CAPITAL GROUP OF PRZEDSIĘBIORSTWO HANDLU ZAGRANICZNEGO „BALTONA" S.A.

[FOREIGN TRADE COMPANY "BALTONA" JOINT STOCK COMPANY]

QUARTERLY REPORT ON THE ACTIVITY OF THE ISSUER

FOR THE PERIOD OF NINE MONTHS

ENDED ON 30 SEPTEMBER 2019

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

Warsaw, 29 November 2019

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1. Selected financial data

1.1 Selected financial data of Baltona Group

	for the period of 9 months ended on 30 September		for the period of 9 months ended on 30 September	
	2019	2018	2019	2018
		in 000 PLN		in 000 EUR
Net revenue from sales of products, goods and materials	411 879	361 010	95 595	84 874
Operating profit	(43 130)	2 445	(10 010)	575
EBITDA from operating activity*	39 024	7 240	9 057	1 702
Net profit/(loss) attributable to owners of the parent entity	(62 432)	1 186	(14 490)	279
Weighted average number of issued shares in units	10 887 582	10 887 582	10 887 582	10 887 582
Number of potential diluting ordinary shares	-	-	-	-
Earnings/(Loss) per share (in PLN/EUR)	(5,68)	0,11	(1,32)	0,03
Diluted earnings/(loss) per share (in PLN/EUR)	(5,73)	0,11	(1,33)	0,03

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

	30.09.2019	31.12.2018	30.09.2019	31.12.2018
		in 000 PLN		in 000 EUR
Total assets	790 725	291 711	180 795	67 840
Share capital	2 814	2 814	643	654
Equity of the parent entity's owners	33 016	96 616	7 549	22 469
Long-term liabilities	524 433	66 650	119 909	15 500
Short-term liabilities	232 568	128 229	53 175	29 821
Liabilities and liability provisions	757 001	194 879	173 084	45 321
Book value per share (in PLN/EUR)	3,03	8,87	0,69	2,06
Diluted book value per share (in PLN/EUR)	3,03	8,87	0,69	2,06

	for the period of 9 months ended on 30 September		for the period of 9 months ended on 30 September	
	2019	2018	2019	2018
		in 000 PLN		in 000 EUR
Operating cash flows	79 262	10 490	18 396	2 466
Investment cash flows	(12 419)	(40 184)	(2 882)	(9 447)
Financial cash flows	(67 585)	22 621	(15 686)	5 318
Total net cash flows	(742)	(7 073)	(172)	(1 663)

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

	for the period of 9 months ended on 30 September		for the period of 9 months ended on 30 September	
	2019	2018	2019	2018
		in 000 PLN		in 000 EUR
Net revenue from sales of products, goods and materials	179 902	208 470	41 754	49 012
Operating (loss)/profit	(18 155)	(7 178)	(4 214)	(1 688)
EBITDA from operating activity*	4 686	(5 154)	1 088	(1 212)
Net profit/(loss)	(13 343)	(539)	(3 097)	(127)
Weighted average number of issued shares in units	10 887 582	10 887 582	10 887 582	10 887 582
Number of potential diluting ordinary shares	-	-	-	-
Earnings/(Loss) per share (in PLN/EUR)	(1,23)	(0,05)	(0,29)	(0,01)
Diluted earnings/(loss) per share (in PLN/EUR)	(1,23)	(0,05)	(0,29)	(0,01)

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

	30.09.2019	31.12.2018	30.09.2019	31.12.2018
		in 000 PLN		in 000 EUR
Total assets	257 987	214 952	58 987	49 989
Share capital	2 814	2 814	643	654
Total equity	96 202	109 545	21 996	25 476
Long-term liabilities	51 196	30 624	11 706	7 122
Short-term liabilities	110 589	74 783	25 286	17 391
Liabilities and liability provisions	161 785	105 407	36 991	24 513
Book value per share (in PLN/EUR)	8,84	10,06	2,02	2,34
Diluted book value per share (in PLN/EUR)	8,84	10,06	2,02	2,34

	for the period of 9 months ended on 30 September		for the period of 9 months ended on 30 September	
	2019	2018	2019	2018
		in 000 PLN		in 000 EUR
Operating cash flows	34 942	8 801	8 110	2 069
Investment cash flows	(22 408)	(19 704)	(5 201)	(4 632)
Financial cash flows	(1 257)	5 937	(292)	1 396
Total net cash flows	11 277	(4 966)	2 617	(1 168)

1.3 Average PLN/EUR exchange rates published by the National Bank of Poland (NBP)

	for the period of 9 months ended on 30 September	
	2019	**2018**
average exchange rate during the period	4,3086	4,2535

	as at	
	30.09.2019	**31.12.2018**
exchange rate at the end of the period	4,3736	4,3000

2. Information on the organisation of the Capital Group, including indication of the entities covered by consolidation

2.1 Structure of Baltona Group

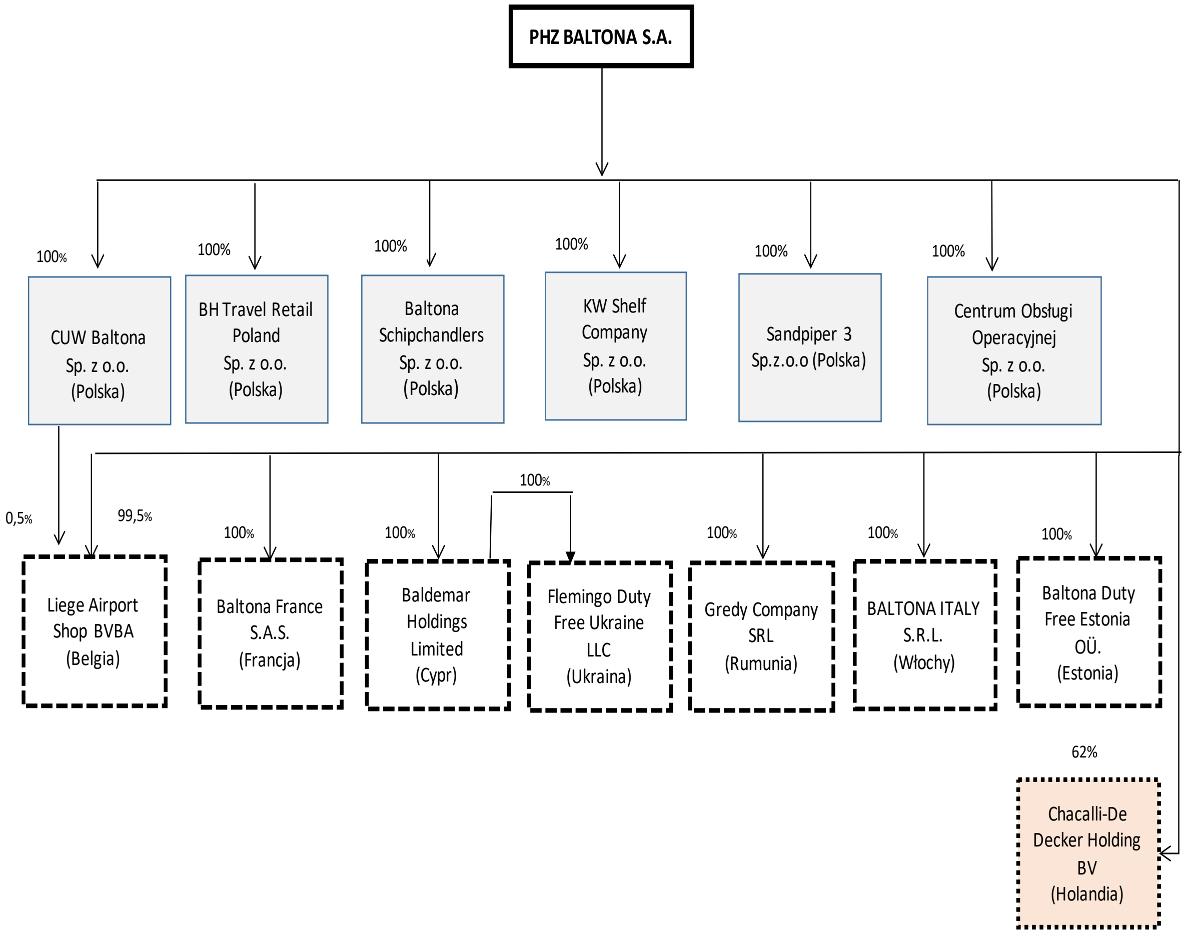
The Capital Group of BALTONA consists of the parent entity – Przedsiębiorstwo Handlu Zagranicznego BALTONA S.A. [Foreign Trade Company BALTONA Joint Stock Company] (hereinafter referred to as the "Parent Entity", "Baltona", "PZH Baltona S.A.", "Company", "Issuer") – and subsidiaries.

Przedsiębiorstwo Handlu Zagranicznego BALTONA Spółka Akcyjna [Foreign Trade Company BALTONA Joint Stock Company] is a joint stock company registered in Poland. Since 2013, the Parent Entity has been listed on the main market of Giełda Papierów Wartościowych S.A. [Warsaw Stock Exchange] in Warsaw.

The Parent Entity was entered into the register of entrepreneurs of the National Court Register at the District Court for the Capital City of Warsaw, 13th Trade Division under number KRS 0000051757. The company was assigned with the statistical number REGON 00014435. The registered office of the Parent Company is located at ul. Flisa 4 in Warsaw (postal code: 02-247).

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

As at 31 September 2019, the Group – next to the Parent Entity, consisted of the following entities:



* Jednostka Dominująca posiada udziały w spółce Flemingo Duty Free Ukraine LLC za pośrednictwem jednostki zależnej Baldemar Holdings Limited

2.2 Description of entities covered by consolidation

As at 31 September 2019, consolidation covered PHZ "Baltona" S.A. as the Parent Entity and the following subsidiaries As at 31 March 2019, consolidation covered PHZ "Baltona" S.A. as the Parent Entity and the following subsidiaries:

Company name	Area of activity	Consolidation method
BH Travel Retail Poland Sp. z o.o.	Retail sales at duty free shops	Full
Baltona Shipchandlers Sp. z o.o.	Supplying sea ship crews and B2B sales	Full
Gredy Company SRL	Retail sales	Full
Centrum Usług Wspólnych Baltona Sp. z o.o.	Administrative and accounting services to Group companies	Full
Baltona France S.A.S.	Retail sales at duty free shops	Full
Baldemar Holdings Limited *and its subsidiary:*	Holding company	Full
Flemingo Duty Free Ukraine LLC	Retail sales at duty free shops	Full
Centrum Obsługi Operacyjnej Sp. z o.o.	Gastronomy activity	Full
Sandpiper 3 Sp z o.o.	IT activity	Full
KW Shelf Company Sp. z o.o.	As at 30.09.2019, the company did not conduct operating activity	Full
Baltona Italy S.r.l.	Retail sales at duty free shops	Full
Liege Airport Shop BVBA	As at 30.09.2019, the company did not conduct operating activity	Full
Baltona Duty Free Estonia OÜ	Retail sales at duty free shops	Full
CDD Holding BV	Holding company	Full

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

Changes within the capital structure of the Group, as discussed in the following paragraph, occurred during the period of nine months ended on 30 September 2019.

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

Sale of another 2 companies of Chacalli Group occurred during the reporting period. As a result of those changes, only Chacalli-De Decker Holding BV remains within Baltona Group as at 30 September 2019. The chronology of changes is as follows.
On 11 July 2018, the Company, CDD Holding B.V. (hereinafter: Seller) and Flemingo International (BVI) Limited (hereinafter: Buyer or Flemingo) concluded an agreement concerning sale of shares in indirect subsidiaries of Chacalli Group, i.e. Chacalli-De Decker N.V. (Belgium), Chacalli Den Haag B.V. (the Netherlands) and Chacalli-De Decker Limited (Great Britain). The above companies' activity is connected with supplying diplomatic establishments. Moreover, the Agreement identified the principles subject to which the Travel Retail business currently conducted within Chacalli-De Decker N.V. (Belgium) was in whole transferred as an organised part of the enterprise into the structures of Baltona Group. In consequence of the above, formal and registration related activities were performed in 2018, and ownership title to shares of two Chacalli companies (i.e. Chacalli De Decker N.V. and Chacalli De Decker Ltd.) was transferred. The process related to transfer of the ownership title to shares

of the third Chacalli Company, namely Chacalli Den Haag B.V. (the Netherlands), is pending as at the date of preparation of this report.

On 29 May 2019, the Issuer's subsidiary CDD Holding B.V. concluded with a foreign industry partner operating in the countries of Western Europe (hereinafter: Buyer) an agreement concerning purchase from CDD of all shares in two CDD's subsidiaries, i.e. Rotterdam Airport Tax-Free Shop B.V and Niederrhein Airport Shop GmbH. The Issuer reminds that it is in the possession of 62% shares in CDD which, in turn, holds 100% shares of RAS and NAS each. Transfer of the ownership title towards the shares in RAS & NAS occurred on the date of Agreement conclusion. Detailed information on the above transaction was published in the current report no. 22/2019 of 29 May 2019.

On 14 August 2019, the decision was made to initiate the procedure involving combination of the Issuer with the following subsidiaries: Centrum Usług Wspólnych Baltona Sp. z o.o. and Sandpiper 3 Sp. z o.o. The combination is planned in the mode prescribed in art. 492 § 1 par. 1 of the Code of Commercial Companies, i.e. by way of transfer of all assets of the Subsidiaries onto the Issuer, without raising the Company's share capital. As the Issuer holds all shares in the Subsidiaries, the combination will be executed in the simplified manner pursuant to art. 516 § 6 of the Code of Commercial Companies. The Subsidiaries conducts activity complementary in the objective scope to the Issuer's activity or supporting the Issuer and, therefore, the combination process will not influence the scope of activity of the Issuer's Capital Group, but will allow simplification of its structure. In consequence, the Company expects increased management efficiency and synergy effects in the operational area thanks to optimum utilisation the merging companies' resources. By the date of preparation of this interim report, the above process is pending.

4. Position of the Management Board regarding possibilities to accomplish previously published result forecasts for the given year in the light of results presented in the quarterly report as compared with result forecasts

The Management Board of PHZ "Baltona" S.A. did not publish any result forecasts for 2019.

5. Information on transactions concluded by the issuer or its subsidiary with related parties on non-arm's length terms.

All transactions concluded by the Parent Entity and its subsidiaries, including transactions with related parties, are concluded on arm's length terms. All concluded transactions were typical and routine ones, concluded on arm's length terms, and their character and terms resulted from ongoing operating activity of the Group's companies.

A list of related entities and value of transactions concluded by Group companies with those entities during the period of nine months ended on 30 September 2019 and during the comparable period as well as unsettled balances from those transactions as at 30 September 2019 and 31 December 2018 are presented in detail in note 27 to the quarterly shortened consolidated financial statements of the Group of PHZ "Baltona" S.A. for the period of nine months ended on 30 September 2019.

6. Shareholders holding directly or indirectly via subsidiaries at least 5% of the total number of votes at the general meeting of shareholders of PHZ "Baltona" S.A. as at the date of submission of the consolidated quarterly report, and changes in the ownership structure of significant packages of shares in PHZ "Baltona" S.A. during the period from submission of the previous consolidated periodic report, in accordance with the information available to PHZ "Baltona" S.A.

Shareholder	Number of shares/votes	% share in the share capital/total number of votes
as at the date of publication of the previous periodic report		
Ashdod Holdings	9 081 600	80,68%
Others (below 5% share in votes)	2 174 977	19,32%
Total number of the Company's shares and related votes	11 256 577	100,00%

On 8 October 2019, the Parent Entity received from Kempley Sp. z o.o. with the registered office in Warsaw and Ashdod Holdings Limited with the registered office in Larnaca (Cyprus) two notifications regarding change in the total number of votes of the Parent Entity as of 1 October 2019. As a result of the change, Kempley Sp. z o.o. became the holder of 9,081,600 of the Parent Entity's shares, accounting for app. 80.68% of the share capital and total number of votes at the General Meeting of the Company's Shareholders.

Shareholder	Number of shares/votes	% share in the share capital/total number of votes
as at the date of publication of the previous periodic report		
Kempley Sp. z o.o.	9 081 600	80,68%
Others (below 5% share in votes)	2 174 977	19,32%
Total number of the Company's shares and related votes	11 256 577	100,00%

As Ashdod and Kempley are entities controlled by Flemingo International Limited, since 2010 the Group of PHZ "Baltona" S.A. has been part of the international capital group headed by Flemingo International Limited.
At the same time, the Issuer informs that, in connection with conclusion of the investment agreement on 8 October 2019, the Issuer was notified on 16 October 2019 of publication by Przedsiębiorstwo Państwowe "Porty Lotnicze" [State Airports Company] of a call to subscriptions for sale of 100% of the Company's shares. Detailed information regarding the above is contained in the current report no. 48/2019 of 16 October 2019.

7. Specification of the possession of the shares of PHZ "Baltona" S.A. or rights (options) related to the shares by persons performing management and supervisory functions at PHZ "Baltona" S.A. as at the date of submission of the consolidated periodic report, with identification of changes in shareholding during the period from submission of the previous periodic report, in accordance with the information available to PHZ "Baltona" S.A.

As at the date of preparation of this report, no member of the Supervisory Board or member of the Management Board held actions of PHZ "Baltona" S.A. or any rights thereto. No changes in this respect have occurred as compared with the date of publication of the preceding interim report.

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

Information concerning court proceedings is presented in the Explanatory Information to the quarterly shortened consolidated financial statements, in par. 26 Contingent liabilities and disputes.

9. Information on credit or loan securities or guarantees granted by the Issuer or its subsidiary – jointly to one entity or subsidiary of that entity if the total value of existing securities or guarantees is significant

During the period covered by this interim report, the Issuer and its Subsidiaries did not grant significant securities or guarantees. Detailed information regarding credit collaterals is presented in the Explanatory Information to the quarterly shortened consolidated financial statements, par. 19.3 Terms and schedule of credit and loan repayment.

The value of securities or guarantees issued by or on behalf of companies of the Issuer's Group is as follows:

- As at 30 September 2019, contingent liabilities under guarantees granted by banks and insurance companies to companies of Baltona Capital Group, mainly towards suppliers, landlords as well as customs and tax institutions, amounted to PLN 42,055 thousand.
- As at 30 September 2019, the Group is taking advantage of an insurance guarantee concerning the Common Transit Procedure, at PLN 500 thousand.
- As at 30 September 2019, liabilities under securities which PHZ "Baltona" S.A. granted with respect to the subsidiaries' liabilities, mainly towards banks, lessors and landlords, amounted to PLN 58,584 thousand.
- In connection with the overdraft agreements, the Parent Entity was granted with a corporate guarantee issued by Flemingo International Limited up to the total amount of PLN 106,500 thousand with respect to the multi-purpose credit line agreement.
- In connection with the non-revolving credit agreements, the Parent Entity was granted with a corporate guarantee issued by Flemingo International Limited up to the total amount of PLN 6,750 thousand with respect to the non-revolving credit agreement dated 30.08.2016, a corporate guarantee issued by Flemingo International Limited up to the total amount of PLN 5,782.5 thousand with respect to the non-revolving credit agreement dated 29.09.2017 and a corporate guarantee issued by Flemingo International Limited up to the total amount of PLN 6,795 thousand with respect to the non-revolving credit agreement dated 20.02.2018.
- In connection with the non-revolving credit agreements, the subsidiary BH Travel Retail Poland Sp. z o.o. was granted with a corporate guarantee issued by Flemingo International Limited up to the total amount of PLN 58,500 thousand with respect to the non-revolving credit agreement dated 19.06.2018.
- As at 30 September 2019, corporate guarantees issued by Flemingo International Limited to secure currency contract transactions amounted to PLN 3,000 thousand.

- In connection with the signed annexes to the credit agreements, the Issuer's subsidiaries issued to the Bank BGŻ BNP Paribas S.A. guarantees under promissory notes for liabilities under the credit agreements. The guarantees granted together by Centrum Usług Wspólnych Sp. z o.o., Centrum Obsługi Operacyjnej Sp. z o.o. and Baltona Shipchandlers Sp. z o.o. were granted up to the amount of PLN 114,000 thousand with respect to the multi-purpose credit line agreement. The guarantees granted together by Centrum Usług Wspólnych sp. z o.o, Centrum Obsługi Operacyjnej sp. z o.o, BH Travel Retail Poland sp. z o.o. and Baltona Shipchandlers sp. z o.o. were granted up to the amount of PLN 6,750 thousand with respect to the non-revolving credit agreement dated 30.08.2016, up to PLN 5,782.5 thousand with respect to the non-revolving credit agreement dated 29.09.2017 and up to PLN 6,795 thousand with respect to the non-revolving credit agreement dated 20.02.2018. The guarantees granted together by Przedsiębiorstwo Handlu Zagranicznego "BALTONA" S.A, Centrum Usług Wspólnych sp. z o.o. and Centrum Obsługi Operacyjnej sp. z o.o. were granted up to the amount of PLN 58,500 thousand with respect to the non-revolving credit dated 19.06.2018.
- As at 30 September 2019, corporate guarantees issued by Baltona Duty Free Estonia OÜ to secure the non-revolving credit agreement amounted to PLN 5,782.5 thousand.

Apart from the securities and guarantees enumerated above, the Group does not have significant non-balance sheet items.

10. Other information which the Company considers important to evaluate the position of the Capital Group in terms of human resources, property, finance, financial results and changes thereof, and information important from the point of view of evaluating the Issuer's capability to satisfy its liabilities

During preceding reporting periods, the Group made a number of investments – above all, on opening and fitting out of new shops and cafes, as well as purchase of property, plant and equipment. The investments were financed with funds from bank and trade credits, loans and investment proceeds.

In the evaluation of the management, Group companies are capable of drawing and settling liabilities, including financial ones. Observed in recent months, the growing balance of overdue liabilities was connected in particular with outlays on Warsaw airport (investments in premises, stocking). Moreover, the Issuer emphasises that the pace of growing sales revenue generated in connection with the trading activity at Warsaw airport has been lower in recent months than assumed in the perspective of the previous reporting period, resulting in a further increase in overdue liabilities.

What is more, the Parent Entity informs that in October 2019 the Company received funds from issue of B series bonds, amounting to PLN 45 million, and the funds were allocated first of all to settling of overdue trade liabilities. The bond issue is discussed in detail in the Consolidated financial statements, note 29 Events after the balance sheet date. Funds from series A Bond issue will be made available to the Company by way of release from the reserved escrow account once PPL obtains approval of President of the Office of Competition and Consumer Protection to taking over the Issuer.

Next to the possibility of obtaining financial resources from the external sources referred to above, the Issuer emphasises the possibility to obtain funds based on potential sale transactions selected groups of Baltona Capital Group's operating assets. On 29 May 2019, the Issuer's subsidiary CDD Holding B.V. concluded with a foreign industry partner operating in the countries of Western Europe an agreement concerning purchase from CDD of all shares in two CDD's subsidiaries, i.e. Rotterdam Airport Tax-Free Shop B.V (RAS) and Niederrhein Airport Shop GmbH (NAS). The Issuer reminds that it is in the possession of 62% shares in CDD which, in turn, holds 100% shares of RAS and NAS each. The total sale price of RAS & NAS is app. EUR 1.51 million (i.e. app. PLN 6.5 million) and it was paid on the date of Agreement conclusion. Transfer of the ownership title towards the shares in RAS & NAS occurred on the date of Agreement conclusion. As a result of the transaction, in the consolidated financial statements the Issuer recognised profit on the transaction at PLN 1,040 thousand during the reporting period. The above transaction was carried out in connection with decreased attractiveness of the locations concerned by the assets being the object of the transaction, as evaluated by the Issuer, along with the intention to focus operating and management activities as well as financial resources on development of business activity in alternative locations where the Issuer's Capital Group companies conduct their business activity.

Also, the Group does not exclude the possibility of executing actions related to asset sale transactions, optimisation or simplification of the Issuer's Capital Group structure, both related to finalising already initiated processes as well as other transactions matching the above directions, whose execution will be connected with accomplishment of the Investment Agreement of 8 October 2019 or, alternatively, which will not involve violation thereof.

Subject to planned investment expenditures, Group Companies did not draw other investment liabilities.

11. Employment information

As at 30 September 2019 and 31 December 2018, respectively, employment (measured by FTEs) within the Group companies was as follows:

Company	*30.09.2019*	*31.12.2018*	*Change*
PHZ Baltona S.A.	210	220	-10
BH Travel Retail Poland Sp. z o.o.	165	90	75
Centrum Obsługi Operacyjnej Sp. z o.o.	84	93	-9
Centrum Usług Wspólnych Baltona Sp. z o.o.	47	47	0
Baltona Shipchandlers Sp. z o.o.	30	32	-2
Baltona France SAS	19	15	4
Baltona Italy S.r.l.	12	9	3
Gredy Company SRL	13	13	0
Flemingo Duty Free Ukraine	23	21	2
Baltona Duty Free Estonia OÜ	34	33	1
Liege Airport Shop BVBA	-	6	-6
Grupa Chacall-De Decker	29	24	5
Total	**666**	**603**	**63**

No changes with respect to the remuneration policy have occurred in 2019 except for changes caused by adaptation to market conditions.

12. Identification of factors which, in the Issuer's evaluation, will influence the results achieved by the Issuer and the Capital Group within at least one subsequent quarter

In the evaluation of the Issuer, the financial results of its Capital Group within at least the subsequent quarter will be influenced by:

- Proper and timely fulfilment of provisions of the Investment Agreement and the bond issue agreement of 8 October 2019.
- Results achieved by the shops, cafes and retail outlets in Poland, as well as shops at Warsaw Chopin, Tallinn and Wrocław airports which commenced operation in 2019 and 2018, as well as cafes in Warsaw in attractive locations at the Central Railway Station and in Nowy Świat street.
- Commencement of lower, off-season passenger air traffic.
- Development of operating activity at retail outlets at Warsaw Chopin Airport in connection with conclusion of a settlement with Przedsiębiorstwo Państwowe Porty Lotnicze [State Airports Company] on 6 May 2018 concerning lease of retail space, covering 14 shops at both Airport Terminals, with the total area of app. 2,818.75 m².
- Cooperation with Przedsiębiorstwo Państwowe Porty Lotnicze [State Airports Company] regarding execution and settlements of the retail space lease agreements, as mentioned above, as well as verification of the technical aspects of cooperation conducted so far and the fit-out process for all concluded lease agreements, which will constitute the basis for arrangement of an appropriate mechanism for settlement of disputable rent settlements.
- Continued cooperation related to space lease from Poznań-Ławica Airport.
- Utilisation of funds from executed bond issue and potential asset sale transactions, as well as from optimisation or continued simplification of the Issuer's Capital Group organisation structure, including the pending merger of the Issuer with two subsidiaries.
- Maintaining availability of financial products provided by financial institutions, insurers or institutions offering guarantees, optimum for the current scale of the Issuer's Capital Group activity.
- Achievement of a satisfactory operating efficiency level in connection with logistic processes carried out within the Group.
- Maintaining an optimum level of working capital financing.
- Prospects of growth in scheduled passenger traffic at the airports where shops of the Group companies are located.
- Maintaining the appropriate level of stock at the Group's shops.
- Maintaining current sources of financing, including in particular bank credits.
- Development of currency exchange rates, in particular with regard to the EUR/PLN pair.
- Development of interest rates determining the costs of service of the Group's indebtedness.
- Political situation in Ukraine.
- Cost optimisations achieved via negotiations and process changes.

13. Brief description of significant achievements or failures of the Capital Group during the period covered by the report, including specification of the main events related thereto

Operational area

During the period of 9 months ended on 30 September 2019, the Group focused on optimisation of its operational activity, in particular regarding the need to secure financing of its operating activity and investment outlays connected with outlets located at Warsaw Chopin Airport.

On 15 January 2019, the Issuer was notified of bilateral signature of an annex to the framework agreement on commercial cooperation regarding sales of cigarettes, pharmaceuticals, beauty articles and foods between the Issuer and its subsidiaries, namely Baltona Shipchandlers Sp. z o. o., Centrum Obsługi Operacyjnej Sp. z o. o. and Eurocash Serwis Sp. z o. o., pursuant to which the term of the Agreement was extended until the end of March 2019. On 31 March 2019, an annex extending the term of the Agreement until 30 June 2019 was signed. After expiry of the term of the agreement, the parties are continuing cooperation on current terms.

In order to optimise logistic processes, on 19 February 2019 the Management Board of Przedsiębiorstwo Handlu Zagranicznego "Baltona" S.A. concluded with Loxxess Polska Sp. z o.o. a warehouse logistics agreement. Pursuant to the agreement, Loxxess will perform warehousing operations in favour of Baltona Group entities at its own warehouse, including other services agreed by the parties, necessary for placement, storage and disbursement of the goods stored therein. Over 3 quarters of 2019, the Group was carrying out the stocking process at the central warehouse operated by Loxxess Polska Sp. z o.o. The planned target stocking level will be achieved in the 4th quarter of 2019.

On 29 May 2019, the Issuer's subsidiary CDD Holding B.V. concluded with a foreign industry partner operating in the countries of Western Europe an agreement concerning purchase from CDD of all shares in two CDD's subsidiaries, i.e. Rotterdam Airport Tax-Free Shop B.V (RAS) and Niederrhein Airport Shop GmbH (NAS). The total sale price of RAS & NAS is app. EUR 1.51 million (i.e. app. PLN 6.5 million) and it was paid on the date of Agreement conclusion. Transfer of the ownership title towards the shares in RAS & NAS occurred on the date of Agreement conclusion. As a result of the transaction, in the consolidated financial statements the Issuer recognised profit on the transaction at PLN 1,040 thousand during the reporting period. The above transaction was carried out in connection with decreased attractiveness of the locations concerned by the assets being the object of the transaction, as evaluated by the Issuer, along with the intention to focus operating and management activities as well as financial resources on development of business activity in alternative locations where the Issuer's Capital Group companies conduct their business activity.

Financial area

On 14 February 2019, the Management Board of the Parent Entity adopted a decision regarding the intention to correct the tax return form for 2015, resulting in the obligation to make an additional payment of app. PLN 0.5 million in favour of the tax authorities. The decision resulted from the customs and tax audit carried out by the Podkarpackie Province Customs and Tax Authority in Przemyśl (UKS) concerning reliability of the declared tax bases as well as correct calculation and payment of corporate income tax for 2015. The audit was ended and the Parent Entity filed a correction of the CIT-8 return form for 2015, covering all irregularities in the area covered by the audit. Moreover, the Parent Entity intends to correct the tax return forms for years 2013-2017 in connection with the irregularities identified during the audit of the year 2015. The financial statements for 2018 included fundamental error correction on that account, amounting to PLN 2,185 thousand. The tax due from the tax return connections filed was paid together with fiscal default interest.

On 4 March 2019, a settlement and understanding were concluded between the State Airports Company [PPL] and the Company regarding engagement of a third party to verify the technical aspects of cooperation conducted so far and the fit-out process for all concluded lease agreements, which will constitute the basis for arrangement of an appropriate mechanism for settlement of disputable rent settlements. The amount of claims related to rent payments covered by the understanding amounts to PLN 9.1 million net, while the amount claims under penalties connected with delays in commencing activity for particular outlets amounts to PLN 6.8 million, totalling PLN 15.9 million. The amount of PLN 1.7 million related to the above was recognised in the financial statements as deferrals. Pursuant to the Company's best evaluation and internal calculations, the above mentioned amount of PLN 1.7 million ought to satisfy the amount of the Company's potential liability towards PPL under the above mentioned disputable rent settlements. On 28 August 2019, the Company was served with the bilaterally signed annex concluded with Przedsiębiorstwo Państwowe Porty Lotnicze [State Airports Company], pursuant to which:
i] the deadline by which, if third party opinion is not issued, the parties will undertake further negotiations aimed at performing mutual settlements in accordance with the arrangements made so far, was extended until 5 December 2019;
ii] in case of agreement on a settlement between the parties based on the third party opinion obtained, settlement of the Issuer's liabilities towards PPL in 3 monthly instalments was postponed from the 4th quarter of 2019 until the period of January-April 2020.

Irrespective of the above, pursuant to the provisions of the documents concluded, the Issuer decided to accept PPL's claims concerning settlements related to operation of 3 lease agreements for which periods of temporary activity fell from July until August/October 2018. The settlements include payments under rent at PLN 7.4 million net, as well as penalties for delays in commencing activity at particular outlets amounting to PLN 1 million, totalling PLN 8.4 million net. The amount under the settlement is recognised in whole in the statements as long-term liabilities. The Issuer undertook to pay the above liability as monthly payments during the period from May 2020 until December 2020. Moreover, the parties agreed on the principles governing repayments of the above liabilities in case of any delays against originally agreed deadlines. In connection with conclusion of the Settlement, terms of the standard collateral for lease agreements, i.e. the bank guarantee and statement on submission to enforcement proceedings accompanying the collateral instruments were updated; however, amendment of the guarantee does not involve increase of the guarantee sum, except for situations foreseen in the lease agreements (e.g. indexation of rent).

During the reporting period, the Group completed the fit-out process of the premises rented from PPL pursuant to lease agreements concluded on 6 May 2018. There occurred delays concerning commencement of activity at particular outlets at Warsaw Chopin Airport as compared with the originally adopted fit-out schedule which, in the Group's evaluation, are not caused by its fault. However, PPL initiated the procedure related to charging the Company with lease rent invoices in reference to the original schedules, instead of acting based on actual circumstances related to commencement of activity at that airport. As a result, the Company received, respectively, invoices for the lease rent and charge notes covering penalties for delays in accomplishment of specific activities within the fit-out process. On 4 March 2019, a settlement and understanding were concluded concerning the State Airports Company [PPL] and Przedsiębiorstwo Handlu Zagranicznego "Baltona" S.A. regarding engagement of a third party to verify the technical aspects of cooperation conducted so far and the fit-out process for all concluded lease agreements, which will constitute the basis for arrangement of an appropriate mechanism for settlement of disputable rent payments. Irrespective of the above arrangements, from May until the date of preparation of the these statements the Company received further charge notes from PPL covering penalties for delays in accomplishment of specific activities identified in the lease agreements. The Company will analyse the submitted claims and adopt appropriate decisions. As at the date of preparation of this interim report, total value of PPL's claims disputed by the Company, declared until the date of the statements as discussed above, amounts to PLN 11.0 million in connection with delay penalties.

Other events

On 30 September 2019, the Company was notified of obtaining preliminary approval of the State Airports Company's corporate bodies to conclusion of the investment agreement and accompanying documentation, pursuant to which: i] the Issuer is to issue bonds to be taken up by PPL in order to refinance the Company's current debt and provide funds to finance the Company's working capital; ii] PPL and entities of Flemingo Capital Group [Seller] will identify the terms of transaction involving sale by the Seller to PPL of all the Company's shares held by the Seller. Moreover, the Issuer informs that, due to the lengthy negotiation process with PPL, the Issuer:
- on 12 June 2019, decided to postpone public announcement of the confidential information on initiating arrangements regarding an agreement identifying the terms of taking up by PPL of bonds issued by the Issuer and secured by entities belonging to the capital group of the Issuer's dominant shareholder in connection with possible transaction related to sale to PPL of the Issuer's existing shares held by the dominant shareholder;
- on 5 September 2019, decided to postpone public announcement of the confidential information on becoming aware of agreement on the same date between the Sellers and PPL of most of the key terms related to execution of the transaction [subject to, among others, the need to obtain consent to execution of the transaction].

Locations and investments

During the period of nine months ended on 30 September 2019, investment outlays made on fitting out the premises amounted to app. PLN 18.8 million, while estimated outlays planned until the end of 2019 will amount to app. PLN 0.5 million more.

On 31 March 2019, the Issuer ended the activity at Liege airport.

Impact of recognition of the right to conclude an agreement in the Group's statement of financial position

On 25 April 2019, value of the so-called right to conclude an agreement was recognised in the accounting books, at PLN 94,992 thousand. Recognition of the above asset results in retrospective recognition of depreciation write-offs performed in 2018 as well as the need to perform depreciation write-offs in subsequent months in accordance with the adopted annual depreciation rate set at app. 10.6%. The said depreciation write-offs will materially increase the cost base, but the Issuer reminds that these are of a non-monetary character and do not impact the EBITDA result.

Impact of recognition of assets under the right of use in the Group's statement of financial position

As a result of adoption of IFRS 16, the Group recognised assets under the right of use and liabilities under lease in its financial statements, amounting to PLN 517,271 thousand and PLN 536,084 thousand, respectively. Recognition of the above asset involves the obligation to perform depreciation write-offs during the terms of agreements recognised as leases. The above depreciation write-offs will materially increase the cost base, but the Issuer reminds that these are of a non-monetary character and do not impact the EBITDA result.

Continuation of cooperation with BNP Paribas Bank Polska S.A.

During the reporting period and until the balance sheet date, the issuer continued cooperation with BNP Paribas Bank Polska S.A. on current terms. The current period of credit availability under the multi-purpose credit line will apply until 31 January 2020. On the date of preparation of these interim statements, the Issuer is negotiating with the Bank regarding the terms of making available banking products within a long-time perspective.

14. Indication of amounts and kinds of items influencing the assets, liabilities, equity, net result or cash flows, untypical due to their kind, value or frequency

The balance sheet sum as at 30 September 2019 in the consolidated statements of Baltona Group amounted to PLN 790,725 thousand and was by PLN 499,014 thousand, i.e. by 171% higher as compared with the balance sheet sum as at 31.12.2018. The reason of this high growth is adoption of the new IFRS 16 standard resulting in recognition of assets under the right of use and corresponding liabilities under lease.

The negative net financial result generated during the period of 9 months ended on 30 September 2019 was mainly influenced by growth in depreciation costs connected with recognition of assets under the right of use and the right to conclude an agreement, increase in the cost of rents connected with newly opened shops and increase in financial costs related to investment credit service.

15. Identification of factors and events, including in particular untypical ones, which have material influence onto the consolidated financial results

During the period of 9 months ended on 30 September 2019, the Group achieved total sales revenue of PLN 411.9 million, which denotes an increase in absolute amounts by over PLN 50.2 million, i.e. by 13.9% as compared with the corresponding period of 2018. As compared with the period of nine months ended on 30 September 2018, public retail sales decreased by 52%, while duty free retail sales, wholesale and shipchandling increased by 59% and 6%, respectively. Growth of sales revenue in 2019 resulted mainly from shop openings and resumption of activity at Warsaw Chopin Airport.

The result of the Group's operating activity after the period of nine months ended on 30 September 2019 was the loss of PLN 43,130 thousand; to compare, the result for the corresponding period of the previous year was the profit of PLN 2,554 thousand. As far as the costs area is concerned, the greatest increase (in absolute amounts) during the periods being compared concerned the costs of depreciation, own cost of sales and costs of employee benefits – amounting to PLN 77.4 million, PLN 12.8 million and PLN 4.3 million, respectively.

The EBITDA result (calculated as the operating result adjusted by depreciation) generated during the period of nine months ended on 30 September 2019 (calculated as operating result adjusted by depreciation) amounted to PLN 39.024 thousand and was by 439% higher as compared with the period of nine months ended on 30 September 2018, when it amounted to PLN 7,240 thousand. Growth in the EBITDA measure was influenced by the above mentioned cost of depreciation, resulting from amortisation of the recognised asset under the right of use, and amortisation of outlays on newly opened shops.

To compare, the Group's net result for the period of 9 months ended on 30 September 2019 closed with the loss of PLN 61,889 thousand. The negative net financial result was caused by the operating activity discussed above and, to a certain extent, increase in the service costs of credits drawn in preceding periods.

Financial results of the Group for the period of 9 months ended on 30 September 2019 were to a largest extent influenced by the following factors:

- adoption of IFRS 16, resulting in recognition of assets under the right of use and liabilities under lease, as well as the obligation to recognise depreciation of the above assets totalling PLN 61.8 million and lease interest of PLN 14.7 million in the costs of the reporting period, and exclusion of the fixed part of rents from third party services amounting to PLN 55.0 million,
- recognition of depreciation connected with an intangible asset, recognised as the right to conclude an agreement, totalling PLN 7.6 million, during the reporting period,
- costs and investment outlays borne in connection with new locations, including in particular rents, costs of employment and salaries of staff at newly opened shops at Warsaw Chopin Airport,
- costs connected with implementation of the logistics and warehousing project for Baltona Group and with stocking of new retail locations,

- lower than originally estimated sales at locations situated at Warsaw airport as a result of delays as compared with the schedule regarding opening of particular shops,
- opening of the central warehouse, modification of the supply chain and shift to direct deliveries from trading goods manufacturers.

16. Information on seasonal or cyclical character of activity during the presented period

The business of Baltona Group is characterised with seasonal character of demand, profitability and sales. This results from specific features of the air transport industry and resulting seasonal character of air traffic. Baltona Group records the lowest sales in the period from November to April, and the highest sales from May to October.

Seasonal character influences the margins and financial results achieved during particular months and quarters of the year, ant it causes diversified working capital requirements on the part of the Group.

17. Information on issue, buy-back and repayment of non-share based and equity securities

During the period of nine months ended on 30 September 2019, the Parent Entity did not introduce new securities into turnover on the capital market, and it did not have any issued debt securities which would require repayment or buy-back.

Bond issue discussed in detail in par. 19 of the report took place in October 2019.

18. Information on paid out (or declared) dividend, in total and per one share, with division into ordinary and privileged shares

During the period of nine months ended on 30 September 2019, PHZ "Baltona" S.A. did not pay out or declare any dividend.

19. Events after the date of preparation of the quarterly shortened financial statements, not disclosed in the statements, but which may have significant impact onto the Issuer's future financial results

On 8 October 2019, the investment agreement was concluded by and between Flemingo International Limited BVI [Flemingo], indirect subsidiary of Flemingo, i.e. Kempley Sp. z o.o. [Seller], the Parent Entity and Przedsiębiorstwo Państwowe "Porty Lotnicze" [State Airports Company] [PPL or Buyer], pursuant to which:

- under the separate agreement concluded on the same day by and between the Buyer and the Company, the Parent Entity will issue, in two series, 1,750 fifteen-month secured bonds with the face value of PLN 100,000 each and total face value of PLN 175 million [Bonds], to be taken up by PPL in order to refinance existing debt and provide funds to finance the working capital,
- PPL, the Seller and Flemingo identified terms of the transaction involving sale by the Seller to PPL of all shares held in the Company, i.e. 9,081,600 shares of the Parent Entity, representing app. 80.68% of the share capital and total number of votes at the General Meeting of Shareholders [Shares] in return for the total price of PLN 20,796,864, i.e. PLN 2.29 per one Share.

The date of Bond issue will be the registration date of the Bonds in the securities repository maintained by Krajowy Depozyt Papierów Wartościowych S.A. [National Securities Repository].

Moreover, under the Investment Agreement, the Buyer undertook – in accordance with the provisions of art. 74 of the Act on public offerings – to publish a call for subscriptions to sale of 100% of the Company's shares [Call] within three business days following the Bond issue date [but no sooner than after performance of technical and formal actions identified in the Investment Agreement]. The Seller undertook to sell the Company's Shares in response to the Call for the price stated above, while the price of acquisition of the Company's shares in the Call for minority shareholders will be determined by PPL in accordance with applicable legal regulations in this area. The remaining terms on which the Company's Shares will be purchased will be specified in the Call document, to be published in accordance with applicable legal regulations.

The Call will be conditional and will involve the obligation to ensure:

- approval of President of the Office of Competition and Consumer Protection [UOKiK] to the transaction,
- adoption by the Extraordinary General Meeting of Shareholders of the Company of resolutions regarding amendment of the Supervisory Board's composition,
- signature by the Parent Entity of a guarantee agreement, pursuant to which the Company will confirm refraining from activities identified in the Investment Agreement, connected among others with disposal of assets, drawing of obligations, etc., and
- covering with subscriptions in the call at least 7,429,340 shares, representing 66% of the share capital and total number of votes at the General Meeting of Shareholders of the Company.

Closing of the transaction will take place on the date of registration of the Company's shares in PPL's securities account as a result of settlement of the Call [Closing Date].

Pursuant to the Investment Agreement, the Seller is obliged to cause the Company to sell all the shares it holds in Liege Airport Shop BVBA and CDD Holding B.V. and settle the intra-group loans granted to or received from those entities by the transaction Closing Date.

The Investment Agreement contains provisions concerning settlement of payments among the Seller and the Buyer, as well as a number of additional obligations and rights of the Buyer and the Seller in connection with the representations, assurances, guarantees made and the obligation to furnish certain documents, resolutions connected with the mutual responsibility of the Buyer, Seller and Flemingo, as well as obligations relating to, among others, disposal of assets and drawing of liabilities by the Company which, in the Company's evaluation, do not have material impact onto the organisational and operational position of the Parent Entity and its capital group. What is more, the Investment Agreement does not stipulate material penalties which may be charged from the Parent Entity in connection with fulfilment thereof.

The Investment Agreement will expire automatically in the following cases:

- if, within 134 days following publication of the Call, the above mentioned conditions of the Call are not fulfilled or exempted from fulfilment subject to separate arrangements,
- if, within 60 days after conclusion of the Investment Agreement, the Bonds are not issued due to reasons other than violation of obligations resulting from the documentation covering the Bond issue.

In the remaining scope, provisions of the Investment Agreement, including those pertaining to assurances and representations as well as additional guarantees connected with conducting operating activity and possible competitive activity, do not deviate from standard provisions typical of this kind of agreement.

On 8 October 2019, the Parent Entity concluded the bond issue agreement with Przedsiębiorstwo Państwowe "Porty Lotnicze" [State Airports Company]. In performance of the concluded agreement, the Management Board of the Parent Entity adopted a resolution concerning issue of the total of 1,750 bonds with the face value of PLN 100,000 each and total face value of PLN 175 million, in two A and B series, with the buyout deadline set 15 months after the issue date, i.e. after the registration date of the Bonds in the securities repository maintained by Krajowy Depozyt Papierów Wartościowych S.A. [National Securities Repository]. The Bonds will not be placed in regulated market turnover or into an alternative trading system. The offer concerning purchase of all the Bonds will be addressed exclusively to PPL.

Funds from the Bond issue will be utilised in the following issue purposes:

- the amount of PLN 130 million obtained from A series Bond issue will be allocated first of all to repayment of the debt of the Parent Entity and the subsidiary, i.e. BH Travel Retail Poland Sp. z o.o. [BH Travel] towards BNP Paribas Bank Polska S.A. [Bank], followed by financing of ongoing activity of the Company or

repayment of intra-group loans, provided however that funds from A series Bond issue will be available to the Company [by releasing them from the reserved escrow account] once PPL obtains approval of President of the Office of Competition and Consumer Protection to taking over the Parent Entity,
- the amount of 45 million obtained from B series Bond issue will be allocated to ensuring full stocking of shops and repayment of due trade liabilities, followed by financing of ongoing activity or repayment of intra-group loans.

The interest rate on both bond series is variable and based on the WIBOR 6M rate increased with a margin of 5 percentage points. The Bond issue price is equal to their face value. The Bonds will be bought out on the due date and for the face value. The Bond interest period was set at 6 months [except for the first and last interest period, which may be shorter].

The Bonds will be issued as bonds secured with:
- corporate guarantees issued by Flemingo International Limited BVI up to the maximum amount of, respectively, PLN 195 million and PLN 67.5 million,
- financial pledge on all shares of the Parent Entity held by the dominant shareholder of the Company, i.e. Kempley sp. z o.o. [Kempley], up to the maximum collateral amount of PLN 262.5 million,
- financial and registered pledge on 100 shares in Kempley, corresponding with 100% of the share capital, established by Kempley's owner, i.e. Ashdod Holdings Limited [Ashdod], up to the maximum collateral amount of PLN 262.5 million,
- registered pledge up to the maximum collateral amount of PLN 262.5 million, established on the fixed assets of BH Travel,
- registered pledge up to the maximum collateral amount of PLN 262.5 million, established on the inventories of the Parent Entity,
- registered pledge up to the maximum collateral amount of PLN 262.5 million, established on the inventories of BH Travel,
- financial and registered pledge on the escrow account up to the maximum collateral amount of PLN 195 million, as sole collateral of A series Bonds. The deadline for establishment of collaterals in the form of registered pledges is set as 90 days after the issue date.

In addition to the above:

a] the Parent Entity furnished PPL with a statement on submission to enforcement proceedings under art. 777 of the Code of Civil Procedure in connection with liabilities under the Bonds, and

b] BH Travel, Kempley and Ashdod furnished the collaterals' administrator with a statement on submission to enforcement proceedings under art. 777 of the Code of Civil Procedure in connection with their liabilities under respective pledge agreements.

The Parent Entity is only entitled to require early buyout of all or some Bonds during the first or second interest payment date.

In the case of A series Bonds:

a] the Parent Entity is additionally entitled to require early buyout of the Bonds, and

b] the bond holder is entitled to require early buyout, respectively:
- on each business day after issue by President of the Office of Competition and Consumer Protection of conditional consent or refusal to concentration concerning taking over the Parent Entity's shares in accordance with the provisions of the Investment Agreement, or
- on each business day falling after expiry of 134 days after the date of publication by PPL of the call for sale of the Parent Entity's shares, in accordance with provisions of the Investment Agreement, until the business day falling before the buyout date.

Among others, the Bond issue conditions stipulate, among others, the following violations resulting in early buyout of the Bonds:

1] adoption of decisions regarding assets and entry into liabilities in a manner not compliant with the Bond issue conditions; in the evaluation of the Parent Entity, this limitation does not have material impact onto the organisational and operational position of the Parent Entity and its capital group;

2] as long as PPL remains the holder of the Bonds, i] violation of any of the representations or assurances made by the parties other than PPL in the Investment Agreement, resulting in occurrence of a loss of PLN 2.5 million or

more on the part of PPL; ii] violation by either party of the transaction documents, namely the Investment Agreement, Agreement of Bond issue and any of the documents concerning establishment of Bond collaterals [Transaction Documents], other than PPL, with respect to any of its material obligations under the Transaction Documents.
The remaining Bond issue conditions, including those pertaining to notifying violations resulting in the Bond holder's right to require early or immediate buyout, do not deviate from provisions typical for this kind of bond issues.

On 14 October 2019, the Parent Entity adopted a resolution regarding allocation of Bonds to the State Airports Company [PPL], stating above all acceptance by PPL of the proposal regarding acquisition of all Bonds by way of payment by PPL for them. Moreover, the resolution states that upon registration of the Bonds at Krajowy Depozyt Papierów Wartościowych S.A. [KDPW; National Securities Repository], they will be considered acquired by PPL. The Bond buyout deadline was set 15 months after the issue date, i.e. after registration of the Bonds at KDPW.

On 15 October 2019, the Parent Entity was notified of registration on the same date by Krajowy Depozyt Papierów Wartościowych S.A. [KDPW] of the Bonds in the securities repository maintained by KDPW; in consequence, the Bond issue was completed. A series Bonds were assigned with the ISIN PLO167300014 code, while B series Bonds were assigned with the ISIN PLO167300022 code; the Bonds will not be placed in regulated market turnover or into an alternative trading system. The Issuer informs, moreover, that the Company has received funds from B series Bonds issue, in the amount of PLN 45 million. Funds from A series Bonds issue will be available to the Company [by releasing them from the reserved escrow account] once PPL obtains approval of President of the Office of Competition and Consumer Protection to taking over the Issuer.

On 16 October 2019, the Parent Entity was notified of publication by Przedsiębiorstwo Państwowe "Porty Lotnicze" [State Airports Company] of a call for subscriptions to sale of 100% of the Company's shares. On 31 October 2019, the Management Board of the Company presented its standpoint regarding the above mentioned call in the current report 52/2019.

On 7 November, the Parent Entity signed an annex to the lease agreement concluded with Port Lotniczy Poznań – Ławica Sp. z o. o. [Poznań-Ławica Airport] concerning space in Terminal T2 – level "0", under which the retail space lease term lasts until 31 October 2020. Pursuant to the provisions of the Annex, the lease area has not changed as compared with the space leased so far and is app. 1852 m^2. Estimated value of the lease object during the term of the Agreement will be from PLN 13.4 million net to PLN 14.1 million net.

On 19 November 2019, the Parent Entity was notified of mailing to the Company of PPL's statements, dated on the same day, referring to provisions of the lease agreements and calling the Issuer to undertake joint actions aimed at development of an amicable solution regarding amounts due [in the evaluation of PPL] to PPL which, on the date of preparation of this report, remain questioned by the Company. Moreover, the Issuer explains that – on the date of preparation of the report – the very fact of submission of the statements does not constitute, in the evaluation of the Company, a default under the settlement of 6 May 2018 or under the investment agreement concluded on 8 October 2019 between, among others, the Company and PPL. At the same time, the Issuer informs that the Parties' failure to reach an amicable solution will enable PPL to take advantage of the legal collaterals of the above mentioned lease agreements, namely the bank guarantees furnished by the Company, as well as statements on submission to enforcement proceedings under art. 777 of the Code of Civil Procedure and it will enable PPL to submit statements of will on termination of the above mentioned lease agreements. By the date of preparation of this interim report, the process of amicable arrangements in the above area is being continued.

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

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

21. Information regarding the principles of preparation of financial statements

The quarterly shortened consolidated financial statements and the individual financial statements have been prepared in compliance with the International Financial Reporting Standard 34 "Interim Financial Reporting", as approved by the European Union. Overview of the principles governing preparation of particular statements is contained in the above financial statements.

The quarterly shortened consolidated financial statements do not include all the information required for full annual financial statements prepared in compliance with the International Financial Reporting Standards as approved by the European Union, hereinafter referred to as "EU IFRS" and, consequently, ought to be read in conjunction with the financial statements of the Company for the year ended on 31 December 2018, approved for publication on 30 April 2019.

22. Risk factors and threats

Risk factors related to the environment in which the Group operates are presented below:

- risk connected with the macroeconomic situation on the Group's operating markets;
- risk connected with development of currency exchange rates;
- risk of interest rates;
- risk connected with the Group's operating market and competition on the market;
- risk connected with new locations;
- risk connected with consumer preferences;
- risk connected with tobacco smoking restrictions;
- risk connected with influence of macroeconomic situation onto debt financing availability;
- risk connected with changes in the law, its interpretation and application;
- risk connected with regulation and functioning of customs free zones and free warehouses;
- risk of inability to accomplish strategic objectives adopted by the Group;
- risk of IT system breakdown;
- risk connected with seasonal character of business;
- risk connected with specific characteristics of airport logistics;
- risk of liquidity loss;
- operating risk connected with the Group's activity;
- risk connected with the Group's indebtedness;
- risk of losing experienced management staff;
- risk connected with dependence on the air transport industry;
- risk related to entry onto new markets;
- risk connected with space lease agreements;
- risk connected with concentration of suppliers;
- risk connected with possible infringement of information obligations;
- financial risk;

- risk connected with timely and proper fulfilment of the investment agreement and the bond issue agreement.

Irrespective of the above, as a result of changes in the airport logistics model, which is currently based on deliveries from own central warehouse, i.e. based on direct relationships with manufacturers, there occurred reduced availability of the complete product range, in particular at retail locations situated at Warsaw airport. The above results from identified delays in arranging commercial terms with manufacturers as well as organisational limitations in the capability to execute deliveries (e.g. delays in deliveries of merchandising structures and elements of particular manufacturers or delays in execution of fit-out works at those locations). In the Issuer's evaluation, the above limitations will result in reduction of the sales potential during the 3rd quarter of 2019. It is the Issuer's intention to achieve an optimum stock level at shops situated at Warsaw airport by the end of the current year, which will be possible thanks to the external funds obtained from the bond issue.

A summary of information related to risk factors connected with the financial area, including in particular the risk connected with indebtedness and liquidity risk, is presented below.

The structure of overdue trade liabilities towards non-related parties as at 30 September 2019 and as at 30 June 2019.

	30.09.2019			***30.06.2019***		
category	***1-30 days***	***31-60 days***	***above 61 days***	***1-30 days***	***31-60 days***	***above 61 days***
overdue liabilities	18 911	12 542	3 697	15 561	10 866	1 801

As at 31 October 2019 and on the date of publication of this report, there were no significant overdue trade liabilities towards non-related parties.

The balance of overdue liabilities increased during the 3rd quarter of 2019 as a result of the following circumstances:

- outlays borne on stocking of the above locations;
- lower than originally estimated sales at outlets situated at Warsaw airport as a result of delays as compared with the opening schedule of particular outlets.

Moreover, the Issuer informs that the rate of sales revenue growth as a result of the commercial activity at Warsaw airport has been lower in recent months than assumed during the preceding reporting period, which resulted in a further increase in the balance of overdue liabilities.

The Parent Entity informs that in October 2019 the Company received funds from B series bond issue at PLN 45 million, allocated first of all to settling overdue trade liabilities. At the same time, influence of the above was nearly neutral from the point of view of sales revenue generated in October of this year, but the Parent Entity expects that positive impact, involving among others the ability to make prepayments for suppliers, will affect sales in the fourth quarter of 2019 in a positive manner.

On the date of publication of the report, there were no overdue liabilities.

During the 3 quarters of 2019, the Group conducted the stocking process of the central warehouse operated by Loxxess Polska Sp. z o.o. The target inventory level will be achieved in the 4th quarter of 2019.

Information regarding indebtedness under financial agreements (credits, loans and lease agreements) as at 30 September 2019 and 30 June 2019 is presented below:

Long-term liabilities

	30.09.2019	**30.06.2019**

Secured credits and loans	27 597	30 699
Loans from related entities	20 508	19 292
Liabilities under financial lease	1 296	1 436
	49 401	**51 427**

Short-term liabilities

	30.09.2019	**30.06.2019**
Overdrafts	31 409	11 764
Secured credits and loans	12 381	33 231
Loans from related entities	78	78
Valuation of derivative instruments (IRS)	568	584
Liabilities under financial lease	699	742
	45 135	**46 399**

The table does not include liabilities under financial lease, recognised in 2019 pursuant to IFRS 16.

The financial data presented above are below the selected financial ratios expected by the financial institutions cooperating with the Issuer, declared in financial agreements. However, the Issuer explains that due to undertaken actions and discussions with the financial entities, in the Issuer's evaluation the above circumstance does not impact ongoing performance of financial agreements or the Issuer's liquidity position. Material terms of concluded bank agreements have not changed by the date of publication of this report.

During the period covered by the report, the Group was settling its liabilities under interest in a timely manner. Moreover, the Management Board does not expect any difficulties in settling the liabilities under interest.

A detailed overview of particular risk factors is presented in the report on the activity of Baltona Group for 2018 and it remains up to date on the date of preparation of this report.

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

Piotr Kazimierski
President of the Management Board

Karolina Szuba
Member of the Management Board

Michał Kacprzak
Member of the Management Board, Chief Accountant
Person responsible for maintenance of accounting books

Warsaw, 29 November 2019.