PRZEDSIĘBIORSTWO HANDLU ZAGRANICZNEGO BALTONA S.A.
SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
IN PLN THOUSAND

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

Warsaw, 30 April 2019

Przedsiębiorstwo Handlu Zagranicznego Baltona S.A.

Separate financial statements for the 12 months ended 31 December 2018

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FINANCIAL STATEMENTS

OF PRZEDSIĘBIORSTWO HANDLU ZAGRANICZNEGO BALTONA S.A. FOR THE YEAR ENDED 31 DECEMBER 2018

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

Management Board:

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

Warsaw, 30 April 2019

Przedsiębiorstwo Handlu Zagranicznego Baltona S.A.

Separate statement of financial position

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

ASSETS	Note	31.12.2018	31.12.2017
Non-current assets			
Property, plant and equipment	12.	10 725	5 175
Intangible assets	13.	92 264	390
Trade and other receivables	17.	3 535	2 779
Long-term investment	14.	48 423	40 018
Deferred income tax assets	15.	38	2 228
Non-current assets		**154 985**	**50 590**
Current assets			
Inventory	16.	17 688	17 248
Trade and other receivables	17.	38 984	12 066
Short-term investment	14.	124	117
Cash and cash equivalents	18.	3 171	5 591
Current assets		**59 967**	**35 022**
TOTAL ASSETS		**214 952**	**85 612**

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

Przedsiębiorstwo Handlu Zagranicznego Baltona S.A.

Separate statement of financial position

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

Liabilities	**Note**	**31.12.2018**	**31.12.2017 (restated)**
Equity			
Share capital		2 814	2 814
Due payments for share capital			
Capital from the sale of shares above their nominal value		4 655	4 655
Reserve capital		21 467	21 003
Own shares		(2 043)	(2 043)
Capital from transactions with owners		94 992	-
Retained profits / (losses)		(12 340)	(2 293)
Total equity	19.	**109 545**	**24 136**
Liabilities			
Liabilities due to loans, borrowings and other debt instruments	22.	19 687	18 038
Trade and other liabilities		10 836	-
Provisions	25.	52	52
Liabilities under employee benefits	24.	49	35
Long-term liabilities		**30 624**	**18 125**
Liabilities under credits, loans and other debt instruments	22.	30 163	8 828
Trade and other liabilities	23.	38 788	30 960
Income tax liabilities		2 237	2 185
Liabilities under employee benefits	24.	1 469	1 373
Deferred income		2 126	5
Short-term liabilities		**74 783**	**43 351**
Liabilities		**105 407**	**61 476**
TOTAL LIABILITIES		**214 952**	**85 612**

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

Przedsiębiorstwo Handlu Zagranicznego Baltona S.A.

Separate statement of comprehensive income

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

	Note	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Sales revenue	6	277 090	188 953
Other operating revenue	8	2 669	482
Total operating revenue		**279 759**	**189 435**
Depreciation and impairment write-offs		(6 271)	(2 947)
Consumption of raw materials and materials		(1 422)	(1 147)
Third party services		(73 106)	(42 042)
Costs of employee benefits	7	(14 481)	(10 819)
Taxes and fees		(937)	(946)
Other cost items		(2 079)	(1 447)
Value of goods and materials sold		(192 552)	(138 176)
Other operating costs	8	(62)	(185)
Total operating costs		**(290 910)**	**(197 709)**
Operating profit (loss)		**(11 151)**	**(8 274)**
Financial revenue	9.1	9 240	9 570
Financial costs	9.2	(5 429)	(2 655)
Net financial revenue / (costs)		**3 811**	**6 915**
Profit /(Loss) before tax		**(7 340)**	**(1 359)**
Income tax	10	(2 242)	1 822
Net profit (loss) on continued activity		**(9 583)**	**464**
Net profit (loss) for the reporting period		**(9 583)**	**464**
Total comprehensive income for the reporting period		**(9 583)**	**464**
Earnings per 1 share			
Basic (PLN)	20	(0,85)	0,04
Diluted (PLN)	20	(0,88)	0,04

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

Przedsiębiorstwo Handlu Zagranicznego Baltona S.A.

Separate statement of cash flows

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

	Note	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Operating cash flow			
Net profit / (loss) for the reporting period		(9 583)	464
Adjustments:			
Amortization and impairment allowances	12.2	6 271	2 947
(Resersal)/Creating allowance for fixed assets		-	(172)
Net financial (revenue) / costs	9	(3 811)	(6 915)
(Gain)/loss on sale of fixed assets	5.1	(22)	(199)
Income tax	10.1	2 190	(1 822)
Other adjustments		(241)	21
		(5 196)	**(5 677)**
Change in inventories		(440)	5 795
Change in trade receivables and other receivables		(21 008)	14 068
Change in liabilities for deliveries and services and other		18 664	(10 113)
Change in provisions and liabilities due to employee benefits		110	251
Change in deferred income		2 121	5
Net cash from operating activity		**(5 748)**	**4 329**
Investment cash flows			
Interest received		-	92
Dividends received	9.1	737	-
Inflows from sales of tangibles and intangibles		855	199
Proceeds from the sale of investment property		2 915	511
Aquisition of tangibles and intangibles		(13 464)	(4 666)
Granting loans		(11 283)	(5 503)
Purchasing shares in subsidiaries		-	(63)
Return of deposists		-	3 500
Net cash from investments		**(20 240)**	**(5 930)**
Financial cash flows			
Inflows from incuring credits and loans		8 986	729
Inflows from loans received		2 000	-
Outflows on credit and loans repayment		(2 624)	(940)
Payments of financial lease liabilities		(301)	(427)
Interest paid		(978)	(723)
Net cash from financing activities		**7 083**	**(1 361)**
Total net cash flows		**(18 905)**	**(2 962)**
Cash and cash equivalents at the beginning of the period		(1 908)	1 054
Cash at the end of the period	18	**(20 813)**	**(1 908)**

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

Przedsiębiorstwo Handlu Zagranicznego Baltona S.A.

Separate statement of changes in equity

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

	Note	Share capital	Capital from the sale of shares above their nominal value	Reserve capital	Own shares	Retained profits / (losses)	Capital from transactions with owners	Total equity
Equity as at 01.01.2018		2 814	4 655	21 003	(2 043)	(2 293)	-	24 136
Comprehensive income for the reporting period								-
Net profit (loss) for the reporting period						(9 583)		(9 583)
Total comprehensive income for the reporting period		**-**	**-**	**-**	**-**	**(9 583)**	**-**	**(9 583)**
Transactions with owners of the Parent Entity recognized directly in equity								
Own shares purchased								
Equity from the right to conclude contract		-	-	-	-	-	94 992	94 992
Transfer of profit to supplementary capital	19.4	-	-	464	-	(464)		-
Covering loss from supplementary capital		-	-	-	-	-		-
Transactions with owners of the Parent Entity in total		-	-	**464**	-	**(464)**	**94 992**	**94 992**
Equity as at 31.12.2018		**2 814**	**4 655**	**21 467**	**(2 043)**	**(12 340)**	**94 992**	**109 545**

The separate statement of changes in equity should be analysed in conjunction with the notes to the financial statements

Przedsiębiorstwo Handlu Zagranicznego Baltona S.A.

Separate statement of changes in equity

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

	Note	Share capital	Capital from the sale of shares above their nominal value	Reserve capital	Own shares	Retained profits / (losses)	Capital from transactions with owners	Total equity
Equity as at 01.01.2017		2 814	4 655	21 003	(2 043)	(572)	-	25 857
Correction of fundamental error	2.6	-	-	-	-	(2 185)		(2 185)
Comprehensive income for the reporting		-	-	-	-	-	-	-
Net profit (loss) for the reporting period						464		464
Total comprehensive income for the reporting period		**-**	**-**	**-**	**-**	**464**	**-**	**464**
Transactions with owners of the Parent Entity recognized directly in equity								
Own shares purchased	19.3	-	-	-	-	-	-	-
Transfer of profit to supplementary capital	19.4	-	-	-	-	-	-	-
Transactions with owners of the Parent Entity in total		**-**	**-**	**-**	**-**	**-**	**-**	**-**
Equity as at 31.12.2017		**2 814**	**4 655**	**21 003**	**(2 043)**	**(2 293)**	**-**	**24 136**

The separate statement of changes in equity should be analysed in conjunction with the notes to the financial statements.

Przedsiębiorstwo Handlu Zagranicznego Baltona S.A.
Notes to the full-year separate financial statements

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1. Entity information

Przedsiębiorstwo Handlu Zagranicznego BALTONA Spółka Akcyjna, hereinafter referred to as "Company" or "Entity", is a joint-stock company registered in Poland.

The registered office of the Company is located at ul. Flisa 4 in Warsaw (postal code 02-247).

The financial statements were prepared for the year ended 31 December 2018. The financial statements include comparative data for the year ended 31 December 2017.

The Company was entered into the National Court Register on 12 October 2001 under KRS No. 0000051757, holding Industry Identification Number (REGON): 000144035.

The Company engages, among other things, in the sale of goods in retail shops, especially in duty-free shops at airports in Poland and at border crossing points. In November 2017, the Company commenced trading activity on the Baltic Sea ferries.

The Company has been established for an indefinite period.

2. Basis of preparation of the financial statements

2.1 Basis of preparation

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

2.2 Statement of compliance

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

The financial statements were approved by the Management Board of the Company on 30 April 2019.

The Company is the parent and it also prepares consolidated financial statements for the year ending on 31 December 2018 (covering the Company and its subsidiaries).

2.3 Basis of measurement

These separate financial statements were drawn up based on the assumption that the Company will continue as a going concern in the foreseeable future. As at the date of signing these financial statements, the Company's Management Board was not aware of any facts or circumstances that would indicate a threat to the Company's continuing as a going concern in the 12 months after the reporting date, as a result of any planned or forced discontinuation or material downsizing of its existing operations.

2.4 Presentation and functional currency

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

Polish złoty is the functional currency of the Company.

2.5 Judgements and estimates

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

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

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

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

Uncertainty associated with tax settlement

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

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

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

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

GAAR should be applied to transactions made after its effective date and to transactions, which were executed prior to the effective date of GAAR but as part of which the advantages were or are still achieved after the effective date of GAAR. The implementation of the above provisions will enable Polish tax authorities to question the legal arrangements made by tax payers, such as group restructuring and reorganisation.

The Company recognises and measures deferred tax assets or liabilities in accordance with the requirements of IAS 12 *Income Tax*, based on profit (tax loss), tax base, unused tax losses, unused tax credit and tax rates, taking into account the uncertainties associated with tax settlements.

In the case of uncertainty whether, and to what extent, a tax authority would accept a particular tax settlement of a transaction, the Company recognises such a settlement taking into account the uncertainty assessment.

Depreciation and amortisation rates

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

Deferred tax assets

The Company recognises deferred tax assets based on the assumption that taxable profits will be available in the future against which the deferred tax asset can be utilised. If taxable income deteriorates in the future, this assumption may prove invalid.

Impairment losses on current assets

As at each reporting date, the Company analyses its inventories and trade receivables to make a decision on recognition of impairment losses, if any. For information on impairment losses see Note 16 and 26.

Measurement of provisions and contingent liabilities

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

2.6 Correction of errors and presentation changes

2.6.1 Correction of errors and presentation changes

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

The restatements made are presented in the table below:
Correction of current tax liabilities:

in thousands of Polish złotych	**31.12.2017**	**01.01.2017**
Tax liability from corporate income tax before correction	-	-
correction of fundamental errors	2 185	2 185
Tax liability from corporate income tax after correction	2 185	2 185
Retained earnings before correction	(108)	(572)
correction of fundamental errors	(2 185)	(2 185)
Retained earnings after correction	(2 293)	(2 757)
influence on equity	**(2 185)**	**(2 185)**

2.6.2 *Presentation changes*

In these financial statements, receivables from security deposits were separated from other receivables and presented under long-term receivables.

The restatements made are presented in the tables below:

Presentation of trade and other receivables

Trade and other receivables	**31.12.2017** *(restated)*	**31.12.2017** *(adjustments)*	**31.12.2017** *(approved)*
Trade receivables	9 017	-	9 017
Tak receivables	2 471	-	2 471
Other receivables	162	(2 736)	2 898
Receivables from deposists	2 736	2 736	-
Prepayments	459	-	459
Total trade and other receivables	**14 845**	**-**	**14 845**
Longterm	2 779	786	1 993
Shortterm	12 066	(786)	12 852
Total trade and other receivables	**14 845**	**-**	**14 845**

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

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

3.1 Foreign currencies

Transactions denominated in foreign currencies are recognised as at the date of transaction in the functional currency of the Company's entities at the exchange rate between the functional currency and a given foreign currency as at the date preceding the date of transaction.

Cash items of assets and liabilities denominated in a foreign currency are translated as at the end of the reporting period at the relevant mid exchange rate quoted by the National Bank of Poland for that date.

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

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

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

3.2 Financial instruments

Financial instruments other than derivative instruments

Loans, receivables and deposits are recognised on the date on which they are originated. All other financial assets are recognised at the transaction date, on which the Company becomes a party to a mutual liability pertaining to a given financial instrument.

The Company derecognises a financial asset upon the expiry of its contractual rights to cash flows from that asset or upon transfer of those rights in a transaction transferring substantially all material risks and rewards of ownership of the asset.

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

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

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

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

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

Cash

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

Non-derivative financial liabilities

Financial liabilities are recognised as of the transaction date on which the Company becomes a party to an agreement providing for the issue of a financial instrument.

The Company de-recognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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

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

3.3 Equity

Own shares

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

Costs associated with the issue and the public offering of shares

Costs associated with the new issue are recognised in equity, whereas costs associated with the public offering of existing shares are directly recognised in financial costs.

Share buyback

In the case when the Company repurchases the shares comprised in its share capital (own shares), the amount due comprising the costs directly related to the purchase (with account being taken of the tax effects) decreases the equity until the shares are redeemed or disposed of. Repurchased own shares are recognised as part of other capital. If such shares are subsequently sold, the payment received – after deduction of all transaction costs and tax effects – increases equity, and the resulting surplus or loss from transaction is recognised as "Share premium".

3.4 Property, plant and equipment

Recognition and measurement

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

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

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

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

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

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

Depreciation

Depreciation charges are made with respect to depreciable amount, i.e. the purchase price or the cost of manufacturing of a given asset, decreased by its residual value.

The Company also assesses useful lives of material components of particular assets and – if such a period is different than the period of use of the remaining part of the asset – such a component is depreciated separately.

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

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

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

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

3.5 Intangible assets

Software and other intangible assets

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

Subsequent expenditure

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

Amortisation

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

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

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

3.6 Investments in subsidiaries, affiliates and jointly controlled entities

The Company measures investments in subsidiaries, affiliates and jointly controlled entities at acquisition cost less impairment losses.

3.7 Leased items of property, plant and equipment

Lease agreements under which the Company bears practically the whole risk and receives almost all benefits resulting from the ownership of tangible fixed assets are classified as financial lease agreements. Upon initial recognition, items of property, plant and equipment acquired under finance lease agreements are measured at the lower of their fair value or present value of the minimum lease payments, and subsequently reduced by depreciation and impairment losses.

Lease agreements which are not finance lease agreements are treated as operating leases and not recognised in the Company's statement of financial position.

3.8 Inventories

Inventories are measured at cost which is not higher than the net realisable value. Inventories are measured on the basis of the first-in first-out method. Cost includes the purchase price increased by costs directly attributable to bringing the asset to a condition necessary for it to be capable of use or marketing.

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

The Company recognises write-downs for slow-moving and obsolete inventories, disclosed under value of goods and materials sold.

3.9 Impairment losses

Financial assets (including receivables, investments in other entities and loans advanced)

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

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

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

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

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

Non-financial assets

Carrying amount of non-financial assets other than inventories and deferred tax assets is tested for impairment as at the end of each reporting period. If any such indication exists, the Company estimates the recoverable amount of particular assets. The recoverable amount of goodwill, intangible assets with infinite lives and intangible assets which are not yet fit for use is estimated at the same time each year. An impairment loss is recognised if the carrying amount of an asset or the related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

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

Impairment losses are recognised in the current profit or loss. The loss of a cash-generating unit is first charged against the goodwill allocated to this unit (group of units), and then against the carrying amount of other assets of this unit (group of units) on a pro-rata basis. Reversal of impairment loss on property, plant and equipment and intangible assets are disclosed in the statement of comprehensive income under "Accumulated depreciation/amortisation and impairment losses".

3.10 Employee benefits

Long-term employee benefits

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

Share-based payment

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

3.11 Provisions

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

3.12 Contingent liabilities

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

3.13 Revenue

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

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

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

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

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

3.14 Lease payments

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

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

3.15 Finance income and costs

Financial revenues include obtained dividends and interest revenues associated with the funds invested by the Company. Interest income is presented in profit or loss of the period on the accrual basis using the effective interest rate method.

Finance costs include interest expense associated with external financing, and impairment losses on financial assets (other than trade receivables), including shares in subsidiaries.

Interest expense that is not directly attributable to the acquisition or production of a qualifying asset is recognised in profit or loss using the effective interest rate method.

Foreign exchange gains and losses are disclosed in a net amount as financial revenues or costs, depending on their overall net position.

3.16 Income tax

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

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

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

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

A deferred tax asset is recognised in respect of carryforward of unused tax losses and deductible temporary differences in the amount of the probable taxable income which would enable these differences and losses to be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.17 Earnings per share

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

3.18 New standards and interpretations not applied in these financial statements

Amendments to standards

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

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

IFRS 9 *Financial Instruments* affects the classification and measurement of financial assets, which depends on the nature of cash flows and the business model related to the assets. The new standard also results in the unification of the impairment model for all financial instruments. The new standard requires that entities account for the expected credit losses at initial recognition of financial instruments and any expected losses over the life of instruments earlier than previously.

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

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

	Classification		Carrying amount	
Type	**MSR 39**	**MSSF 9**	**MSR 39**	**MSSF 9**
Loans granted	Loans and receivables	Amortized cost	30 871	30 871
Trade receivables	Loans and receivables	Amortized cost	11 915	11 915
Derivatives	Fair value through profit or loss	Fair value through profit or loss	0	0
Cash and cash equivalents	Loans and receivables	Amortized cost	5 591	5 591
Total Financial Assets			**48 377**	**48 377**
Trade liabilities	Amortized cost	Amortized cost	27 053	27 053
Loans from related entities	Amortized cost	Amortized cost	16 533	16 533
Other financial liabilities measured at amortized cost	Amortized cost	Amortized cost	10 333	10 333
Derivatives	Fair value through other comprehensive income	Fair value through other comprehensive income	0	0
Total Financial Liabilities			**53 919**	**53 919**

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

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

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

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

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

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

- IFRS 16 *Leases* – effective for reporting periods beginning on or after 1 January 2019, In accordance with IFRS 16, in the case of leases the lessee recognises a liability reflecting future lease payments and a right-of-use asset in its statement of financial position. In the statement of profit or loss, the lessee recognises interest expense on the lease liability and a depreciation charge for the right-of-use asset. Straight-line depreciation of the right-of-use asset and the application of the effective interest rate method to the lease liability will result in a higher total charge to the financial result in the initial years and a gradual reduction of costs in the remainder of the lease term.

In the opinion of the Management Board, the entry into force of IFRS 16 will have a significant impact on the Company's financial statements as the Company is a lessee of space at approximately 10 locations under lease agreements concluded for an average of 1 to 5 years, which according to the Company's estimates may meet the definition of a lease under IFRS 16.

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

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

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

Position of Financial Statement	As of December 31, 2018 before the change	Estimated impact of IFRS 16 on the Consolidated Statement of Financial Position	As of December 31, 2018 after the change
Non-current assets	10 725	(1 437)	9 288
Assets due to the right of use	-	44 505	44 505
Retained profits	(12 340)	-	(12 340)
Liabilities due to leasing	1 165	42 768	43 933

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

- Amendment to IFRS 9 *Financial Instruments*

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

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

- New IFRIC 23 *Uncertainty over Income Tax Treatments*

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

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

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

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

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

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

- Amendment to IAS 19 *Employee Benefits*

Under the amendment, if a net defined benefit asset or liability is remeasured as a result of an amendment, curtailment or settlement, an entity should:

- determine the current service cost and net interest for the period after the remeasurement using the assumptions used for the remeasurement, and
- determine the net interest for the remaining period based on the remeasured net asset or liability.

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

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

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

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

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

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

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

4. Fair value measurement

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

The Company must have access to both the principal market and the most advantageous market.

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

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

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

All assets and liabilities that are measured at fair value or whose fair value is disclosed in the financial statements are classified in the fair value hierarchy as described below based on the lowest level input that is significant to the fair value measurement as a whole:
Level 1: inputs for the asset or liability are quoted (unadjusted) market prices on an active market for identical assets or liabilities;
Level 2: inputs for the asset or liability that are based on directly or indirectly observable market data;
Level 3: valuation techniques, for which the lowest level of input data, which is significant for the valuation of the fair value as a whole, is unobservable.

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

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

4.1 Property, plant and equipment

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

4.2 Inventories

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

4.3 Trade receivables

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

4.4 Non-derivative financial liabilities

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

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

4.5 Share-based payment

The fair value is estimated using the Black–Scholes model. The projected volatility of prices is estimated on the basis of the average historical volatility of prices for the Company and the market. Inputs to the valuation include the price of share as of the grant date, the option exercise price, expected volatility (estimated on the basis of the average historical volatility of prices for the Company and the market), duration of the option, expected dividend and risk-free interest rate.

5. Credit risk management

5.1 Introduction

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

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

The note presents information on the Company's exposure to each type of the above risks, the Company's objectives, policies and procedures for measuring and managing the risks, and the Company's management of capital. Other parts of the financial statements present the required numerical data.

5.2 Key policies of risk management

The Management Board is responsible for the establishment and supervision of risk management by the 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 principles and systems are reviewed on a regular basis to reflect changes in market conditions and changes in the Company's activities.

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

5.3 Credit risk

Credit risk is the risk of financial loss to the Company 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 Company has adopted a credit policy which provides for ongoing monitoring of the credit risk exposure.

The Company's exposure to credit risk is limited because the Company sells goods exclusively for cash or for payments made with payment and credit cards, which is consistent with the specific character of the duty-free industry. Other sales (5% in 2018 and 15% in 2017) include the sale of marketing services to suppliers, where the related receivables are offset or secured with liabilities, and wholesale made to related and unrelated entities. The Partner through which the Company authorises payment cards is one of the industry leader and the time limit for payment is very short.

The Company 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.

The Company sells goods in accordance with the retention of title clause, which means that the Company may demand the return of goods until they are fully paid for by the buyer. In addition, the Company does not demand an asset-based security for trade and other receivables.

The Company recognises impairment losses which correspond to the estimated value of the losses incurred on trade and other receivables.

At the end of the reporting period, loans advanced totalled PLN 39,238 thousand (2017: PLN 30,871 thousand).

As at 31 December 2018, the Company's cash and cash equivalents amounted to PLN 3,171 thousand (2017: PLN 5,591 thousand), which corresponds to its maximum exposure to credit risk in relation to these assets. Cash and cash equivalents held at cash desks located at sales points and at reliable, licensed bank.

5.4 Liquidity risk

Liquidity risk is the risk of potential difficulties that the Company may have with meeting its financial liabilities, which are settled through delivery of cash or other financial assets. The Company's liquidity risk management policy is designed to ensure that the 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.

The Company is usually provided with a sufficient amount of cash, payable on demand, to cover its anticipated operating expenses 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.

The Company is a party to a multi-purpose credit facility agreement with the term of the facility ending on 8 February 2021 and current credit availability period (as at the end of the reporting period) ending on 18 June 2019. Under the agreement, to which an annex was signed on 21 September 2018, the Company 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 Company 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 Company 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.

The Company received four loans from its related parties Flemingo International (BVI) Limited and Flemingo International Limited:

- a loan agreement of 14 May 2013 with a final repayment date on 31 December 2014, extended under an annex of 31 December 2018 until 31 December 2020. As at reporting date, the amount outstanding under the loan was PLN 43 thousand related to interest,
- a loan agreement of 14 May 2014 with a final repayment date on 20 August 2014, extended under an annex of 31 December 2018 until 31 December 2020. As at reporting date, the amount outstanding under the loan was PLN 35 thousand related to interest,
- a loan agreement of 23 September 2013 with a final repayment date extended until 31 December 2020. As at the reporting date, the amount outstanding under the loan was PLN 10,956 thousand,
- loan agreements of 13 January 2015 and 3 February 2015 with final repayment dates extended until 31 December 2020. As at the reporting date, the amount outstanding under the loan was PLN 5,763 thousand.

5.5 Market risk

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

In order to manage its market risk, the Company acquires and sells derivative instruments and makes financial commitments. All transactions are conducted as part of the policy pursued by the Management Board.

5.5.1 Currency risk

The Company is exposed to currency risk in connection with sales, purchases, and borrowings that are denominated in a different currency than the functional currency of the Company's subsidiaries. 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 Company minimises fluctuations in the EUR/PLN exchange by appropriately adjusting the prices of goods in order to maintain its target margins.

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

In relation to monetary assets and liabilities denominated in foreign currencies, the Company 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.

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

In the opinion of the Management Board, the Company's investments in foreign subsidiaries do not involve a significant foreign exchange risk for which hedging would be required.

5.5.2 Interest rate risk

According to the Company's policies, the loans advanced bear interest at both fixed and floating rates, whereas financial liabilities are subject to floating rates, with the exception of the loans received from related entities Flemingo International (BVI) Limited and Flemingo International Limited, which bear interest at fixed interest rate. It is a market standard because financial liabilities include overdraft facilities, the balance of which changes every day.

The Company 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. The Company does use hedging against such risks.

5.6 Capital management

The Management Board follows a policy of maintaining a solid capital base to ensure future business growth and to retain the trust of investors, lenders and of the market.

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

The Management Board monitors the return on equity, defined by the Company as the ratio of operating profit/(loss) to equity. In addition, the Management Board monitors the amount of dividend per share.
The Management Board strives to maintain a balance between a higher rate of return which can be achieved with a higher level of debt, benefits and the safety achieved due to the solid capital base.

The Company's debt to equity ratio at the end of the reporting period was as follows:

	31.12.2018	31.12.2017
Total liabilities	105 407	61 475
Less: cash, cash equivalents and deposits	(3 171)	(5 591)
Net debt	**102 236**	**55 884**
Equity	109 545	24 136
Ratio of net debt to equity at the end of the reporting	**0,9**	**2,3**

The Company's debt in the reporting period was higher than in the comparative period. In 2018, the Company continued its development strategies by developing its existing chain shops and constructing new sales points (shops on Unity Line ferries and shops at the airport in Warsaw, Wrocław and Katowice).

Since January 2012, the Company has continued the buy-back of its own shares. The purchased shares will be used for the purpose of redemption or issuing to the shareholders or partners of the company acquired by the Group. Details of the buy-back are presented in Note 19. Under Resolution No. 4 of the Extraordinary General Meeting, the share buyback programme was carried out between 15 November 2017 and 15 November 2018.

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

6. Revenue

6.1 By nature

	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	1 239
Others	605	454
Revenues from the sale of services in total	**2 918**	**1 735**
Revenues from the sale of goods and materials		
Retail sales to the public	29 807	20 888
Retail duty free	234 429	140 647
Wholesale	6 568	22 596
Export sales	3 368	3 087
Others	0	0
Revenues from the sale of goods and materials in total	**274 172**	**187 218**
Total sales revenues	**277 090**	**188 953**

*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.

6.2 By territory

	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Revenues from the sale of products		
Poland	2 822	1 710
Others	96	25
Revenues from the sale of products 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**

For management purposes, the Company's operations are carried out under one operating segment.

7. Employee benefits expense

	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Remuneration	(11 852)	(9 076)
Social security	(1 760)	(1 276)
Retirement benefits (including change in liabilities due to this)	(14)	2
Write-offs for the Social Benefits Fund	(113)	(51)
Medical services	(216)	(174)
Payments in shares		
Other employee benefits	(526)	(244)
Employee benefits in total	**(14 481)**	**(10 819)**

8. Other income and expenses

8.1 Other income

	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Profit from disposal of non-financial fixed assets	22	199
Release of provisions	3	71
The dissolution of fixed assets revaluation	0	172
Other	69	40
Redemption of the loan	2 575	0
Other operating income in total	**2 669**	**482**

8.2 Other expenses

	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Written off receivables	0	-62
Penalties and damages	0	-14
Other	-62	-109
Other operating expenses in total	**-62**	**-185**

9. Finance income and costs

9.1 Finance income

	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Interest income	1 201	1 101
Net sales of financial services	0	0
Net exchange differences	636	0
Dividends	7 403	8 469
Total financial revenues	**9 240**	**9 570**

Dividend received was subject to cashless settlement through offsetting the related receivables with liabilities, save for PLN 737 thousand paid by transfer.

9.2 Finance costs

	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Interest expenses	(2 009)	(1 465)
Revaluation of investments at fair value through profit or loss	(38)	-
Net exchange differences	-	(1 173)
Other	-	(8)
Allowances for financial assets	(3 382)	(9)
Total financial costs	**(5 429)**	**(2 655)**
Net financial expenses recognized as a gain or loss on the current period	**3 811**	**6 915**

In the financial statements PLN 3,382 thousand of impairment losses on shares in subsidiaries was recognised. Details of impairment tests and the relevant calculation are presented in Note 14.

10. Income tax

10.1 Income tax

	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Income tax (current part)		
Income tax for the current period	(52)	-
	(52)	**-**
Income tax (deferred part)		
Establishment / reversal of temporary differences	(2 190)	1 822
	(2 190)	**1 822**
Total income tax	**(2 242)**	**1 822**

11. Reconciliation of effective tax rate

		01.01.2018-31.12.2018		01.01.2017-31.12.2017
(Loss) / Net profit for the reporting period		(9 583)		464
Income tax		2 242		(1 822)
(Loss) / Profit before tax		**(7 340)**		**(1 358)**
Tax based on the applicable tax rate	19%	(1 395)	19%	(258)
Costs not constituting tax deductible costs		2 415		101
Tax deductible costs not constituting accounting costs		(215)		(66)
Revenues exempt from taxation		(1 407)		(1 609)
Non-taxable income		(293)		-
Changes in deferred tax		2 190		-
Others		(449)		(248)
Effective tax rate	**-30,5%**	**2 242**	**134,1%**	**(1 822)**

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

12. Property, plant and equipment

12.1 Gross value of property, plant and equipment

	Buildings and structures	Machines and devices	Means of transport	Other property, plant and equipment	Property, plant and equipment under	Total
Gross value on day 01.01.2017	**8 265**	**2 176**	**729**	**9 658**	**875**	**21 703**
Increases	486	252	281	1 228	5 010	**7 257**
Decreases	(2 912)	(1 077)	(200)	(4 787)	(5 082)	**(14 058)**
Gross value on day 31.12.2017	**5 839**	**1 351**	**810**	**6 099**	**803**	**14 902**
Gross value on day 01.01.2018	**5 839**	**1 351**	**810**	**6 099**	**803**	**14 902**
Increases	3 798	1 108	168	4 008	13 767	**22 849**
Decreases	(18)	(5)	-	(729)	(14 027)	**(14 779)**
Gross value on day 31.12.2018	**9 619**	**2 454**	**978**	**9 378**	**543**	**22 972**

12.2 Accumulated depreciation and impairment losses

	Buildings and	Machines and	Means of transport	Other property, plant	Property, plant and equipment	Total
Depreciation and impairment write-offs on day 01.01.2017	**6 032**	**1 602**	**423**	**7 990**	**-**	**16 047**
Depreciation	1 206	184	150	929	-	**2 469**
Reductions (sale / liquidation)	(2 900)	(958)	(195)	(4 736)	-	**(8 789)**
Depreciation and impairment write-offs on day 31.12.2017	**4 338**	**828**	**378**	**4 183**	**-**	**9 727**
Depreciation and impairment write-offs on day 01.01.2018	**4 338**	**828**	**378**	**4 183**	**-**	**9 727**
Depreciation	911	274	174	1 226	-	**2 585**
Reductions (sale / liquidation)	(17)	(5)	-	(43)	-	**(65)**
Depreciation and impairment write-offs on day 31.12.2018	**5 232**	**1 097**	**552**	**5 366**	**-**	**12 247**

12.3 Net value

	Buildings and	Machines and	Means of transport	Other property, plant	Property, plant and equipment	Total
For the day 01.01.2017	**2 233**	**574**	**306**	**1 668**	**875**	**5 656**
For the day 31.12.2017	**1 501**	**523**	**432**	**1 916**	**803**	**5 175**
For the day 01.01.2018	**1 501**	**523**	**432**	**1 916**	**803**	**5 175**
For the day 31.12.2018	**4 387**	**1 357**	**426**	**4 012**	**543**	**10 725**

Other property, plant and equipment include tools, equipment and movables as well as low-value fixed assets.

12.4 Impairment losses and their subsequent reversal

In these financial statements for the year ended 31 December 2018, the Company did not change the amount of impairment losses on property, plant and equipment or liquidate any items of property, plant and equipment. In the financial statements for the year ended 31 December 2017, the Company reversed impairment losses on property, plant and equipment of PLN 172 thousand, and liquidated property, plant and equipment of PLN 363 thousand.

12.5 Property, plant and equipment under leases

Under finance lease agreements, the Company uses furniture and vehicles. In the case of most of these agreements, the Company has the right to purchase the above items at a lower price after the end of the lease. At the same time, these elements secure payments due to leasing. As at 31 December 2018, the net carrying amount of leased property, plant and equipment amounted to PLN 1,437 thousand (2017: PLN 886 thousand). In 2018, the Company signed new lease agreement for a total of PLN 870 thousand, while in 2017 new lease agreements executed totalled PLN 472 thousand.

12.6 Security

As at 31 December 2018 and 31 December 2017, not registered pledge was created over property, plant and equipment. Items of property, plant and equipment used under finance leases referred to above serve as security for financial liabilities.

12.7 Property, plant and equipment under construction

At the end of the reporting period, the cost of property, plant and equipment under construction amounted to PLN 544 thousand (2017: PLN 803 thousand). The increase in the balance of property, plant and equipment under construction was mainly connected with expenditure on new shops opened in Wrocław, Tallinn and on Unity Line ferries, as well as with the renovation of shops in Katowice. No external financing costs were capitalised in the reporting period.

13. Intangible assets

13.1 Gross value

	Computer software	Others	Right to conclude contract	Total
Gross value on day 01.01.2017	**1 045**	**25**	**-**	**1 070**
Increases	62	364	-	**426**
Decreases	(135)	-	-	**(135)**
Gross value on day 31.12.2017	**972**	**389**	**-**	**1 361**
Gross value on day 01.01.2018	**972**	**389**	**-**	**1 361**
Increases	250	317	94 992	**95 559**
Decreases	-	-	-	**-**
Gross value on day 31.12.2018	**1 222**	**706**	**94 992**	**96 920**

13.2 Accumulated amortisation and impairment losses

	Computer software	Others	Right to conclude contract	Total
Depreciation and impairment write-offs	**986**	**4**	**-**	**990**
Depreciation	121	69		**190**
Decreases	(209)	-		**(209)**
Depreciation and impairment write-offs	**898**	**73**	**-**	**971**
Depreciation and impairment write-offs	**898**	**73**	**-**	**971**
Depreciation	62	259	3 364	**3 685**
Decreases	-	-	-	**-**
Depreciation and impairment write-offs	**960**	**332**	**3 364**	**4 656**

13.3 Net value

	Computer software	Others	Right to conclude contract	Total
For the day 01.01.2017	**59**	**21**	**-**	**80**
For the day 31.12.2017	**74**	**316**	**-**	**390**
For the day 01.01.2018	**74**	**316**	**-**	**390**
For the day 31.12.2018	**262**	**374**	**91 628**	**92 264**

On 24 April 2019, the Management Board of Przedsiębiorstwo Handlu Zagranicznego Baltona S.A. made a decision to recognise an intangible asset under the name “right to conclude an agreement” amounting to PLN 94,992 thousand in the statement of financial position of both the Company and the Group. The right to conclude an agreement will be disclosed under non-current assets as “intangible assets” and, on the equity and liabilities side, as “Equity arising from transactions with owners”, and will increase each of these items by the amount indicated above. The recognition of the right to conclude an agreement referred to above is related to the possibility of accounting for the waiver of claims by Flemingo Dutyfree Shop Private Limited, i.e. a member of the Flemingo Group, related to the dispute which ended with a ruling of the arbitral tribunal at the Permanent Court of Arbitration in The Hague, on which the Company reported in, inter alia, the Management Board’s Report on the Operations of the Company in 2017. Flemingo’s waiver of claims to compensation awarded by the Permanent Court of Arbitration in The Hague made it possible to execute a settlement and 14 agreements for the lease of space at the Warsaw Chopin Airport on 6 May 2018, as announced in Current Report No. 8/2018 of 6 May 2018. The amount of the right to conclude an agreement was determined based on the amount of compensation specified in the ruling of the arbitral tribunal at the Permanent Court of Arbitration in The Hague, plus interest accrued until the date of the settlement, i.e. 6 May 2018.

13.4 Impairment losses

The Company's Management Board believes that as at the end of the reporting period there was no indication that any intangible asset may be impaired. The intangible assets of the Company do not include any assets that do not have a fixed maturity or unfinished development work, which are subject to annual impairment tests.

14. Investments

	31.12.2018	31.12.2017
Shares in related parties	9 309	9 264
Loans granted to related entities	39 114	30 754
	48 423	**40 018**

Short-term investment

	31.12.2018	31.12.2017
Loans granted to related entities	124	117
	124	**117**

The loans advanced to related entities, with a total carrying amount of PLN 39,238 thousand (2017: PLN 30,911 thousand), bear interest at a fixed interest rate in the range of 2.1–6.0% and floating interest rate based on WIBOR or EURIBOR.

Changes in impairment losses on long-term investments were as follows:

	31.12.2018	31.12.2017
Opening balance on January 1	5 476	5 467
An impairment loss recognized in the reporting period	3 382	9
Closing balance	**8 858**	**5 476**

In connection with the planned discontinuation of operations at the Liege airport, the Company recognised a PLN 3,373 thousand impairment loss on its shares held in Liege Airport Shop BVBA which carries out its operations at this location. The remaining amount of impairment losses relates to a loan advanced to KW Shelf Company Sp. z o.o.

The completed analyses indicate that even if the key assumptions used to determine the value in use would be changed, i.e. a decrease in the average gross margin by 1%, an increase in discount rate by 1% or a decrease in the average sales growth rate by 1%, the total carrying amount of the unit would not exceed its total recoverable amount and it would not be necessary to recognise additional impairment losses on shares in that subsidiary.

The Company's level of exposure to credit, currency, and interest rate risk in relation to other investments has been described in Note 26.

15. Deferred tax assets and liabilities

15.1 Unrecognised deferred tax assets

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

	31.12.2018	31.12.2017
Tax losses	7 864	278
	7 864	**278**

The right to utilise the above tax losses expires in 2018 (PLN 158 thousand). Deferred tax assets were not recognised for the tax losses indicated in the table above, because it is probable that in the next year taxable profits will be available against which those deferred tax assets can be utilised.

15.2 Deferred tax assets and liabilities and deferred tax liabilities

	Assets		Provisions		The net value	
	2018	2017	2018	2017	2018	2017
Property, plant and equipment	30	29	52	81	82	110
Intangible assets	-	-	-	-	-	-
Stocks	(42)	(42)	-	-	(42)	(42)
Trade and other receivables	(36)	(37)	-	-	(36)	(37)
Liabilities due to loans, borrowings and other debt instruments	(1 175)	(1 173)	-	-	(1 175)	(1 173)
Investment (shares, interests, foreign exchange fluctuations on loans)	-	-	1 038	751	1 038	751
Liabilities for employee benefits	-	-	-	-	-	-
Reserves	(305)	(343)	400	-	95	(343)
Deferred income	-	-	-	-	-	-
Trade and other liabilities	-	-	-	-	-	-
Tax losses to be settled in future periods	-	(1 494)	-	-	-	(1 494)
Assets / provisions for deferred income tax	(1 528)	(3 060)	1 490	832	(38)	(2 228)
Compensation	(1 490)	(832)	(1 490)	(832)	-	-
Deferred income tax assets / provisions disclosed in the statement of financial position	**(38)**	**(2 228)**	**-**	**-**	**(38)**	**(2 228)**

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

As at the reporting date, the analysis of recoverability of deferred tax assets was carried out based on forecast cash flows over a five-year forecast period. The analysis showed that despite the tax losses on record the Management Board is of the opinion that there is no threat to the utilisation of the assets.

15.3 Change in temporary differences in the reporting period

	Status on 01.01.2017	Change in temporary differences recognized as a gain or loss of the current period	Status on 31.12.2017	Change in temporary differences recognized as a gain or loss of the current period	Status on 31.12.2018
Property, plant and equipment	111	(1)	110	(28)	**82**
Stocks	(42)	-	(42)	-	**(42)**
Trade and other receivables	(38)	1	(37)	1	**(36)**
Liabilities due to loans and advances	(521)	(652)	(1 173)	(2)	**(1 175)**
Investment	753	(2)	751	287	**1 038**
Reserves	(216)	(127)	(343)	438	**95**
Income and costs not invoiced	-	-	-	-	**-**
Tax losses to be settled in future periods	(453)	(1 041)	(1 494)	1 494	**-**
	(406)	**(1 821)**	**(2 228)**	**2 190**	**(38)**

16. Inventories

	31.12.2018	31.12.2017
Intermediates and products in progress		
Goods and finished products	17 688	17 248
	17 688	**17 248**

From 1 January 2018 to 31 December 2018, merchandise recognised under cost of sales amounted to PLN 192,552 thousand (2017: PLN 138,176 thousand). From 1 January 2018 to 31 December 2018, similarly to the previous year there were no changes in inventory write-downs.

The value of disposed goods in 2018 amounted to PLN 92 thousand (2017: PLN 63 thousand), whereas the value of shortfall recognised in the process of stock-taking amounted to PLN 538 thousand (2017: PLN 161 thousand). The resulting costs were recognised in the value of goods sold.

To secure the Company's liabilities under the multi-purpose credit facility agreement and a non-revolving credit facility agreement, to which the Company is a party, a registered pledge was established on inventories of goods for sale that are stored in the warehouses and shops owned by the Company, along with the statement of the Company as regards the submission to enforcement to surrender the items in question. At no time can the value of pledged assets, at cost in the case of each contract, be lower than PLN 14,000 thousand. Under the annex of 21 September 2018, the security provided under the multi-purpose credit facility agreement was increased to PLN 34,000 thousand under a registered pledge on inventories of goods owned by the Company and its subsidiary BH Travel Retail Poland Sp. z o.o., until 30 November 2018. As at the date of issue of these financial statements, the security had not been formally increased and was being updated.

17. Trade and other receivables

	31.12.2018	31.12.2017
Receivables due to deliveries and services	31 991	9 017
Budget receivables	5 445	2 471
Trade and other receivables	1 020	162
Receivables from deposit	3 529	2 736
Prepayments	534	459
Total receivables	**42 519**	**14 845**
Long-term	3 535	2 779
short-term	38 984	12 066
	42 519	**14 845**

17.1 Trade receivables

	31.12.2018	31.12.2017
Receivables due to deliveries and services from related entities	24 950	5 955
Receivables due to deliveries and services from other entities	7 042	3 062
Receivables due to deliveries and services in total	**31 992**	**9 017**
Long-term	0	0
short-term	31 992	9 017
	31 992	**9 017**

The Company's exposure to credit and currency risks and impairment losses on receivables are presented in Note 26.

17.2 Accruals and deferrals

	31.12.2018	31.12.2017
Guarantees of customs debt	11	50
Costs related to subsidiaries	208	34
Income not invoiced	127	169
Others	188	206
Total prepayments	**534**	**459**
Long-term part	34	43
Short-term part	500	416

18. Cash and cash equivalents

	31.12.2018	31.12.2017
Cash at hand and in bank accounts	1 221	2 998
Cash on the way and cash equivalents	1 950	2 593
Cash and cash equivalents, the value shown in the statement of financial position	**3 171**	**5 591**
Overdrafts	(23 984)	(7 499)
Cash and cash equivalents decreased by overdraft	**(20 813)**	**(1 908)**

The Company's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities are presented in Note 26.

19. Equity

19.1 Share capital

	31.12.2018	31.12.2017
Number of shares on January 1	11 256,6	11 256,6
Number of shares on December 31 (fully paid up)	**11 256,6**	**11 256,6**

19.2 Ordinary shares

As at 31 December 2018, the registered share capital was divided into 11,256,577 ordinary shares (2017: 11,256,577). The par value was PLN 0.25 per share. All outstanding shares have been fully paid up.

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

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

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

19.3 Share buyback programme

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

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

The Company's Extraordinary General Meeting was held on 14 November 2017. The Meeting adopted resolutions regarding buyback of the treasury shares with a view to their cancellation and regarding amendment of the Articles of Association and adoption of a consolidated text of the Articles of Association. Pursuant to Resolution No. 4 of the Extraordinary General Meeting, the Company will be entitled to buy back no more than 900,000 shares with the total par value of PLN 225,000.00 at the market price, but not higher than PLN 5.00 per share and not lower than PLN 0.25 per share.

The Company may buy back its shares during the period from 15 November 2017 until 15 November 2018, but no longer than until the funds allocated to the buyback programme are exhausted.
Moreover, the Extraordinary General Meeting decided to establish a reserve capital of PLN 4,520,000.00, allocated to financing the buyback of the Company shares and the related costs.

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

19.4 Distribution of profit for 2017

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

19.5 Dividends proposed by the Management Board

In 2017 and 2018, the Company did not pay any dividend.

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

20. Earnings per share

20.1 Diluted earnings per share

Basic earnings per share as at 31 December 2018 were calculated based on Company's net loss of PLN 9,583 thousand (2017: net profit of PLN 464 thousand) and the weighted average number of shares as at the date of preparation of the financial statements of 10,887.6 thousand (2017: 10,887.6 thousand).

The amounts were determined as follows:

	31.12.2018	31.12.2017
Net profit attributable to shareholders of the Parent Entity (basic)	(9 583)	464
Net profit / (Loss) of the shareholders of the Parent	**(9 583)**	**464**

Weighted average number of ordinary shares		
in thousands of shares	**31.12.2018**	**31.12.2017**
Number of ordinary shares on January 1	11 257	11 257
The impact of the acquisition of own shares	(369)	(369)
Weighted average number of ordinary shares as at 31 December	**10 887,6**	**10 887,6**

20.2 Diluted earnings per share

As at 31 December 2018, diluted earnings per share were calculated using the Company's net loss of PLN 9,583 thousand (2017: net profit of PLN 464 thousand), and the weighted average number of shares adjusted by the impact of dilution factors which as at the date of preparation of these financial statements amounted to 10,887.6 thousand (2017: 10,958.7 thousand).

	31.12.2018	31.12.2017
Net profit attributable to shareholders of the Parent Entity (basic)	(9 583)	464
(Loss) / Net profit attributable to equity holders of the Parent Entity (diluted)	**(9 583)**	**464**

Weighted average number of ordinary shares (diluted)		
in thousands of shares	**31.12.2018**	**31.12.2017**
Weighted average number of ordinary shares	10 887,6	10 887,6
Weighted average number of ordinary shares as at December 31 (diluted)	**10 887,6**	**10 887,6**

21. Share-based payments

None.

22. Liabilities under borrowings and other debt instruments

22.1 Non-current liabilities

	31.12.2018	31.12.2017
Longterm bank credits	4 620	1 236
Loans from related parties	14 222	16 533
Liabilities due to financial leasing	845	269
	19 687	**18 038**

22.2 Current liabilities

	31.12.2018	31.12.2017
Overdrafts	23 984	7 499
Shortterm bank credits	3 778	1 130
Loans from related parties	2 043	0
Valuation of derivatives (IRS)	38	0
Short-term part of liabilities due to financial leasing	320	199
	30 163	**8 828**

22.3 Repayment terms and schedule for borrowings and other debt instruments

Repayment dates and conditions under open-ended credit agreements:

	Currency	Nominal rate	Year of maturity	Carrying amount 31.12.2018	Carrying amount 31.12.2017
Loan from related parties - unsecured	USD	5%	2020	35	34
Loan from related parties - unsecured	EUR	5%	2020	14 144	16 459
Loan from related parties - unsecured	EUR	5%	2020	43	40
Loan from related parties - unsecured	PLN	WIBOR12M+margin	2019	2 043	0
Overdraft secured on company's assets	PLN	WIBOR3M+margin	2021*	23 984	7 499
Non-renewable credit secured on company's assets	PLN	WIBOR3M+margin	2019	666	1 637
Non-renewable credit secured on company's assets	PLN	WIBOR3M+margin	2020	3 819	729
Short-term loan	PLN	WIBOR3M+margin	2022	3 912	0
Liabilities due to financial leasing	PLN	WIBOR1M / LIBOR1M + margin	2018-2021	1 165	468
				49 812	26 866

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

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

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

34,000 thousand (joint security of the overdraft facility agreement, non-revolving credit facility agreement of 30 August 2016, non-revolving credit facility agreement of 29 September 2017, non-revolving credit facility agreement of 20 February 2018 and non-revolving credit facility agreement of 19 June 2018),

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

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

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

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

- corporate guarantee issued by Chacalli De-Decker N.V. for PLN 6,750 thousand,
- power of attorney for the bank over the account of Baltona France SAS maintained by BNP Paribas (France),
- power of attorney for the bank over accounts of Centrum Obsługi Operacyjnej Sp. z o.o. and Centrum Usług Wspólnych Baltona Sp. z o.o. maintained by BGŻ BNP Paribas S.A.,
- subordination of 100% of all current and future loans granted to the Company by entities controlling it indirectly or directly (joint security of the overdraft facility agreement, non-revolving credit facility agreement of 30 August 2016, non-revolving credit facility agreement of 29 September 2017, non-revolving credit facility agreement of 20 February 2018 and non-revolving credit facility agreement of 19 June 2018).

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

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

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

- blank promissory note with a promissory note declaration, issued by the Company, guaranteed by Baltona Shipchandlers Sp. z o.o., Centrum Usług Wspólnych Baltona Sp. z

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

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

22.4 Breach of terms of credit facility agreements

The Company uses overdraft facilities, the carrying amount of which as at 31 December 2018 totalled PLN 23,984 thousand. Under the agreements, the terms of the facilities expires on 8 February 2021, with the current availability period expiring on 18 June 2019.

Under the existing credit facility agreements, the Group is obliged to meet the following covenants by maintaining the relevant indicators at the following levels:
- the debt-service coverage ratio (DSCR) – not less than 1.2 (where DSCR is defined as the quotient of EBITDA less tax paid and the total of instalments of principal and interest on the Baltona Group's bank debt, as well as other financial liabilities repaid together with interest, with relevant financing provided by related parties and other financial institutions),
- the ratio of net financial liabilities to EBITDA – not higher than 3 (where net financial liabilities are defined as the total of long-term and short-term loans, borrowings, securities issues and other financial liabilities towards other and related entities (except for financial liabilities subordinated to repayments of credit facilities) less cash and cash equivalents),
- current ratio – 1, where the ratio is defined as the quotient of (inventories less non-transferable inventories increased by short-term receivables net of uncollectible receivables and

receivables under court proceedings and increased by short-term investments) and (current liabilities to related parties and to other entities, excluding special funds).

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

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

22.4 Finance lease liabilities

The schedule for the repayment of finance lease liabilities

	Future minimal payment from the title leasing 31.12.2018	Interests 31.12.2018	Value of future minimum lease payments 31.12.2018	Future minimal payment from the title leasing 31.12.2017	Interests 31.12.2017	Value of future minimum lease payments 31.12.2017
Liabilities due to financial leasing						
To year	351	31	320	206	7	199
From 1 to 5 years	891	46	845	273	4	269
	1 242	**77**	**1 165**	**479**	**11**	**468**

The Company uses means of transport and a part of equipment under finance leases (see Note 12). The Company's obligations under finance leases are secured by the lessors' title to the leased assets or assets held under promissory notes in the amounts equal to the lessors' claims.

23. Trade and other payables

	31.12.2018	31.12.2017
Liabilities for deliveries and services to related entities	8 744	4 847
Liabilities for deliveries and services to other entities	24 925	22 206
Budget commitments	8 090	3 158
Other liabilities	68	13
Prepayments	7 669	601
Special funds	128	134
	49 624	**30 959**
in this part:		
- long-term	10 836	-
- short-term	38 788	30 959

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

24. Employee benefits

	31.12.2018	31.12.2017
Liabilities due to retirement benefits	49	35
Commitments remuneration	866	954
Liabilities for unused holidays	571	386
Other liabilities	32	33
	1 518	**1 408**
in this part:		
- long-term	49	35
- short-term	1 469	1 373

25. Provisions

The provision for court litigations in the amount of PLN 52 thousand relates to the court action brought by a natural person before the District Court in Gdynia, who claims compensation for lost benefits from a real estate located in Gdynia. The details of the case are described in Note 29.

26. Financial instruments

26.1 Credit risk

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

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

	31.12.2018	31.12.2017
Loans granted	39 238	30 871
Own receivables	36 540	11 915
Cash and cash equivalents	3 171	5 591
	78 949	**48 377**

26.2 Impairment losses

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

	Gross value on 31.12.2018	Revaluation write-off for 31.12.2018	Gross value on 31.12.2017	Revaluation write-off for 31.12.2017
Not due	19 983	0	6 493	0
Expired from 0 to 30 days	2 741	0	1 532	0
Expired from 31 to 60 days	3 712	0	440	0
Expired over 61 days	10 130	-26	3 479	-29
	36 566	**-26**	**11 944**	**-29**

The balance of PLN 10,130 thousand includes receivables from subsidiaries of PLN 8,936 thousand.

Changes in impairment losses on trade receivables were as follows:

	31.12.2018	31.12.2017
Opening balance on January 1	29	32
Reversal of impairment allowances	-3	-3
An impairment loss recognized in the reporting period	0	0
An impairment loss recognized in the reporting period	0	0
Closing balance	**26**	**29**

The age structure of loans advanced as at the end of the reporting period was as follows:

	Gross value on 31.12.2018	Revaluation write-off for 31.12.2018	Gross value on 31.12.2017	Revaluation write-off for 31.12.2017
Not due	39 421		31 045	0
Expired from 0 to 180 days				0
Expired from 180 to 365 days				0
Expired over 366 days		-183		-174
	39 421	**-183**	**31 045**	**-174**

Changes in impairment losses on loans and receivables were as follows:

	31.12.2018	31.12.2017
Opening balance on January 1	174	166
Reversal of impairment allowances	9	8
Closing balance	**183**	**174**

26.3 Liquidity risk

Below are presented the contractual terms of financial liabilities:

31.12.2018	Carrying amount	Cash flows resulting from the contract	Below 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Financial liabilities other than derivatives							
Bank loans secured	(8 398)	(8 502)	(76)	(76)	(642)	(7 708)	-
Liabilities due to financial leasing	(1 165)	(1 214)	(181)	(170)	(335)	(528)	-
Loans from a related one	(16 265)	(2 797)	(377)	(2 420)	-	-	-
Trade and other liabilities	(33 669)	(33 669)	(33 669)	-	-	-	-
Overdrafts	(23 984)	(24 524)	-	(24 524)	-	-	-
	(83 481)	**(70 706)**	**(34 303)**	**(27 190)**	**(977)**	**(8 236)**	**-**

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

31.12.2017	Carrying amount	Cash flows resulting from the contract	Below 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Financial liabilities other than derivatives							
Bank loans secured	(2 366)	(1 950)	(57)	(57)	(1 836)	-	-
Liabilities due to financial leasing	(468)	(434)	(125)	(74)	(103)	(132)	-
Loans from a related one	(16 533)	(383)	(192)	(192)	-	-	-
Trade and other liabilities	(27 053)	(27 053)	(27 053)	-	-	-	-
Overdrafts	(7 499)	(7 801)	-	(7 801)	-	-	-
	(53 919)	**(37 621)**	**(27 427)**	**(8 124)**	**(1 939)**	**(132)**	**-**

26.4 Currency risk

Exposure to currency risk

The Company's exposure to foreign exchange risk according to the exchange rate applicable at the end of the reporting period is as follows:

	31.12.2018			31.12.2017		
in thousands of PLN	EUR	USD	GBP	EUR	USD	GBP
Trade and other receivables	9 988	517	302	3 716	484	324
Cash	15 879	10 161	-	8 117	9 581	-
A loan from a related one	(14 179)	(41)	-	(16 495)	(38)	-
Trade and other liabilities	(4 240)	(481)	-	(9 364)	(453)	-
Net balance sheet exposure	**7 448**	**10 156**	**302**	**(14 026)**	**9 574**	**324**

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

in thousands of PLN	**Average exchange rates**		**The end of the reporting period spot rate**	
	01.01.2018-31.12.2018	**01.01.2017-31.12.2017**	**01.01.2018-31.12.2018**	**01.01.2017-31.12.2017**
EUR	4,2669	4,2447	4,3000	4,1709
USD	3,6227	3,7439	3,7597	3,4813
GBP	4,8142	4,8457	4,7895	5,1445

Sensitivity analysis

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

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

The table below provides examples of currencies and percentage changes:

in thousands of PLN	Strengthening		Weakness	
	Equity capital	Profit or loss of the current period	Equity capital	Profit or loss of the current period
31.12.2018				
EUR (change by 6%)	-596	-596	596	596
USD (change by 6%)	-819	-819	819	819
GBP (change by 6%)	-100	-100	100	100
31.12.2017				
EUR (change by 6%)	1122	1122	-1122	-1122
USD (change by 6%)	-722	-722	772	772
GBP (change by 6%)	-105	-105	105	105

26.5 Interest rate risk

As of the end of the reporting period, the structure of interest-bearing financial instruments was as follows:

	31.12.2018	**31.12.2017**
Financial instruments with a fixed interest rate		
Financial assets	1 748	2 291
Financial liabilities	(14 222)	(16 533)
	(12 474)	**(14 242)**
Financial instruments with a variable interest rate		
Financial assets	38 711	31 578
Financial liabilities	(35 590)	(17 832)
	3 121	**13 746**

A change by 100 basis points in the interest rate would increase (or decrease) the equity and pre-tax profit as described below. The following analysis is based on the assumption that other variables, in particular exchange rates, remain unchanged.

The effect in thousands of PLN	**Profit or loss of the current**		**Equity**	
	Increase by 100 bp	**Fall by 100 bp**	**Increase by 100 bp**	**Fall by 100 bp**
31.12.2018				
Financial instruments with a variable interest rate	31	(31)	31	(31)
Sensitivity of cash flows (net)	**31**	**(31)**	**31**	**(31)**
31.12.2017				
Financial instruments with a variable interest rate	137	(137)	137	(137)
Sensitivity of cash flows (net)	**137**	**(137)**	**137**	**(137)**

26.6 Comparison of fair values with carrying amounts

The fair values of financial assets and liabilities do not differ materially from their respective carrying amounts.

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

31.12.2018	**Income / (costs) for interest**	**Profits / (losses) due to exchange differences**	**Solution / (creation) of write-downs**	**Profits / (losses) due to the valuation**	**Profits / (losses) from the sale of financial instruments**	**Others**
Shares in related parties	-	-	(3 382)	-	-	-
Loans granted	1 199	2 681	-	-	-	-
Own receivables	-	-	-	511	-	-
Cash and cash equivalents	-	-	-	-	-	-
Liabilities due to financial leasing	(15)	-	-	-	-	-
Loans from related parties	(753)	-	-	-	-	-
Liabilities for deliveries and services	-	(2 010)	-	(525)	-	-
Bank loans	(712)	-	-	-	-	-
	-	-	-	-	-	-
Total	**(281)**	**672**	**(3 382)**	**(14)**	**-**	**-**

31.12.2017	**Income / (costs) for interest**	**Profits / (losses) due to exchange differences**	**Solution / (creation) of write-downs**	**Profits / (losses) due to the valuation**	**Profits / (losses) from the sale of financial instruments**	**Others**
Shares in related parties	-	-	(9)	-	-	-
Loans granted	1 009	1 504	-	-	-	-
Own receivables	-	-	-	443	-	-
Cash and cash equivalents	90	-	-	-	-	-
Liabilities due to financial leasing	(20)	-	-	-	-	-
Loans from related parties	(645)	(2 942)	-	-	-	-
Liabilities for deliveries and services	-	-	-	(565)	-	-
Bank loans	(471)	-	-	-	-	-
Total	**(37)**	**(1 437)**	**(9)**	**(122)**	**-**	**-**

27. Operating leases

27.1 Operating lease agreements with the Company as a lessee

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

		31.12.2018	**31.12.2017**
To year	do roku	88 864	33 940
1 to 5 years	1 do 5 lat	283 527	91 723
Over 5 years	powyżej 5 lat	218 889	0
		591 280	**125 663**

The Company is a party to an office lease agreement in Warsaw and a party to the lease of shop, warehouse, and office space located at airports and at a border crossing. The said contracts are classified as operating lease contracts. Lease agreements are concluded for periods of different duration (up to 5 years or for an indefinite period of time). Most rental rates are indexed on the basis of the price variation index. In the case of agreements concluded for an indefinite time, the below table only specifies the amount of the rent that the Company would have to pay for the termination notice period.

Some lease agreements provide for additional fees that depend on the level of revenues from the sale of goods in a given location, the so-called commission rent. In the case of two locations, there is no fixed part of the rent; there is only the commission-based rent. The amount of rent for these location was excluded from the calculation of minimum payments under irrevocable lease agreements.

In the year ended on 31 December 2018, a total of PLN 55,203 thousand has been recognised in the statement of profit or loss as costs of fees charged as part of operating lease contracts (2017: PLN 28,680 thousand). Contingent rental fees recognised as commission-based rents amounted to PLN 19,998 thousand (2017: PLN 17.106 thousand).

27.2 Operating lease agreements with the Company as a lessor

In 2018, the related revenue amounted to PLN 43 thousand (2017: PLN 42 thousand).

28. Contractual commitments to acquire property, plant and equipment

None.

29. Contingent liabilities and litigation

As at 31 December 2018, the Company granted the following sureties for its subsidiaries:

- A surety securing the repayment of liabilities of a subsidiary Centrum Obsługi Operacyjnej Sp. z o.o. to Raiffeisen-Leasing Polska S.A. and Getin Leasing Spółka Akcyjna S.K.A. arising from lease agreements associated with the purchase of furniture and equipment for cafés. The surety is valid until the complete repayment of liabilities arising from the above agreements, which come due for payment in 2017-2018. The amount of the surety was PLN 142 thousand.

- A surety securing the repayment of liabilities of a subsidiary BH Travel Retail Poland Sp. z o.o. to BGŻ BNP PARIBAS S.A. of PLN 58,500 thousand.

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 Company 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 Company 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 Company, the relevant proceedings will not be concluded within the next few years.

At present, it is not possible to estimate potential liabilities of the Company 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 the Company's financial performance. In the opinion of the Management Board, the proceedings will last several years. The Company recognised a provision of PLN 52 thousand for the proceedings.

On 6 May 2018, the Company, 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 Company and PPL concluded 14 retail space lease agreements, as a result of which in 2018 retail activity will be partly resumed by the Baltona Group at Warsaw Chopin Airport.

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

In connection with the above dispute, the case brought by Vistula Group S.A. against BH Travel is still pending. Until 2012, Vistula Group S.A. was a sub-tenant of one of the premises leased by BH Travel from PPPL. In connection with termination of the lease agreements by PPPL, 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 Company 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 Company had been delivered all the premises covered by the aforementioned lease agreements.

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

The Company 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 Company 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 Company has not recognised any provision for such liabilities.

On 25 January 2019, the Court delivered a copy of the statement of claim to the Company's attorney-in-fact. On 25 February 2019, the Company 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 Company was furnished with a copy of the petition filed by LTR against Port Lotniczy Wrocław S.A. (hereinafter: Wrocław Airport) and the Company. 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 Company 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.

As of the date of publication of this financial report, all the above-mentioned proceedings are pending and have not been resolved by a final judgement of the Court.

30. Related party transactions

30.1 Parent and ultimate parent

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

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

30.2 Transactions with the management staff

Remuneration paid to the key senior executives of the Company was as follows:

	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Salaries of management members	1 742	1 071
	1 742	**1 071**

30.3 Other related-party transactions

	Transaction value for the period		Balances as the end of period	
	01.01.2018-31.12.2018	01.01.2017-31.12.2017	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Sale of goods and services				
Baltona Shipchandlers Sp. z o.o. - sales of services	2	0	2	3
BH Travel Retail Poland Sp. z o.o. - sales of goods	175	0	0	0
BH Travel Retail Poland Sp. z o.o. - sales of services	165	4	12 506	0
Centrum Obsługi Operacyjnej Sp. z o.o. - sales of goods	0	49	2 130	2 047
Centrum Obsługi Operacyjnej Sp. z o.o. - sales of services	29	27	0	0
Centrum Usług Wspólnych Baltona Sp. z o.o. - sales of services	397	390	0	0
Baltona France S.A.S. - sales of goods	341	94	854	550
Flemingo Duty Free Ukraine - sales of goods	3 368	3 087	922	358
Gredy Company SRL - sales of goods	164	275	52	200
Flemingo International Ltd. - sales of services (reinvoicing)	109	0	588	479
Flemingo Brasil Importacao Limitada	0	0	363	363
Flemingo Tanger	0	0	0	0
Baltona Duty Free Estonia OÜ - sales of goods	485	0	6 975	1 691
Baltona Duty Free Estonia OÜ - sales of services	4	0	0	0
Sandpiper - sales of services	4	2	0	11
Liege Airport Shop BVBA	0	0	0	0
KW Shelf Company Sp. z o.o.	4	3	9	4
Ashdod Holdings Ltd. - sales of services	0	0	29	29
Baltona Italy S.R.L - sales of goods, fixed assets	32	37	24	43
Chacalli Den Haag BV	82	0	82	3
Niederrhein Airport Shop GmbH	157	0	238	48
Chacalli-De Decker NV	0	0	0	0
Rotterdam Airport Tax-Free Shop BV	0	0	0	0
	5 518	**3 968**	**24 950**	**5 954**

Other - balance amount of loans granted				
BH Travel Retail Poland Sp. z o.o. - interests income/loan balance	305	248	10 447	9 402
Gredy Company SRL - interests income/loan balance	17	19	1 521	1 460
Centrum Obsługi Operacyjnej Sp. z o.o. - interests income	581	548	11 838	11 256
Baltona France S.A.S. - interests income/loan balance	76	77	4 174	3 975
Baldemar Holdings Limited	27	22	0	715
Pan Rafał Kazimierski	7	7	124	117
KW Shelf Company Sp. z o.o.	9	8	0	0
Liege Airport Shop BVBA	2	0	453	0
Sandpiper - - interests income/loan balance	1	11	0	23
Baltona Italy S.R.L.	22	23	1 205	907
Chacalli-De Decker NV	28	31	0	1 282
Chacalli-De Decker Limited	26	11	947	904
Rotterdam Airport Tax-Free Shop BV	0	0	301	0
Baltona Duty Free Estonia OÜ	104	2	8 228	830
	1 205	**1 007**	**39 238**	**30 871**

Purchase of raw materials, goods and services				
Baltona Shipchandlers Sp. z o.o. - purchase of goods	0	948	0	4
Centrum Usług Wspólnych Baltona Sp. z o.o. - trademark royalty, payment for administrative services and lease of office and warehouse space	15 545	7 333	5 343	3 823
Flemingo International Ltd. - purchase of goods and services	0	0	443	451
Flemingo International Ltd.- finance costs	173	60	0	0
Flemingo India - finance costs	102	0	19	0
Flemingo International (BVI) Ltd	231	229	19	19
Sandpipier 3 Sp z o.o.	409	0	36	0
Baltona Duty Free Estonia OÜ	3	0	3	0
Chacalli-De Decker NV	7 585	4 546	2 881	549
	24 048	**13 116**	**8 744**	**4 846**

Other - balances of loans received				
Flemingo International Ltd. - interests costs	710	639	14 222	16 533
Baltona Shipchandlers Sp. z o.o. - interests costs	43	6	2 043	0
	753	**645**	**16 265**	**16 533**

In 2018, the Company also recognised dividends from subsidiaries in the amount of PLN 7,403 thousand (2017: PLN 8,469 thousand).

Under overdraft agreements and guarantee facility agreements referred to in Note 5.4 and 22.3, the Company was provided with corporate guarantees issued by Flemingo International Limited, for up an aggregate of PLN 128,827.5 thousand.

All unsettled balances with related entities are measured at market values and must be settled in cash 12 months from the end of the reporting period in the case of trade and other settlements, or – in the case of loans received – within the time frames provided for in Note 22.3. Loans advanced to related parties come due for payment on dates specified in agreements. The Company classified them as long-term investments as shown in Note 14, because the Company expects these loans to be repaid within twelve months of the end of the reporting period.

Subsidiaries of the Company

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

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

On 11 July 2018, the Company, CDD Holding B.V. (the "Seller") and Flemingo International (BVI) Limited (the "Buyer" or "Flemingo") concluded a share sale agreement concerning shares in indirect subsidiaries of the Chacalli Group, i.e. Chacalli-De Decker N.V. (Belgium), Chacalli Den Haag B.V. (the Netherlands) and Chacalli-De Decker Limited (United Kingdom). The business of these companies consists in providing supplies to diplomatic establishments. Moreover, the Agreement identifies the terms on which the Travel Retail business currently conducted by Chacalli-De Decker N.V. (Belgium) will be transferred in whole as an organised part of business to the Baltona Group. The ownership title to shares of the Chacalli companies will be transferred within 60 days of conclusion of the Agreement, upon finalisation of formal and registration related activities applicable under the legal systems in which particular Chacalli companies operate, and after execution of the transaction related to acquisition by the Company of Travel Retail assets currently held by Chacalli-De Decker N.V. (Belgium). On 11 September 2018, the Company and CDD Holding B.V. as the Seller and Flemingo International (BVI) Limited as the Buyer signed an annex to the aforementioned agreement. Under the annex, the parties decided that the initial deadline of 60 days after the date of conclusion of the sale agreement, for the transfer of the ownership title to shares in Chacalli companies, would be extended for an indefinite term. The annex did not introduce any other changes to the agreement for the sale of shares in Chacalli companies.

The formal and registration related activities were completed in 2018 and the ownership title to the shares of two Chacalli companies was transferred on the following dates: the transfer of shares in Chacalli De Decker N.V. was completed on 25 October 2018, the transfer of shares in Chacalli De Decker Ltd. was completed on 26 October 2018. As at the date of these financial statements, the process related to the transfer of the ownership title to the shares in a third Chacalli company was still pending. Concurrently, it is the Company's intention to extend the time limit for the finalisation of the above-mentioned transfer of the ownership title to shares in Chacalli Den Haag B.V.

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

In August 2018, the share capital of the subsidiary Liege Airport Shop BVBA was increased, while on 1 October 2018 an agreement was concluded between Przedsiębiorstwo Handlu Zagranicznego BALTONA S.A. and Chacalli-De Decker N.V. concerning acquisition of shares in the increased share capital of Liege Airport Shop BVBA. As the agreement is related to the agreement of 11 July 2018 on the transfer of the Travel Retail business to the Baltona Group, its effects have been disclosed in these 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.

31. Auditor's fees

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 will be charged for the review of quarterly reporting packages prepared for the Flemingo Group for each quarter of 2017 and 2018.

32. Events subsequent to the reporting date

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

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

On 14 February 2019, the Management Board of the 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 inspection was completed and the Company submitted a correction to the 2015 CIT-

8 tax return covering all irregularities disclosed during the inspection. Moreover, the Company intends to correct its tax returns for 2013–2017 covering all irregularities identified during the inspection of 2015. In these financial statements a correction of fundamental errors was made, amounting to PLN 2,185 thousand.

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

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

On 7 March 2019, the Regional Court in Warsaw, 16th Commercial Division, dismissed the action brought by Lagardere Travel Retail Sp. z o.o. (LTR) against Port Lotniczy Wrocław S.A. and

Przedsiębiorstwo Handlu Zagranicznego Baltona S.A. in its entirety. Lagardere Travel Retail Sp. z o.o. demanded that the agreement on the lease of space between Port Lotniczy Wrocław S.A. and the Company be annulled. Moreover, LTR raised the alternative claim concerning adjudication of invalidity of the above-mentioned agreement. The ruling is not final.

Przedsiębiorstwo Handlu Zagranicznego Baltona S.A.

These separate financial statements were prepared and approved for issue by the Company's Management Board on 30 April 2019.

Piotr Kazimierski
President of the Management Board

Karolina Szuba
Member of the Management Board

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