Liabilities turnover ratio	42,2	49,9
4	Operating cycle (1+2)	42,7	51,6
5	Cash conversion cycle (4-3)	0,5	1,6

Formulas used to calculate the ratios:
*Inventory cycle = inventories as at the period end / value of goods and materials sold in the period * number of days in the period*
*Average collection period = trade receivables as at the period end / sales for the period * number of days in the period*
*Average payment period = trade liabilities as at the period end / operating costs for the period * number of days in the period*

The inventory turnover shortened in 2018 from 45.6 to 33.5. The average collection period lengthened in comparison to 2017 and was 9.2 days. One of reasons for the increase in the ratio was a rise in trade and other receivables and an increase in revenue in comparison to the previous year. The average payment period shortened from 49.9 days in 2017 to 42.2 days in the period covered by this report. In effect, the cash conversion cycle shortened to 0.5 days in 2018 from 1.6 days in the previous year, and the operating cycle shortened from 51 days in 2017 to 43 days in 2018.

4.3. Treasury management

In 2018, the Group made a number of investments mainly by opening and furnishing new shops and cafes and purchasing property, plant and equipment. The investments were financed by the proceeds from bank loans and trade credits, loans and proceeds from investments.

The Management is of the opinion that the Group companies are capable of making and repaying further financial commitments. In the opinion of the Company's Management Board, the increase in past due liabilities seen in recent months is temporary and is related in particular to incurring capital expenditure related to the Warsaw airport (investments in premises, stocking). The Company believes that due to the expected increase in revenue from commercial activities at the Warsaw airport, the amount of past due liabilities will be consistently reduced in the following months (in particular given the expected seasonal increase in air traffic). Detailed information on past due liabilities is presented in Section 3.1.2, while the description of indicators, including the inventory cycle, average collection period, average payment period, and the current ratio, is presented in Section 4.1.

As at the date of this report, to improve the structure and level of working capital, which is necessary in view of the increased capital needs, the Company considers the possibility of securing financing in the form of, inter alia, loans from non-bank entities, the possibility of issuing short- or medium-term corporate notes, as well as the possibility of using other products of similar nature.

Irrespective of the proceeds from the above external sources, the Company points to the possibility of securing funds also from potential sale of selected groups of operating assets of the Baltona Group, which could be of interest to external entities.

However, the Group notes that as at the date of this report, no strategic decisions were made in that matter.

Subject to the planned capital expenditure, the Group companies did not make any other investment commitments.

4.3.1. Credit facility and loan agreements entered into in the financial year

In 2018, the Group companies did not terminate any credit facility agreements, and the Parent and its subsidiary executed new non-revolving credit facility agreements.

The Group's Parent is a party to a multi-purpose credit facility agreement executed with BGŻ BNP Paribas S.A. with the term of the facility ending on 8 February 2021 and current credit availability period ending on 18 June 2019. Under the agreement, 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).

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 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 666 thousand.

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 Company'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.

Moreover, 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.

A subsidiary BH Travel Retail Sp. z o.o. is 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.

In addition, 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.

In 2018, except for intra-group loans the Group companies did not enter into new loan agreements and did not receive any tranches under existing agreements. The Group held six loans from related companies Flemingo International (BVI) Limited and Flemingo International Limited described earlier in this report.

4.3.2. Loans granted in the financial year

Loans were granted mainly under agreements between PHZ Baltona S.A. and subsidiaries of the Baltona Group. Loans were mostly used to buy fixed assets and pay deposits under rental agreements. The following table presents loans granted by the Company (in thousand):

Borrower	Loan value in currency	Currency	Interest rate	Due date
BH Travel Retail Poland Sp.z.o.o	2 623	USD	LIBOR USD 12M	2020-01-01
BH Travel Retail Poland Sp.z.o.o	272	PLN	5,10%	2020-01-01
Centrum Obsługi Operacyjnej Sp.z.o.o	11 257	PLN	WIBOR 12M	2020-01-01
Baltona France S.A.S.	953	EUR	EURIBOR 12M	2020-01-01
Baltona Italy S.r.l.	274	EUR	EURIBOR 12M	2020-01-01
KW Shelf Company Sp. z o.o.	174	PLN	WIBOR 12M	2020-01-01
Gredy Company SRL	350	EUR	EURIBOR 12M	2020-01-01
Baltona Duty Free Estonia OÜ	1 889	EUR	EURIBOR 12M	2019-12-31
Liege Airport Shop BVBA	105	EUR	EURIBOR 12M	2019-12-31
Rotterdam Airport Shop BV	70	EUR	EURIBOR 12M	2019-12-31
Chacalli-De Decker Limited	192	GBP	EURIBOR 12M	2020-01-01
Other	117	PLN	6,00%	2019-12-31

* in the separate financial statements, the loans, except Other, were recognised under long-term investments because the Company does not expect them to be repaid within 12 months of the reporting date.

4.3.3. Sureties and guarantees granted and received by the Baltona Group

- As at 31 December 2018, contingent liabilities under guarantees that banks and insurance companies granted to the Baltona Group companies, mainly to suppliers, lessors and customs and tax institutions, amounted to PLN 48,627.7 thousand,
- As at 31 December 2018, the Group used an insurance guarantee to secure the customs debt, for PLN 1,000 thousand, and an insurance guarantee concerning the Common Transit Procedure, for PLN 500 thousand,
- In connection with overdraft facility agreements referred to in Section 4.2.1, the Parent received a corporate guarantee of up to PLN 106,500 thousand from Flemingo International Limited,
- In connection with the non-revolving credit facility agreements, the Parent was granted with a corporate guarantee issued by Flemingo International Limited for up to a total of PLN 6,750 thousand with respect to the non-revolving credit facility agreement of 30 August 2016, a corporate guarantee issued by Flemingo International Limited for up to a total of PLN 5,782.5 thousand with respect to the non-revolving credit facility agreement of 29 September 2017, and

a corporate guarantee issued by Flemingo International Limited for up to a total of PLN 6,795 thousand with respect to the non-revolving credit facility agreement of 20 February 2018,

- In connection with the non-revolving credit facility agreements, the subsidiary BH Travel Retail Poland Sp. z o.o. was granted with a corporate guarantee issued by Flemingo International Limited for up to a total of PLN 58,500 thousand with respect to the non-revolving credit facility agreement of 19 June 2018,
- As at 31 December 2018, corporate guarantees issued by Flemingo International Limited to secure FX transactions amounted to PLN 3,000 thousand,
- In connection with signed annexes to credit facility agreements, the Company's subsidiaries issued promissory notes for liabilities under credit facility agreements to BGŻ BNP Paribas S.A. The sureties granted together by Centrum Usług Wspólnych Sp. z o.o., Centrum Obsługi Operacyjnej Sp. z o.o., and Baltona Shipchandlers Sp. z o.o. were granted for up to PLN 106,500 thousand with respect to the non-revolving credit facility agreement. The sureties granted together by Centrum Usług Wspólnych Sp. z o.o., Centrum Obsługi Operacyjnej Sp. z o.o., BH Travel Retail Poland Sp. z o.o. and Baltona Shipchandlers Sp. z o.o. were granted for up to PLN 6,750 thousand with respect to the non-revolving credit facility agreement of 30 August 2016, up to PLN 5,782.5 thousand with respect to the non-revolving credit facility agreement of 29 September 2017 and up to PLN 6,795 thousand with respect to the non-revolving credit facility agreement of 20 February 2018. The sureties granted together by Przedsiębiorstwo Handlu Zagranicznego BALTONA S.A., Centrum Usług Wspólnych Sp. z o.o., Centrum Obsługi Operacyjnej Sp. z o.o. were granted for up to PLN 58,500 thousand with respect to the non-revolving credit facility agreement of 19 June 2018,
- As at 31 December 2018, corporate guarantees issued by Baltona Duty Free Estonia OÜ to secure the non-revolving credit facility amounted to PLN 5,782.5 thousand.

Apart from the above sureties and guarantees, the Group has no other material off-balance sheet items.

PHZ Baltona S.A.

- As at 31 December 2018, contingent liabilities due to guarantees that banks and insurance companies granted to the Company, mainly to suppliers, lessors and customs and tax institutions, amounted to: PLN 155,655 thousand
- As at 31 December 2018, liabilities related to sureties provided by PHZ Baltona S.A. in relation to liabilities of its subsidiaries, mainly to banks, lessors and landlords, amounted to: PLN 58,642 thousand.
- As at 31 December 2018, the Company used an insurance guarantee No. NR 07GJ03/10/00087 concerning the Common Transit Procedure, for PLN 500 thousand.
- In connection with overdraft facility agreements referred to in Section 4.2.1, the Parent received a corporate guarantee of up to PLN 106,500 thousand from Flemingo International Limited,
- In connection with the non-revolving credit facility agreements, the Parent was granted with a corporate guarantee issued by Flemingo International Limited for up to a total of PLN 6,750 thousand with respect to the non-revolving credit facility agreement of 30 August 2016, a corporate guarantee issued by Flemingo International Limited for up to a total of PLN 5,782.5 thousand with respect to the non-revolving credit facility agreement of 29 September 2017, and

a corporate guarantee issued by Flemingo International Limited for up to a total of PLN 6,795 thousand with respect to the non-revolving credit facility agreement of 20 February 2018,

- As at 31 December 2018, corporate guarantees issued by Flemingo International Limited to secure FX transactions amounted to PLN 3,000 thousand.

Apart from the above sureties and guarantees, the Company has no other material off-balance sheet items.

4.3.1. Financial instruments

Carrying amounts of financial assets reflect the maximum exposure to credit risk.
As of 31 December 2018, impairment losses on the Group's trade receivables amounted to PLN 198 thousand (2017: PLN 201 thousand).

The Group carries liabilities with maturities from less than 6 months to 2–5 years. 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.

The Group is exposed to currency risk. Thus, 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.

The Company also owns financial instruments of a fixed or floating rate.

Detailed information on the financial instruments used in 2018 is presented in Note 26 *Financial instruments* of the separate financial statements and Note *28 Financial instruments* of the consolidated financial statements.

5. STATEMENT ON COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

5.1. Corporate governance principles observed by PHZ Baltona S.A.

The Management Board of Przedsiębiorstwo Handlu Zagranicznego Baltona S.A. (the "Company" or PHZ Baltona S.A.) and management boards of its subsidiaries place strong emphasis on the observance of corporate governance principles, understood as a set of regulations necessary to maintain proper relations between the interests of all entities and natural persons connected with the operations of the Baltona Group, in the management process. The Company shares the ideas and premises constituting basis for individual corporate governance principles. The aforesaid principles are to a large extent an exemplary code of conduct and ethical standards and an embodiment of good practices.

In 2018, the Group observed corporate governance principles adopted by the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange, the "WSE") in the form of a document entitled "Best Practice for GPW Listed Companies 2016" (hereinafter referred to as "Best Practice"), constituting an Appendix to the WSE Management Board's Resolution No. 26/1413/2015 of 14 October 2015.

The key objective behind the adoption of corporate governance principles as a standard determining the Company's functioning has been to establish transparent relations among all corporate bodies and entities involved in the Company's operations as well as to ensure that the Company is managed properly, diligently and loyally to all shareholders.

The wording of "Best Practice for GPW Listed Companies" is available on the website of the Warsaw Stock Exchange at: https://www.gpw.pl/pub/GPW/STATIC/files/PDF/RG/Uch_RG_DB2016.pdf

PHZ Baltona S.A. does not observe corporate governance practices to the extent exceeding the requirements laid down in national law.

The Company published a statement on the observance of recommendations and principles set forth in the aforesaid code by the Company. The wording of this statement is available on the Company's website at:

http://www.baltona.pl/wp-content/uploads/2017/07/2016-01-04_gpw_dobre_praktyki_baltona_opublikowany1.pdf

5.2. Corporate governance principles which the Company did not comply with

The Management Board of PHZ Baltona S.A. reports that in 2018 it has not observed the following seven recommendations and 16 detailed principles set forth in the document entitled "Best Practice for GPW Listed Companies 2016":

Principle I.R.4, which is a recommendation stating that the Company should use best efforts, including taking all steps well in advance as necessary to prepare a periodic report, to allow investors to review its financial results as soon as possible after the end of a reporting period.

At the present stage of its organisation, the Company is not able to issue its financial statements immediately after the end of the reporting period. Nevertheless, the Company will make every effort to ensure that in the future the financial statements are issued as soon as possible after the end of a given period, while maintaining the reliability and correctness of the disclosed information.

Detailed principle I.Z.1.3., under which a company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation, a chart showing the division of duties and responsibilities among members of the management board drawn up according to principle II.Z.1,

The division of duties and responsibilities among Members of the Management Board in effect at the Company hitherto was not formalised and stemmed principally from the competencies, experience and education of persons holding those functions. In light of the above, the Company does not at this moment see the need to reflect this information in the form of a separate chart.

Detailed principle I.Z.1.11., under which a company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation, information about the content of the company's internal rule of changing the company authorised to audit financial statements or information about the absence of such rule,

The Company did not specify a separate rule for changing the auditor. Appointment of the auditor responsible for auditing the full-year financial statements of the Company falls within the remit of the Company's Supervisory Board, subject to a recommendation made by the Audit Committee. With respect to the rules of appointment of the auditor, the Company applies generally applicable laws and has in place an audit firm appointment policy.

Detailed principle I.Z.1.15., under which a company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation, information about the company's diversity policy applicable to the company's governing bodies and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and specify the goals of the diversity policy and its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should publish the explanation of its decision on its website,

At present, the Company does not apply a diversity policy with regard to the Company's governing bodies and key managers. The selection of persons referred to above takes place in line with applicable provisions and is preceded by an in-depth analysis of experience, competencies, skills and expertise of each candidate. The above constitute key criteria taken into consideration in the recruitment process for relevant positions at the Company. In the Company's opinion, the above criteria used for the evaluation of candidates for the aforesaid positions make it possible to select candidates who ensure the possibility of implementing the Company's strategy and its development.

Detailed principle I.Z.1.20., under which a company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation, an audio or video recording of a general meeting,

At present, the Company does not plan to broadcast the general meeting. In the Management Board's opinion, the expenses that the Company would have to incur in connection with transmitting, recording and making the broadcast available exceed benefits for investors. Immediately upon the end of each general meeting, the Company publishes resolutions adopted thereat, so as to provide investors with the possibility of becoming fully familiar with the meeting's agenda. If the above-mentioned circumstances change, the Company will consider observing this principle.

Detailed principle I.Z.2. A company whose shares participate in the exchange index WIG20 or mWIG40 should ensure that its website is also available in English, at least to the extent described in principle I.Z.1. This principle should also be followed by companies not participating in these indices if so required by the structure of their shareholders or the nature and scope of their activity,

At present, the Company does not make its website available in English in its entirety due to high costs connected with its translation. The Company makes its website available in English only to the extent of basic information about the Company, its financial results and general meetings. In addition, despite the fact that the Company's shares do not participate in the exchange index WIG 20 or mWIG40, the Company undertook efforts to translate as many information into English as possible, with the stipulation that such information might not be posted at the same time as information published by the Company in Polish.

Principle II.R.2, which is a recommendation, under which decisions to elect members of the management board or the supervisory board of a company should ensure that the composition of these bodies is comprehensive and diverse among others in terms of gender, education, age and professional experience,

At present, the Company does not apply a diversity policy with regard to the management and supervisory bodies. The selection of management and supervisory staff takes place in line with applicable provisions and is preceded by an in-depth analysis of experience, competencies, skills and expertise of each candidate. The above constitute key criteria taken into consideration in the recruitment process for relevant positions at the Management and Supervisory Boards. In the Company's opinion, the above criteria used for the evaluation of candidates for the management and supervisory positions make it possible to select candidates who ensure the possibility of implementing the Company's strategy and its development.

Principle II.R.3, which is a recommendation, under which functions on the management board of a company should be the main area of the professional activity of management board members. Additional professional activities of management board members must not require so much time and effort that they could adversely affect proper performance of functions in the company. In particular, management board members should not be members of governing bodies of other entities if the time devoted to functions in such other entities prevents their proper performance in the company,

Members of the Company's Management Board also serve as members of management boards of the Group companies, which constitutes their additional professional activity. However, in the Company's opinion, this activity does not adversely affect the proper performance of their function at the Company.

Detailed principle II.Z.1., under which the internal division of responsibilities for individual areas of the company's activity among management board members should be clear and transparent, and a chart describing that division should be available on the company's website,

The division of duties and responsibilities among Members of the Management Board in effect at the Company hitherto was not formalised and stemmed principally from the competencies, experience and education of persons holding those functions. In light of the above, the Company does not at this moment see the need to reflect this information in the form of a separate chart.

Detailed principle III.Z.1., under which the company's management board is responsible for the implementation and maintenance of efficient internal control, risk management and compliance systems and internal audit function,

At present, the principle is partly complied with, i.e. as regards internal audit. The Company has implemented an internal audit programme, however, as at the issue date of this report there was no centralised compliance programme in place, but work on the implementation of such programme at the Group was underway.

Detailed principle III.Z.2., under which, subject to principle III.Z.3, persons responsible for risk management, internal audit and compliance should report directly to the president or other member of the management board and should be allowed to report directly to the supervisory board or the audit committee,

At present, the principle is partly complied with, i.e. as regards internal audit. The Company has implemented an internal audit programme and currently it has no centralised compliance programme in place, but work on the implementation of such programme at the Group was underway. Therefore, if the programme is implemented, persons responsible for risk management will be independent and will report directly to the Supervisory Board. The internal auditor reports directly to a Management Board Member and has the option to report directly to the Supervisory Board and the Audit Committee.

Detailed principle III.Z.3., under which the independence rules defined in generally accepted international standards of the professional internal audit practice apply to the person heading the internal audit function and other persons responsible for such tasks,

At present, the principle is partly complied with, i.e. as regards internal audit. The Company has implemented an internal audit programme and currently it has no centralised compliance programme in place, but work on the implementation of such programme at the Group was underway. Therefore, if the programmes are fully implemented, the Company will use its best effort to ensure that persons responsible for risk management are independent and report directly to the Supervisory Board.

Detailed principle III.Z.4., under which the person responsible for internal audit (if the function is separated in the company) and the management board should report to the supervisory board at least once per year with their assessment of the efficiency of the systems and functions referred to in principle III.Z.1 and table a relevant report,

At present, the principle is partly complied with, i.e. as regards internal audit. The Company has implemented an internal audit programme and currently it has no centralised compliance programme in place, but work on the implementation of such programme at the Group was underway. In view of the above, the person responsible for internal audit each quarter presents an assessment of the effectiveness of risk management systems and functions at the Company to the Supervisory Board.

Detailed principle III.Z.5., under which The supervisory board should monitor the efficiency of the systems and functions referred to in principle III.Z.1 among others on the basis of reports provided periodically by the persons responsible for the functions and the company's management board, and make an annual assessment of the efficiency of such systems and functions according to principle II.Z.10.1. Where the company has an audit committee, it should monitor the efficiency of the systems and functions referred to in principle III.Z.1, which however does not release the supervisory board from the annual assessment of the efficiency of such systems and functions,

At present, the principle is partly complied with, i.e. as regards internal audit. However, the Company does not currently have a centralised compliance programme in place. Work on the implementation of such programme at the Group was underway.

Principle IV.R.2, which is a recommendation, under which if justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:

1) *real-life broadcast of General Meetings,*
2) *real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the venue of the general meeting,*
3) *exercise of the right to vote during a general meeting either in person or through a proxy,*

Due to the lack of technical capabilities and high costs related to the implementation and maintenance of technical infrastructure, the Company does not ensure real-time broadcasts of general meetings. In addition, in the Company's opinion, the Company's shareholder structure does not justify the implementation of such possibility. If the above-mentioned circumstances change, the Company will consider observing this principle.

Detailed principle IV.Z.2., under which if justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings,

Due to the lack of technical capabilities and high costs related to the implementation and maintenance of technical infrastructure, the Company does not ensure real-time broadcasts of general meetings. In addition, in the Company's opinion, the Company's shareholder structure does not justify the implementation of such possibility. If the above-mentioned circumstances change, the Company will consider observing this principle.

Detailed principle V.Z.6., under which in its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may arise in the company, as well as the rules of conduct where a conflict of interest has arisen or may arise. The company's internal regulations should among others provide for ways to prevent, identify and resolve conflicts of *interest, as well as rules of excluding members of the management board or the supervisory board from participation in reviewing matters subject to a conflict of interest which has arisen or may arise,*

At present, the Company has not adopted internal regulations defining the criteria and circumstances under which a conflict of interest may arise in the company, as well as the rules of conduct where a conflict of interest has arisen or may arise. The Company's Management Board will prepare appropriate amendments to the Regulations of the Company's bodies and recommend the implementation thereof to the relevant bodies of the Company.

Principle VI.R.1, which is a recommendation, under which the remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy,

The Company has not hitherto developed a uniform remuneration policy and rules governing its determination. Pursuant to Article 15.6 of the Company's Articles of Association, the Supervisory Board determines the rules governing the remuneration of Members of the Management Board, whereas pursuant to Article 9.10, the General Meeting determines the rules governing the remuneration of Members of the Supervisory Board. In the Management Board's opinion, the rules governing the determination of remuneration of Supervisory Board Members laid down by the General Meeting, and in the case of the Company's Management Board – by the Supervisory Board, are clear and do not require drafting a separate policy. However, the Management Board will consider the possibility of drafting and implementing rules governing the functioning of the remuneration policy in the future, but this will require approval in the form of resolutions adopted by the Supervisory Board and the General Meeting of the Company.

Principle VI.R.2, which is a recommendation, under which the remuneration policy should be closely tied to the company's strategy, its short- and long-term goals, long-term interests and results, taking into account solutions necessary to avoid discrimination on whatever ground,

The Company has not hitherto developed a uniform remuneration policy and rules governing its determination. Pursuant to Article 15.6 of the Company's Articles of Association, the Supervisory Board determines the rules governing the remuneration of Members of the Management Board, whereas pursuant to Article 9.10, the General Meeting determines the rules governing the remuneration of Members of the Supervisory Board. In the Management Board's opinion, the rules governing the determination of remuneration of Supervisory Board Members laid down by the General Meeting, and in the case of the Company's Management Board – by the Supervisory Board, are clear and do not require drafting a separate policy. However, the Management Board will consider the possibility of drafting and implementing rules governing the functioning of the remuneration policy in the future, but this will require approval in the form of resolutions adopted by the Supervisory Board and the General Meeting of the Company.

Principle VI.R.4, which is a recommendation, under which the remuneration levels of members of the management board and the supervisory board and key managers should be sufficient to attract, retain and motivate persons with skills necessary for proper management and supervision of the company. Remuneration should be adequate to the scope of tasks delegated to individuals, taking into account additional functions, for instance on supervisory board committees,

The Company has not hitherto developed a uniform remuneration policy and rules governing its determination. Pursuant to Article 15.6 of the Company's Articles of Association, the Supervisory Board determines the rules governing the remuneration of Members of the Management Board, whereas pursuant to Article 9.10, the General Meeting determines the rules governing the remuneration of Members of the Supervisory Board. In the Management Board's opinion, the rules governing the determination of remuneration of Supervisory Board Members laid down by the General Meeting, and in the case of the Company's Management Board – by the Supervisory Board, are clear and do not require drafting a separate policy. The Management Board will consider the possibility of establishing and implementing in the future a remuneration policy providing for such factors as the capability to attract, retain and motivate persons with skills necessary for proper management and supervision of the Company. The implementation of such policy will require approval in the form of resolutions adopted by relevant governing bodies of the Company.

Detailed principle VI.Z.1., under which incentive schemes should be constructed in a way necessary among others to tie the level of remuneration of members of the company's management board and key managers to the actual long-term financial standing of the company and long-term shareholder value creation as well as the company's stability,

The Company has not hitherto developed a uniform remuneration policy and rules governing its determination. Pursuant to Article 15.6 of the Company's Articles of Association, the Supervisory Board determines the rules governing the remuneration of Members of the Management Board, whereas pursuant to Article 9.10, the General Meeting determines the rules governing the remuneration of Members of the Supervisory Board. In the Management Board's opinion, the rules governing the determination of remuneration of Supervisory Board members laid down by the General Meeting, and in the case of the Company's Management Board – by the Supervisory Board, are clear and do not require drafting a separate policy inclusive of the rules governing incentive schemes. However, the Management Board will consider the possibility of drafting and implementing rules governing the functioning of the remuneration policy in the future, but this will require approval in the form of resolutions adopted by relevant bodies of the Company.

Detailed principle VI.Z.2., under which to tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years,

The Company has not hitherto developed a uniform remuneration policy and rules governing its determination. Pursuant to Article 15.6 of the Articles of Association, the Supervisory Board determines the rules governing the remuneration of Management Board Members. In the Management Board's opinion, the rules governing the determination of remuneration of Members of the Company's Management Board by the Supervisory Board are clear and do not require drafting a separate policy inclusive of the rules governing incentive schemes. However, the Management Board will consider the possibility of drafting and implementing rules governing the functioning of the remuneration policy in the future, but this will require approval in the form of resolutions adopted by relevant bodies of the Company. At present, the Company does not operate any incentive schemes for Members of the Management Board and key managers functioning within the Company that allow for exercising other instruments linked to the Company's shares.

Detailed principle VI.Z.3., under which the remuneration of members of the supervisory board should not be linked to options or other derivatives or any other variable components, and neither should it be linked to the company's results,

The Company has not hitherto developed a uniform remuneration policy and rules governing its determination. Pursuant to the provisions of Article 9.10, the General Meeting determines the rules governing the remuneration of Members of the Supervisory Board. In the Management Board's opinion, the rules governing the determination of remuneration of Supervisory Board Members laid down by the General Meeting are clear and do not require drafting a separate policy. However, the Management Board will consider the possibility of drafting and implementing rules governing the functioning of the remuneration policy that prohibits linking the remuneration of Members of the Supervisory Board to options, other derivatives or any other variable components or to the Company's results in the future. The implementation of such policy will require approval in the form of relevant resolutions adopted by the General Meeting of the Company.

Detailed principle VI.Z.4., under which in this activity report, the company should report on the remuneration policy including at least the following:

1) *general information about the company's remuneration system,*
2) *information about the conditions and amounts of remuneration of each management board member broken down by fixed and variable remuneration components, including the key parameters of setting the variable remuneration components and the terms of payment of severance allowances and other amounts due on termination of employment, contract or other similar legal relationship, separately for the company and each member of its group,*
3) *information about non-financial remuneration components due to each management board member and key manager,*
4) *significant amendments of the remuneration policy in the last financial year or information about their absence,*
5) *assessment of the implementation of the remuneration policy in terms of achievement of its goals, in particular long-term shareholder value creation and the company's stability,*

The Company has not hitherto developed a uniform remuneration policy and rules governing its determination. Pursuant to Article 15.6 of the Company's Articles of Association, the Supervisory Board determines the rules governing the remuneration of Members of the Management Board, whereas pursuant to Article 9.10, the General Meeting determines the rules governing the remuneration of Members of the Supervisory Board. In the Management Board's opinion, the rules governing the determination of remuneration of Supervisory Board Members laid down by the General Meeting, and in the case of the Company's Management Board – by the Supervisory Board, are clear and do not require drafting a separate policy. However, the Management Board will consider the possibility of drafting and implementing rules governing the functioning of the remuneration policy in the future, but this will require approval in the form of resolutions adopted by the Supervisory Board and the General Meeting of the Company. Nevertheless, in the report on activity, the Company presents information pursuant to the applicable provisions of law.

5.3. Internal audit system in regard to the preparation of financial statements

The process of preparing financial statements and consolidated financial statements is carried out by a specialised subsidiary of Centrum Usług Wspólnych Baltona Sp. z o.o ("CUWB") in agreement with the Company's divisions and subsidiaries responsible for data that does not originate directly from accounting books but constitutes part of the financial statements. The person signing financial statements as a person responsible for drawing up financial statements is the Chief Accountant of CUWB. The organisation and operations of the financial and accounting division of CUWB, directly responsible for preparing financial statements, falls under the responsibilities of a Member of the Management Board of CUWB (Lead Auditor of CUWB) who is also a Member of the Management Board of the Company and – as at the date of this statement – the Chief Financial Officer (CFO). Persons responsible for preparing financial statements, controlling and coordinating the reporting process are specialists having sufficient knowledge and experience in this regard.

In the course of preparing financial statements, each of the Members of the Management Board of the Company familiarise themselves on an ongoing basis with economic data and issues presented in these statements, and report potential cases that should be taken into consideration when drawing up said statements. After preparing financial statements, each of the Members of the Management Board familiarise themselves with its contents and the financial statements are provided by the Management Board of the Company to the Statutory Auditor together with the prepared Management Board's Report. In the course of examining the financial statements and accounting books of companies, the Statutory Auditor meets with key individuals within the company's structure, including with Members of the Management Board, to discuss specific issues presented in the financial statements and the report on operations. The final version of the financial statements is then prepared, re-read and signed by the persons responsible for the preparation of the financial statements and the managing personnel, and contains any agreed-upon corrections or adjustments made by the Qualified Auditor, the responsible persons or the managing personnel.

Persons responsible and the Company's Management Board verify data used when preparing financial statements on an ongoing basis. A considerable part of data concerning the Group's assets presented in financial statements is previously verified in the control process carried out by the Accounting Department of CUWB. The Accounting Department directly subordinate to the Management Board of CUWB supervises the Group's assets by taking inventory of those assets and verifying the actual state of assets in relation to the state presented in accounting instruments as part of the periodic control process. Under the internal control and risk management system, the Management Board of the Company commissions the control of selected cases and documents to other business units of the Company, such as the Legal Office or the Internal Auditor, thus verifying and confirming information presented in financial statements.

So far, no special and relevant risks have been identified in the process of preparing financial statements.

At the same time, due to systematically increasing activity of the Baltona Group, its organisational scale and geographical scope, a periodic reporting procedure was adopted in February 2016. The aim of this Procedure is to set out the scope and rules for preparing Periodic Reports published by the Company and to designate entities and persons responsible for the compilation of these reports. Concurrently, in 2017 the Company commenced the implementation of a new IT tool for consolidation of financial statements, which is envisaged to further improve the internal control and risk management system in terms of the process of preparing financial statements, so as to limit the risk of making mistakes in the course of preparing financial statements. The IT tool has been partially deployed and will be fully operational by the end of Q2 2019.

5.4. Changes in the Baltona Group's key management policies

Group companies are related by organisation through functions performed by Members of the Management Board of the Parent. The following table presents details of those relations:

Company name	Function in the Management Board	Function in the Management Board
PHZ "Baltona" S.A.	Piotr Kazimierski - President of the Management Board	Karolina Szuba - Member of the Management Board, Michał Kacprzak- Member of the Management Board
BH Travel Retail Poland Sp. z o.o.	Piotr Kazimierski - Member of the Management Board	Karolina Szuba - Member of the Management Board, Michał Kacprzak- Member of the Management Board
Gredy Company SRL	Piotr Kazimierski - Administrator	Michał Kacprzak- Administrator
Centrum Usług Wspólnych Baltona Sp. z o.o.	Piotr Kazimierski - Member of the Management Board	Karolina Szuba - Member of the Management Board, Michał Kacprzak- Member of the Management Board
Baltona France S.A.S.	Piotr Kazimierski - CEO	Karolina Szuba - CEO, Michał Kacprzak- CEO
Baldemar Holdings Limited	Piotr Kazimierski - Director	Karolina Szuba - Director, Michał Kacprzak- Director
Flemingo Duty Free Ukraine LLC	Piotr Kazimierski - Director	
Centrum Obsługi Operacyjnej Sp. z o.o.	Piotr Kazimierski - President of the Management Board	Karolina Szuba - Member of the Management Board, Michał Kacprzak- Member of the Management Board
KW Shelf Company Sp. z o.o.	Piotr Kazimierski - Member of the Management Board	
Baltona Duty Free Estonia OÜ	Piotr Kazimierski - Member of the Management Board	Karolina Szuba - Member of the Management Board, Michał Kacprzak- Member of the Management Board
Sandpiper 3 Sp.z.o.o.	Piotr Kazimierski - Member of the Management Board	
Baltona Italy S.r.l.	Piotr Kazimierski - President of the Management Board	
Liege Airport Shop BVBA	Piotr Kazimierski - Member of the Management Board	Karolina Szuba - Member of the Management Board, Michał Kacprzak- Member of the Management Board
CDD Holding BV	Piotr Kazimierski - Director	Karolina Szuba - Director, Michał Kacprzak- Director.
Chacalli-De Decker NV	Piotr Kazimierski - Director	Carlo Bernasconi - Director, Karolina Szuba - Director, Michał Kacprzak- Director.
Chacalli Den Haag BV	Piotr Kazimierski - Director	Karolina Szuba - Director, Michał Kacprzak- Director.
Rotterdam Airport Shop BV	Piotr Kazimierski - Director	Karolina Szuba - Director, Michał Kacprzak- Director.
Niederrhein Airport Shop GmbH	Piotr Kazimierski - Director	Karolina Szuba - Director, Michał Kacprzak- Director.
Chacalli-De Decker Limited	Piotr Kazimierski - Director	Carlo Bernasconi - Director, Michał Kacprzak- Secretary

In Baltona Shipchandlers Sp. z o.o., Dominik Ludwiczak and Paweł Dawidowicz are members of the management board. They are not members of the management board of the parent.

5.5. Governing bodies

The Company's Management Board

As at 1 January 2018 and as at the date of issue of this report, the Management Board of the Company was composed of:

- Piotr Kazimierski – President of the Management Board
- Karolina Szuba – Member of the Management Board
- Michał Kacprzak – Member of the Management Board

In 2018, there were no changes in the composition of the Company's Management Board. On 31 May 2017, the term of office of the President of the Management Board was renewed, by way of his removal from office and reappointment to the Management Board for a three-year term. On 29 May 2018, Ms Karolina Szuba and Mr Michał Kacprzak were removed from the Management Board of the Company with effect as of 29 May 2018 and appointed for a further three-year term of office as of 30 May 2018.

The Management Board manages the ongoing operations of the Company and represents the Company externally. It ensures transparency and effectiveness of the Company's management system and manages the Company's affairs in accordance with the provisions of law and Best Practice for GPW Listed Companies.

The Management Board makes decisions in matters non-reserved in the Commercial Companies Code or the Articles of Association for the Supervisory Board and the General Meeting, whose competencies have been defined hereinabove and hereinbelow. In particular, the Management Board, acting in the best interest of the Company, determines the strategy and key purposes of the Company's activity and presents them to the Supervisory Board. The Management Board also ensures implementation and observance thereof.

Where the Management Board comprises one member, the person authorised to submit statements of intent on behalf of the Company is the President of the Management Board or a proxy. Where the Management Board comprises more than one member, persons authorised to submit statements of intent on behalf of the Company are either two members of the Management Board or one member of the Management Board acting jointly with a proxy.

The Management Board operates on the basis of the Rules of the Management Board drawn up by the Management Board and approved by the Supervisory Board. Operations of the Management Board are managed by the President of the Management Board, who also convenes and chairs meetings of the Management Board. The Management Board makes its decisions by way of resolutions. Notwithstanding when the Management Board comprises one member, resolutions of the Management Board are adopted by an absolute majority of votes, with the President of the Management Board having the deciding vote in the event of an equal number of votes for and against. Resolutions of the Management Board may only be adopted if all Management Board Members have been duly notified of a Management Board meeting.

Members of the Management Board of the Company participate in meeting in person.

Members of the Management Board may participate in the meeting of the Management Board using means of direct remote communication enabling them to communicate with all other participants of the meeting. Such participation will be considered as presence at the meeting in person, whereas in the case of doubts in this respect, the chairperson of the meeting has the deciding vote.

Principles governing the appointment and removal from office of members of the Management Board and rights thereof, in particular the right to decide on the issuance or buyback of shares

The Management Board comprises between one and five members appointed and dismissed by the Supervisory Board for a three-year term. The Supervisory Board may specify additional functions to be performed by members of the Management Board, including the function of President and Vice-President of the Management Board. Members of the Management Board perform functions in the Management Board personally. When the Management Board consists of more than one member, the Supervisory Board may, at the request of the President, appoint up to 3 (three) Vice-Presidents from among members of the Management Board. Dismissal from the function of Vice-President takes place by means of a resolution of the Supervisory Board.

Cases regarding the acquisition of own shares in the event specified in Art. 362(1)(2) of the Commercial Companies Code, authorisation to acquire those shares in the event specified in Art. 362(1)(8) of this Code, the issuance of shares, the issuance of convertible bonds or bonds with priority rights, or the issuance of subscription warrants require a resolution of the General Meeting.

On 16 January 2012, the Annual General Meeting of PHZ Baltona S.A. adopted a resolution, which was subsequently amended by a resolution of the Extraordinary General Meeting of PHZ Baltona S.A. of 19 February 2015 and a resolution of the Annual General Meeting of PHZ Baltona S.A. of 23 June 2015 to authorise the Management Board of the Company to buy back own shares until 31 January 2017 and establish capital reserve to finance the buyback of own shares. The Management Board was authorised to buy back own shares with a view to their cancellation or distribution to shareholders of an acquiree, distribution to holders of subscription warrants issued pursuant to resolutions of the General Meeting, or sale to holders of subscription warrants or third parties.

The share buyback programme was carried out in line with the authorisation given under the resolution of the Extraordinary General Meeting of the Company of 16 January 2012, as amended by the resolution of the Extraordinary General Meeting of the Company of 19 February 2015 and the resolution of the Annual General Meeting of the Company of 23 June 2015. Pursuant to these resolutions of the Company's General Meeting, the share buyback programme expired on 31 January 2017. As part of this programme, from its launch the Company bought back a total of 368,995 shares conferring the right to 3.278% of the total vote at the General Meeting and representing 3.278% of the Company's share capital. The average purchase price per share in the programme was PLN 5.53. The total value of shares bought back under the programme was PLN 2,039,395.34. In accordance with the resolutions of the Company's General Meeting referred to above, the share buyback programme expired on 31 January 2017.

On 14 November 2017, the Extraordinary General Meeting of PHZ Baltona S.A. adopted a resolution to authorise the Management Board to buy back own shares with a view to their cancellation. The Management Board was authorised to buy back not more than 900,000 (nine hundred thousand) shares with a total par value of 225,000 (two hundred and twenty-five thousand) own shares with a view to their cancellation at a market price not higher than PLN 5.00 (five) and not lower than PLN 0.25 (twenty-five grosz) per share in the period from 15 November 2017 to 15 November 2018. As at the issue date of this report, the Company did not purchase any treasury shares under the programme. Pursuant to the resolution of the General Meeting referred to above, the Company's Management Board is obliged to obtain prior approval of the Supervisory Board for the buyback of treasury shares and the related costs for each planned buyback of treasury shares under the programme.

The Company's Articles of Association does not provide for any Management Board's rights to issue shares.

The Company's Supervisory Board

As at 1 January 2018, 31 December 2018 and as at the date of this report, the Supervisory Board of the Company was composed of:

- Carlo Bernasconi (Chairman of the Supervisory Board)
- Paweł Deptuła (Deputy Chairman of the Supervisory Board)
- Sebastian Mikosz (Member of the Supervisory Board)
- Gregory Armstrong (Member of the Supervisory Board)
- Choodamani Ayyaswamy (Member of the Supervisory Board)
- Robert Jędrzejczyk (Member of the Supervisory Board)

The Supervisory Board holds general supervision over the Company's operations. The Supervisory Board acts on the basis of the provisions of the Commercial Companies Code, the Company's Articles of Association and the Rules of the Supervisory Board available on the Company's website.

The Supervisory Board is composed of no less than 5 (five) and no more than 9 (nine) members, appointed by the General Meeting. Members of the Supervisory Board are appointed for a common term of office lasting three years. The mandate of a Supervisory Board member shall expire on or before the date of the General Meeting approving the financial statements for the last full financial year in which the member held the office.

Members of the Supervisory Board appoint a Chairperson and between one and two Deputy Chairpersons from among themselves.

Members of the Supervisory Board may receive remuneration for acting as members of the Supervisory Board. The rules governing the awarding and amount of remuneration are set out by the General Meeting.

In accordance with the Articles of Association, the responsibilities of the Supervisory Board include, in particular, making decisions in matters related to:

1. approving rules and regulations to be approved by the Supervisory Board pursuant to the Articles of Association,
2. accepting annual and multi-annual plans developed by the Management Board,
3. assessing the Management Board's Report on the Company's Operations and the financial statements for the previous financial year in terms of their consistency with the Company's accounting records and documents as well as with the factual state, assessing the Management Board's proposals regarding profit distribution or coverage of loss and providing the General Meeting with an annual written report on the results of this assessment,
4. assessing the periodic reports of the Management Board,
5. selecting a statutory auditor responsible for examining the annual financial statements of the Company,

6. appointing and dismissing members of the Management Board and determining the rules governing their remuneration,
7. suspension from duties, for a good reason, of some or all members of the Management Board,
8. delegation of Supervisory Board members, for a period of up to three months, to temporarily perform the duties of Management Board members who were dismissed, who resigned, or who are unable to perform their duties due to other circumstances,
9. expressing consent to incorporate other companies and to acquire or dispose of shares in other companies,
10. giving consent for the Company to take out and advance loans, if the total value of a single loan (including the commission and interest on an annual basis) exceeds PLN 2,500,000.00 (two million, five hundred thousand złoty) or a total of PLN 10,000,000.00 (ten million złoty) during the year, and when the total value thereof exceeds an amount equal to 100% (one hundred per cent) of its equity,
11. giving consent to the sale, purchase, exchange, pledge, and establishment of a mortgage on the Company's assets, if the total value of the transaction involving the Company's assets exceeds PLN 2,500,000.00 (two million, five hundred thousand złoty) and, in the case of rental or lease of assets, if the term of concluded agreements is longer than 24 months and the total value of the agreement exceeds PLN 2,500,000.00 (two million, five hundred thousand złoty),
12. expressing consent to the payment of an advance towards the expected dividend for the relevant financial year by the Management Board,
13. passing a resolution to adopt the Audit Committee Rules,
14. appointing and removing from office of members of the Audit Committee.

The Chairperson of the Supervisory Board convenes, sets the agenda for and chairs the meetings of the Supervisory Board. When the Chairperson of the Supervisory Board is absent, the meetings are convened and chaired by one of the Deputy Chairpersons. When neither the Chairperson of the Supervisory Board nor any of the Chairperson's deputies participate in the meeting, the Supervisory Board appoints a Member of the Supervisory Board who will head the meeting of the Supervisory Board from among those present at the meeting. Meetings take place as needed in relation to holding supervision over the Company's operations, but not less frequently than once a quarter.

The Supervisory Board may adopt resolutions if at least half of its members are present at the meeting, and all the members have been invited to the meeting. Members of the Supervisory Board may take part in adopting resolutions by casting their votes in writing through another Member of the Supervisory Board. Votes cannot be cast in the manner referred to above in votes concerning matters introduced to the agenda at the General Meeting, the appointment of the Chairperson and Deputy Chairperson of the Supervisory Board and the appointment, dismissal and suspension of Members of the Management Board.

Supervisory Board's resolutions may be voted on by casting a vote in writing or using means of remote communication. A resolution shall be valid if all Supervisory Board members have been provided with its draft. It is not possible to adopt resolutions in the manner referred to above when the resolution concerns personnel matters, the appointment of the Chairperson and Deputy

Chairperson of the Supervisory Board and the appointment, dismissal and suspension of members of the Management Board.

The Supervisory Board adopts resolutions by a majority of votes. In the event of a tied vote, the Chairperson of the Supervisory Board has the casting vote.

On 20 June 2017, the Supervisory Board appointed the Audit Committee from among its Members in accordance with the requirements of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision.

The following persons were appointed as Members of the Audit Committee:

- Paweł Deptuła
- Choodamani Ayyaswamy
- Robert Jędrzejczyk

In accordance with the Company's Articles of Association, on 20 October 2017 the Supervisory Board adopted the Rules of the Audit Committee. On the same day, the Audit Committee appointed, from among its members, Mr Paweł Deptuła and Mr Paweł Jędrzejczyk as the Chairman and Deputy Chairman of the Audit Committee, respectively.

In particular, the statutory tasks of the Audit Committee include:

1. monitoring of the financial reporting process,
2. monitoring of effectiveness of inner inspection systems, risk management systems and inner audit existing in the Company, including also the scope of financial reporting,
3. monitoring of performed financial revising activities, in particular auditing the Company's financial statements by an auditing entity, including all conclusions and arrangements of the Komisja Nadzoru Audytowego (Commission of Audit Supervision) resulting from an inspection carried out in the auditing entity,
4. controlling and monitoring of independence of a registered auditor or an auditing entity providing services to the Company,
5. informing the Supervisory Board on the results of auditing the Company's financial statements and explaining how the audit affected reliability of the Company's financial reporting and explaining the Committee's role in the auditing process,
6. assessment of independence of a registered auditor and giving the consent for that auditor's providing services for the Company,
7. development of policy for selection of an auditing entity to audit the Company's financial statement,
8. development of policy for providing, by an auditing entity conducting audit of the financial statement via units associated with the auditing entity concerned and via a member of the auditing entity's network, permissible services other than auditing the financial statements,
9. determining the procedure of selection of an auditing entity by the Company,
10. submitting recommendations for the purpose of ensuring reliability of the process of the Company's financial reporting.

Apart from the Audit Committee, no other committees have been established within the Supervisory Board.

The statutory independence criteria applicable to the Audit Committee are met by Mr Paweł Deptuła and Mr Robert Jędrzejczyk.

The persons who possess the knowledge and skills in accounting or audit of financial statements as well as the knowledge and skills in the Company's business, are Mr Ayyaswamy Choodamani and Mr Paweł Deptuła.

Ayyaswamy Choodamani:

Mr Ayyaswamy Choodamani has many years (over 36) of experience in accounting, finance and financial audit management. For many years he has served as the CFO at the Flemingo International Group. In addition, he has been a partner in Swamy & Chabbra for more than 20 years. Mr Ayyaswamy Choodamani graduated from the SRI Venkateswara University in Tirupati, India (Bachelor of Science). He is also a member of the Institute of Chartered Accountants of India (ICAI).

Paweł Deptuła:

Mr Paweł Deptuła has a university degree in management. In 2004, he completed MA studies at the University of Management in Warsaw after which he also received a Master of Business Administration (MBA) degree in cooperation with the Oxford Brookes University. In addition, he completed various training courses in equity investments and financial management (inter alia, at the European Venture Capital Association).

Mr Paweł Deptuła started his professional career in 1992 on the Warsaw Stock Exchange. From 1993 he was active on the investment fund market, serving at, among others, the Equity Investment Department of PKO BP, AIB WBK Fund Management Sp. z o.o., AIG-CET Capital Management Polska Sp. z o.o., and Argus Capital Int. Ltd. In 2006 he was appointed to the position of the Investment Director at the global private equity fund Cartesian Capital Group, which he held until March 2017. From April 2017 to March 2018, he was engaged at Trigon TFI, and currently he is a sole trader offering advisory services. In addition, Mr Paweł Deptuła served on a number of supervisory boards (including of DD Media Sp. z o.o., Zakłady Chemiczne HAJDUKI S.A., Zakłady Przemysłu Odzieżowego Modus S.A.). Currently, he is a member of the supervisory board of Staffer Sp. z o.o.

In 2018, the Company was provided with permitted non-audit services by Baltona's auditor, which included reviews of quarterly reporting packages prepared for the Flemingo Group for each quarter of 2017 and 2018. The Audit Committee assessed the independence of the audit firm and based on the provisions of the policy governing the provision by the audit firm, its associates and a member of the audit firm's network, of permitted non-audit services, the Audit Committee approved the provision of such services.

Key assumptions of the audit firm selection policy

The Audit Committee's policy for selection of an auditor of financial statements requires in particular that selection of an audit firm by the Supervisory Board should take into account such criteria such as, for example, prior experience and qualifications as well as the experience of persons delegated to perform the financial audit services, knowledge of the industry in which the Company operates, the price offered by the audit firm, the proposed schedule of the financial audit services, comprehensive approach of the declared services and the reputation of the audit firm. The audit firm selection policy also provides for the need to obtain a recommendation of the Audit Committee, taking into account in particular the assessment of the audit firm's independence. In addition, under the policy, the audit firm is to be selected in an independent manner, in a way that is not subject to an interference or suggestions of third parties. The audit firm selection policy also takes into account the relevant restrictions resulting from generally applicable laws, in particular the grace period and the rotation of audit firms and auditors.

The key assumptions of the policy governing the provision by the audit firm, its associates and a member of the audit firm's network, of permitted non-audit services

The Supervisory Board Audit Committee's policy governing the provision by the audit firm, its associates and a member of the audit firm's network, of permitted non-audit services provides in particular for the need to ensure the independence of the audit firm and the auditor and to limit the possibility of conflicts of interest in the case of engaging an audit firm to provide permitted non-audit services by defining prohibited and permitted services. Examples of permitted services include economic and financial due diligence, assurance services related to pro forma financial information, financial performance forecast or estimates, included in a prospectus of the audited entity, audit of historical financial information to be included in a prospectus, verification of consolidation packages. Prohibited services include, in particular, tax services relating to the preparation of tax forms, payroll tax, customs duties, bookkeeping and preparing accounting records and financial statements, designing and implementing internal control or risk management procedures related to the preparation or control of financial information or designing and implementing financial information technology systems, or services related to the audited entity's internal audit function. Permitted services may be provided only if they are not related to the Company's tax policy, after the Audit Committee has assessed threats to independence of the audit firm, the lead auditor and other members of the audit team, as well as the safeguards applied.

Recommendation of the Audit Committee concerning the selection of an audit firm

The Audit Committee's recommendation concerning the selection of the audit firm Grant Thornton Spółka z ograniczoną odpowiedzialnością Spółka komandytowa to audit Baltona's financial statements met the applicable conditions and was prepared following an organised selection procedure meeting the applicable criteria.

During the year, the Audit Committee held six meetings, including four physical meetings, while the remaining two meetings were held using means of remote communication.

5.6. Agreements between PHZ Baltona S.A. and management staff providing for compensation in case of their resignation or dismissal without a valid reason

Agreements between the Company and managing staff do not provide for compensation in the case of their resignation, but provide for compensation in the case of their dismissal without a valid reason.

5.7. Remuneration, awards or benefits payable or potentially payable to management and supervisory staff

The table presents remuneration payable to management and supervisory staff of PHZ Baltona S.A. during 12 months ended 31 December 2018:

	for the period of 12 months ended on 31 December 2018			for the period of 12 months ended on 31 December 2017		
Body	**Parent Entity**	**Subsidiaries**	**Subscription warrants**	**Parent Entity**	**Subsidiaries**	**Subscription warrants**
Management Board	**1743**	**326**	**-**	**1071**	**325**	**-**
Piotr Kazimierski	610	133		432	132	
Karolina Szuba	693	-	-	457	-	-
Michał Kacprzak	440	193	-	182	193	-
Supervisory Board	**231**	**-**	**-**	**87**	-	**-**
Maciej Dworniak	-	-	-	11	-	-
Sebastian Mikosz	77	-	-	76	-	-
Paweł Deptuła	77	-	-	55	-	-
Robert Jędrzejczyk	77	-	-	55	-	-

Other members of the Company's Supervisory Board did not receive any remuneration.

Rights to the Company's shares

In 2018 and until the date of this report, no rights to the Company's shares existed.

The company does not have an employee share inspection system in place.

5.8. Total number and par value of all shares of PHZ Baltona S.A. and shares in the Baltona Group's companies held by management and supervisory staff

As at the date of this report, none of the Supervisory or Management Board Members held any shares in PHZ Baltona S.A.

5.9. Share buyback programme

The share buyback programme was carried out in line with the authorisation given under the resolution of the Extraordinary General Meeting of the Company of 16 January 2012, as amended by the resolution of the Extraordinary General Meeting of the Company of 19 February 2015 and the resolution of the Annual General Meeting of the Company of 23 June 2015. As at 31 December 2018 and as at the issue date of this statement, from the launch of the share buyback programme the Company bought back a total of 368,995 shares conferring the right to 3.278% of the total vote at the General Meeting and representing 3.278% of the Company's share capital. The average purchase price per share in the programme was PLN 5.53. The total value of shares bought back under the programme was PLN 2,039,395.34. In accordance with the resolutions of the Company's General Meeting referred to above, the share buyback programme expired on 31 January 2017.

On 14 November 2017, the Extraordinary General Meeting of Przedsiębiorstwo Handlu Zagranicznego Baltona S.A. was held, which adopted resolutions to authorise the Management Board to buy back own shares with a view to their cancellation. Pursuant to Resolution No. 4, the Company will be entitled to buy back not more than 900,000 (nine hundred thousand) own shares of a total par value of PLN 225,000.00 in accordance with the procedure specified in Art. 362.1.5 and Art. 362.1.8 of the Commercial Companies Code, with a view to their cancellation, on the terms set forth in this resolution. The Management Board is authorised to buy back own shares on behalf of the Company at the market price, which may not be higher than PLN 5.00 per share and not lower than PLN 0.25 per share. The Company could 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 were exhausted.

5.10. Shareholders directly or indirectly holding significant holdings of shares, with information on the number of shares and percentages of the Company's share capital held by such shareholders, and the numbers of votes and percentages of the total vote that such shares represent at the General Meeting

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

Ashdod Holdings is a company under Cyprus law with its registered office in Larnaca (Cyprus) which holds 9,081,600 shares of the Company and the same number of votes at the General Meeting of Shareholders, i.e. 80.68% of the Company's shares and 80.68% of the total number of votes at the General Meeting. This entity is a sole shareholder controlling the Company. At the same time, as Ashdod is controlled by Flemingo International Limited, since 2010 the Baltona Group has been a member to the international group headed by Flemingo International (BVI) Limited.

5.11.Holders of securities with special control rights

Securities issued by PHZ Baltona S.A. do not grant special control rights to holders thereof.

5.12. Limitations on the exercise of voting rights

No limitations on the exercise of voting rights have been established with regard to securities issued by PHZ Baltona S.A.

5.13. Restrictions on transferability of ownership of Company securities

The Company's Articles of Association do not stipulate limitations on the assignment of ownership rights to securities issued by the Company.

Pursuant to the provisions of the multi-purpose credit facility agreement of 8 February 2011, as amended, concluded between the Company and BGŻ BNP Paribas Polska S.A., a significant change in the ownership or capital structure of the Company, consisting in the change of shareholders holding at least 50% of shares or other change of shareholders holding key powers to select management or supervisory bodies or a change of the majority shareholder of the Company – Flemingo International Limited (indirect shareholder through Ashod Holding LTD Cyprus) – without the prior consent of the bank, constitutes a breach of terms of the credit facility justifying agreement termination by the Bank.

A corresponding obligation regarding the change of control was established under the non-revolving credit facility agreement of 30 August 2016 and the non-revolving credit facility agreement of 29 September 2017 between the Company and BGŻ BNP Bank Polska S.A.

5.14. Description of principles governing amendments to the Articles of Association of the Company

The amendment to the Company's Articles of Association requires a resolution of the General Meeting in the form of a notarial deed and an entry into the National Court Register. Resolutions concerning cases regarding the amendment of the articles of association, redemption of shares, increase or lowering of share capital, disposal of the enterprise or its organised part, or dissolution, merger or liquidation of the Company are adopted by a three-fourths majority of votes cast.

5.15. Manner of operation of the General Meeting, its basic powers, the rights of shareholders and the procedure for exercise of such rights

The General Meeting is the highest authority within the Company. The General Meeting operates on the basis of mandatory provisions, in particular the Commercial Companies Code, the Company's Articles of Association and the Rules of the General Meeting. The content of the Articles of Association and the Rules is available on the Company's websites.

General Meetings shall be held at the Company's offices.

The General Meeting cannot adopt a resolution on matters not included in its agenda, unless the entire share capital is represented at the General Meeting and none of those present objects to the adoption of such resolution. This does not apply to requests to convene the Extraordinary General Meeting and requests of an administrative nature that may be adopted despite not being included in the meeting's agenda.

The General Meeting may adopt resolutions even when the General Meeting has not been formally convened, if the entire share capital is represented at the General Meeting and none of those present objects to holding a General Meeting or to introducing specific matters to the agenda.

Removal of matters from the agenda of the General Meeting or failure to examine matters introduced to the agenda at the request of shareholders requires the adoption of a resolution of the General Meeting.

Notwithstanding the mandatory provisions of law, resolutions of the General Meeting are adopted by an absolute majority of votes cast, with the exception of matters regarding the amendment of the articles of association, redemption of shares, increase or lowering of share capital, disposal of the enterprise or its organised part, or dissolution, merger or liquidation of the Company which are adopted by a three-fourths majority of votes cast.

Voting at the General Meeting shall be held in the form of an open ballot.

A secret ballot is ordered in the case of voting on appointment or removal from office of members of the Company's governing bodies or its liquidators, on bringing them to account and on personnel matters. A secret vote is also called when requested by at least one person authorised to cast a vote.

The General Meeting may adopt a resolution to abolish the secrecy of voting on matters related to the election of Ballot Counting Committee and the Rules Committee appointed by the General Meeting.

A vote concerning a significant change in the Company's business activity is held as an open roll-call vote.

Matters reserved by law and matters listed below require resolutions of the General Meeting:

1.examination and approval of the Management Board's Report on the Company's Operations and of the financial statements for the previous financial year,

2.adoption of a resolution on distribution of profit or coverage of loss,

3.grant of discharge to members of the Company's governing bodies in respect of performance of their duties,

4.setting the dividend record date and dividend payment date,

5.appointment and removal from office of Supervisory Board members,

6.amendments to the Articles of Association,

7.increase or reduction of the share capital,

8.share cancellation and determining the terms of such cancellation,

9.establishment and liquidation of special funds,

10.determination of the remuneration for the Supervisory Board members,

11.merger or liquidation of the Company and appointment of the Company's liquidators,

12.sale or lease of, or creation of limited property rights in, the Company's business or its organised part, 13.purchase and disposal of property, perpetual usufruct of, or an interest in property, for a total amount in each calendar year of more than PLN 25,000,000.00 (twenty-five million złoty),

14.making a decision concerning claims for redress of damage inflicted when establishing the Company or in connection with its management or supervision,

15.issue of convertible bonds or bonds with pre-emptive rights and issue of subscription warrants,

16.acquisition of own shares in cases specified in Art. 362.1.2 of the Commercial Companies Code, and granting authorisations to acquire own shares in cases specified in Art. 362.1.8 of the Commercial Companies Code,

17.execution of an agreement referred to in Art. 7 of the Commercial Companies Code.

A shareholder being a natural person may participate in the General Meeting and exercise voting rights in person or by proxy.

Shareholders who are not natural persons may participate in the General Meeting and exercise their voting rights through a person authorised to make declarations of will on their behalf or through a proxy.

A proxy may exercise all the shareholder rights at the General Meeting unless the power of proxy states otherwise. The proxy must vote in accordance with the shareholder's instructions.

the proxy may grant further powers of proxy if the original power of proxy so permits;

The proxy may represent more than one shareholder and vote differently for each share held by each shareholder.

The shareholder may vote differently for each share held.

A shareholder may not vote, either in person or by proxy, on resolutions concerning the shareholder's responsibility towards the Company in any area, including approval of the performance of duties, release from an obligation towards the Company, or a dispute between the shareholder and the Company.

The shareholder may appoint more than one proxy. The power of attorney must be granted in written form and appended to the minutes from the General Meeting or in electronic form, otherwise null and void.

Until such time as the discussion on the relevant matter is closed, each shareholder may submit draft resolutions or propose amendments to draft resolutions concerning the relevant matter introduced to the agenda of the General Meeting.

The Chairperson of the General Meeting may oblige a shareholder to submit a written draft of an amended resolution. In such case, the Chairperson of the General Meeting may order a technical break.

The shareholder has the right to object to the decision of the Chairperson of the General Meeting. The General Meeting decides whether to uphold or reject the decision referred to in item 1 above by means of a resolution.

At the request of shareholders holding one-tenth of the share capital represented at the General Meeting, the General Meeting may adjourn the meeting by a 2/3 (two-thirds) majority of votes. In total, the adjournment may not last longer than 30 (thirty) days.

The resolution referred to above must contain information about the place, date and hour of resuming the General Meeting.

The resumed session of the General Meeting are chaired by the Chairperson of the General Meeting, if present. Otherwise, the General Meeting selects a new Chairperson of the General Meeting.

A shareholder may cast a vote at the General Meeting by correspondence. Casting a vote by correspondence is equivalent to the shareholder's resignation from the secret vote.

For this purpose, the Company provides forms allowing to exercise the right to vote on draft resolutions constituting the subject matter of the General Meeting on its website.

A vote cast by any other means than on a form is invalid.

A vote cast by correspondence may be cancelled by way of a statement submitted to the Company. The statement on cancellation is effective if delivered to the Company not later than at the moment of calling a vote at the General Meeting.

Pursuant to Art. 406^1.1 of the Commercial Companies Code, the right to participate in the General Meeting of the company is granted to persons who are shareholders of the Company as of at least sixteen days prior to the General Meeting (the date of registering the participation in the general meeting).

A shareholder or shareholders representing at least one twentieth of a company's share capital may request that certain issues be placed on the agenda of its General Meeting. Such request, containing a justification or draft of a resolution concerning a proposed item to be introduced to the agenda, must be submitted not less than 21 days prior to the designated date of the meeting. A shareholder or shareholders representing at least one-twentieth of the share capital may submit, prior to the scheduled date of the General Meeting, draft resolutions on matters which have been or are to be placed on the agenda. During a General Meeting, each shareholder may submit draft resolutions concerning matters on the agenda.

5.16. Diversity policy with respect to administrative, management and supervisory bodies

The Company has not implemented a formal diversity policy with respect to management bodies regarding such aspects as age, sex or education and professional experience. Entrusting specific persons with management, supervisory or other executive functions at the Company relies in particular on the qualifications, skills and effectiveness required for a given function. The deciding factors in the selection of candidates to perform such functions are in particular the aspects that ensure the implementation of the Company's strategy and development of the Company's business, rather than just criteria based on, for example, age or sex.

6. OTHER INFORMATION

6.1. Basis of preparation

This Management Board's Report on the Operations of the Baltona Group in 2018 contains information whose scope is set out in Par. 70–71 of the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state (the "Regulation").

Pursuant to Par. 71.8 of the Regulation, this report also includes disclosures required for the report on the operations of the Parent.

The full-year financial statements for 2018 were prepared in accordance with the International Financial Reporting Standards ("IFRS") endorsed by the European Union ("EU"). The IFRS comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

6.2. Qualified auditor

On 26 July 2017, the Company and Grant Thornton Polska Spółka z ograniczoną odpowiedzialnością spółka komandytowa entered into an agreement on the review of half-year separate and consolidated financial statements prepared as at 30 June 2017 and 30 June 2018 and on the audit of full-year separate and consolidated financial statements for the year ended 31 December 2017 and 31 December 2018. The total auditor's fees under the agreement amount to PLN 280 thousand, including PLN 100 thousand for the audit of the separate and consolidated financial statements for the year ended 31 December 2018, and PLN 65 thousand for the review of the condensed consolidated and separate financial statements for the first half of 2018.

An additional fee of PLN 11 thousand per quarter is related to the review of quarterly reporting packages prepared for the Flemingo Group for each quarter of 2017 and 2018.

6.3. Material court, arbitration or public administration proceedings, including any proceedings concerning the Company's or its subsidiaries' liabilities or claims whose value represents 10% or more of the Company's equity

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.

Nonetheless, 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.

6.4. Explanation of discrepancies between the financial results disclosed in the full-year report and the previously released forecasts for 2018

The Company did not publish any forecasts for 2018.

6.5. Information on agreements which in the future may cause changes in the percentages of shares held by the existing shareholders

As at the date of this Report, the Management Board was not aware of any agreements which may give rise to future changes in the number of shares held by the existing shareholders. The Company did not issue any bonds.

6.6. Issue of securities in the reporting period

The Company did not issue securities in the reporting period.

6.7. Other information which, in the Company's Management Board's opinion, is important for the purpose of assessing human resources, assets, financial performance, financial result and related changes in the Company and the Group and information which is important for the purpose of assessing whether the Company is capable for paying its liabilities

Apart from the information presented herein and in the consolidated financial statements for 2018, the Management Board of the Company does not find any other information which is important for the purpose of assessing human resources, assets, financial performance, financial result and related changes in the Company and the Group and information which is important for the purpose of assessing whether Group companies are capable for paying their liabilities.

The Group companies do not carry out any research and development operations.

The activities of the Group companies do not have a significant impact on the natural environment.

Respectively, as at 31 December 2018 and 31 December 2017 the Group's headcount (the number of employees) was as follows:

Company	*31.12.2018*	*31.12.2017*	*Change*
PHZ Baltona S.A.	220	163	57
BH Travel Retail Poland Sp. z o.o.	90	0	90
Centrum Obsługi Operacyjnej Sp. z o.o.	93	77	16
Centrum Usług Wspólnych Baltona Sp. z o.o.	47	38	9
Baltona Shipchandlers Sp. z o.o.	32	30	2
Baltona France SAS	15	15	0
Baltona Italy S.r.l.	9	8	1
Gredy Company SRL	13	11	2
Flemingo Duty Free Ukraine	21	18	3
Baltona Duty Free Estonia OÜ	13	13	0
Liege Airport Shop BVBA	6	0	6
Grupa Chacall-De Decker	24	64	-40
Total	**583**	**437**	**146**

In 2018, there were no changes in the remuneration policy except for changes resulting from adjustment to market conditions.

6.8. Liabilities under retirement pensions and similar benefits to former members of management, supervisory and administrative bodies and commitments arising or entered into in respect of retirement pensions of former members of those bodies, with an indication of the total for each category of body

None.

6.9. Sponsorship activities

In 2018, Baltona participated, inter alia, in the following initiatives (in PLN):

INITIATIVES	AMOUNT IN PLN
SALE OF SZLACHETNA PACZKA BAGS	PLN 34,932.98
THE PASSION COMPETITION	PLN 10,000.00
THE “JEDZIEMY PO RADOŚĆ” INITIATIVE	PLN 40,000.00
MEETING OF MARINERS’ WIVES	PLN 3,000.00

7. Representations of the Management Board

Statement on the fairness of financial statements

The full-year separate and consolidated financial statements for 2018 and the comparative data were prepared in compliance with the applicable accounting standards and give a true, clear and fair view of PHZ Baltona S.A.'s and the PHZ Baltona Group’s assets, financial standing and financial performance presented in the financial statements for that period.

This Management Board's Report on the Operations of PHZ Baltona S.A. and the PHZ Baltona Group in 2018 gives a true view of PHZ Baltona S.A.’s and the Group’s development, achievements and position, and includes a description of key risks and threats.

Management Board’s statement on appointment of the auditor

Based on the representation of the Supervisory Board of PHZ Baltona S.A. on the appointment of the auditor of the full-year financial statements in accordance with the law, including the selection of the audit firm and the relevant procedure, the Management Board of PHZ Baltona S.A. reports that:

a) the audit firm and the members of the audit team met the conditions for the preparation of impartial and independent reports on the audit of full-year (separate and consolidated) financial statements in accordance with the applicable laws, professional standards and rules of professional conduct,

b) the applicable laws related to the rotation of the audit firm and the lead auditor, together with the mandatory grace periods, are observed,

c) PHZ Baltona S.A. has in place an audit firm selection policy and a policy governing the provision by the audit firm, its associates and a member of the audit firm's network, of additional non-audit services to PHZ Baltona S.A., including services conditionally exempted from the prohibition of the provision of certain services by an audit firm.

Przedsiębiorstwo Handlu Zagranicznego Baltona S.A.

Piotr Kazimierski
President of the Management Board

Karolina Szuba
Member of the Management Board

Michał Kacprzak
Member of the Management Board, Chief Accountant
Person responsible for maintaining
the accounting records

Warsaw, 30 April 2019