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

[FOREIGN TRADE COMPANY “BALTONA” JOINT STOCK COMPANY]

SEMI-ANNUAL REPORT ON THE ACTIVITY OF THE ISSUER

FOR THE PERIOD OF SIX MONTHS

ENDED ON 30 JUNE 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, 30 September 2019

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All amounts are presented in thousands Polish zlotys (PLN) unless stated otherwise

1. Selected financial data

1.1. Selected financial data of Baltona Group

	for the period of 6 months ended on 30 June		for the period of 6 months ended on 30 June	
	2019	2018	2019	2018
		in 000 PLN		in 000 EUR
Net revenue from sales of goods and services	250 328	- 202 587	58 379	47 786
Operating profit / (loss)	(33 354)	(2 240)	(7 778)	(528)
EBITDA from operating activity*	21 075	657	4 915	155
Net profit / (loss) attributable to owners of the parent entity	(45 351)	(2 733)	(10 576)	(645)
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)	(4,12)	(0,25)	(0,96)	(0,06)
Diluted earnings/(loss) per share (in PLN/EUR)	(4,12)	(0,25)	(0,96)	(0,06)

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

	30.06.2019	31.12.2018	30.06.2019	31.12.2018
		in 000 PLN		*in 000 EUR*
Total assets	814 905	291 711	191 652	67 840
Share capital	2 814	2 814	662	654
Equity of the parent entity's owners	49 594	96 616	11 664	22 469
Long-term liabilities	538 535	66 650	126 655	15 500
Short-term liabilities	226 050	128 228	53 163	29 821
Liabilities and liability provisions	764 585	194 879	179 818	45 321
Book value per share (in PLN/EUR)	4,56	8,87	1,07	2,06
Diluted book value per share (in PLN/EUR)	4,56	8,87	1,07	2,06

	for the period of 6 months ended on 30 June		for the period of 6 months ended on 30 June	
	2019	2018	2019	2018
		in 000 PLN		*in 000 EUR*
Operating cash flows	54 646	56	12 744	13
Investment cash flows	(11 330)	(13 148)	(2 642)	(3 101)
Financial cash flows	(43 942)	5 326	(10 248)	1 256
Total net cash flows	(627)	(7 766)	(146)	(1 832)

All amounts are presented in thousands Polish zlotys (PLN) unless stated otherwise

1.2. Selected financial data of PHZ “Baltona” S.A.

	for the period of 6 months ended on 30 June		for the period of 6 months ended on 30 June	
	2019	2018	2019	2018
		in 000 PLN		in 000 EUR
Net revenue from sales of goods and services	107 359	126 210	25 037	29 770
Operating profit/(loss)	(12 729)	(6 381)	(2 969)	(1 505)
EBITDA from operating activity*	2 525	(5 134)	589	(1 211)
Net profit/(loss)	(7 768)	(4 989)	(1 812)	(1 177)
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)	(0,71)	(0,46)	(0,17)	(0,11)
Diluted earnings/(loss) per share (in PLN/EUR)	(0,71)	(0,46)	(0,17)	(0,11)

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

	30.06.2019	31.12.2018	30.06.2019	31.12.2018
		in 000 PLN		*in 000 EUR*
Total assets	270 972	214 952	63 728	49 989
Share capital	2 814	2 814	662	654
Total equity	101 777	109 545	23 936	25 476
Long-term liabilities	51 098	30 624	12 017	7 122
Short-term liabilities	118 097	74 783	27 774	17 391
Liabilities and liability provisions	169 195	105 407	39 792	24 513
Book value per share (in PLN/EUR)	9,35	10,06	2,20	2,34
Diluted book value per share (in PLN/EUR)	9,35	10,06	2,20	2,34

	for the period of 6 months ended on 30 June		for the period of 6 months ended on 30 June	
	2019	2018	2019	2018
		in 000 PLN		*in 000 EUR*
Operating cash flows	13 188	2 673	3 076	630
Investment cash flows	(15 582)	(15 459)	(3 634)	(3 646)
Financial cash flows	1 231	7 482	287	1 765
Total net cash flows	(1 163)	(5 304)	(271)	(1 251)

All amounts are presented in thousands Polish zlotys (PLN) unless stated otherwise

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

	for the period of 6 months ended on 30 June	
	2019	2018
average exchange rate during the period	4,2880	4,2395

	as at	
	30.06.2019	31.12.2018
exchange rate at the end of the period	4,252	4,3

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

2.1. Structure of Baltona Group

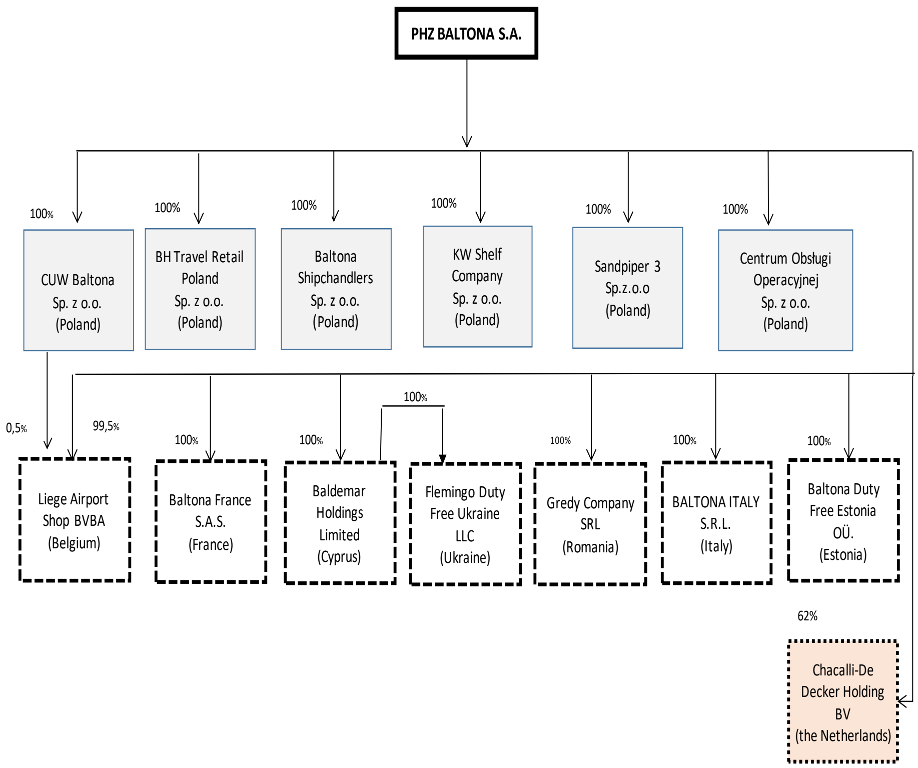
The Capital Group of Baltona consists of the parent entity – Przedsiębiorstwo Handlu Zagranicznego "Baltona" S.A. [Foreign Trade Company "Baltona" Joint Stock Company] (hereinafter referred to as the "Parent Entity", "Baltona", "PZH Baltona S.A.", "Company", "Issuer") and subsidiaries.

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 30 June 2019, the Parent Entity held shares in the following entities:



2.2. Description of entities covered by consolidation

As at 30 June 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
Sandpipier 3 Sp z o.o.	IT activity	Full
KW Shelf Company Sp. z o.o.	Property lease to own account	Full
Baltona Duty Free Estonia OÜ	Retail sales at duty free shops	Full
Baltona Italy S.r.l.	Retail sales at duty free shops	Full
Liege Airport Shop BVBA	As at 30 June 2019 the company did not conduct operating activities	Full
CDD Holding BV	Holding company	Full

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

During the first half of 2019 there were changes in Group structure described in the point below.

3. Identification of effects of changes within the structure of the business entity, including those resulting from business combinations, acquisition or loss of entities of the Issuer's Capital Group, long-term investments, division, restructuring and discontinuation of activity

In the reporting period, two more companies from the Chacalli Group were sold, as a result of these changes on June 30, 2019, only Chacalli-De Decker Holding BV remains in the Baltona Group. Chronology of the changes is following:

On July 11, 2018, it was concluded between the Company and CDD Holding B.V. (hereinafter: the Seller) a Flemingo International (BVI) Limited (hereinafter: Buyer or Flemingo) agreement regarding the sale of company shares indirect subsidiaries of the Chacalli Group, i.e.Chacalli-De Decker N.V. (Belgium), Chacalli Den Haag B.V. (Netherlands) and Chacalli-De Decker Limited (United Kingdom). The operations of these companies were related to the supply of diplomatic missions. At the same time, the Agreement set out the principles on which activities in the Travel Retail area conducted as part of Chacalli-De Decker N.V. (Belgium) has been fully transferred in organized form part of the enterprise in the structure of the Baltona Group. As a consequence, the above was made during 2018 formal and registration activities and ownership of the sale of shares in two Chacalli companies (i.e. Chacalli De Decker NV and Chacalli De Decker Ltd.) The process of transferring ownership of the third share from Chacalli Companies, i.e. Chacalli Den Haag B.V. (Netherlands) remains pending at the date of this report.

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On May 29, 2019, the subsidiary CDD Holding B.V. has entered into with a foreign entity operating in Western Europe in the same industry, an agreement to acquire all shares in CDD from CDD subsidiaries of CDD, i.e. Rotterdam Airport Tax-Free Shop B.V and Niederrhein Airport Shop GmbH. Issuer recalls that it holds 62% of shares in CDD, which in turn held 100% of shares in RAS and NAS. Transfer of ownership of shares in RAS & NAS took place on the date of conclusion of the Agreement. Detailed information on the above transaction were included in current report 22/2019 of 29 May 2019.

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 semi-annual 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 the transactions were typical and routine transactions concluded on arm's length terms whose character and conditions result from ongoing business activity of the Group companies.

A list of related entities and value of transactions concluded by Group companies with those entities during the first quarter of 2019 and during the comparable period as well as unsettled balances from those transactions as at 30 June 2019 and 31 December 2018 are presented in detail in note 27 to the semi-annual shortened consolidated financial statements of the Group of PHZ "Baltona" S.A. for the period of six months ended on 30 June 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 semi-annual report, and changes in the ownership structure of significant packages of shares in PHZ "Baltona" S.A. during the period from submission of the previous consolidated periodic report, in accordance with the information available to PHZ "Baltona" S.A.

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

Ashdod Holdings is a company of the laws of Cyprus with the registered office in Larnaca (Cyprus), holding 9,081,600 of the Issuer's shares and the same number of votes at the General Meeting of Shareholders, corresponding with 80.68% of the Issuer's shares and 80.68% of the total number of votes as the General Meeting of Shareholders. No changes in this respect have occurred as compared with the date of publication of the preceding quarterly report. As Ashdod is controlled by Flemingo International Limited, the Group of PHZ "Baltona" S.A. has been part of an international capital group headed by Flemingo International Limited since 2010.

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 semi-annual report, with

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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 and as at the date of the previous periodic report, no member of the Supervisory Board or member of the Management Board held actions of PHZ "Baltona" S.A. or any rights thereto. There were no changes in this respect compared to the previous periodical report.

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

Information concerning pending proceedings is presented in the Additional Explanations to the semi-annual shortened consolidated financial statements, par. 26 Contingent liabilities and court cases.

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

In the period covered by this semi-annual report, the Issuer and its subsidiaries did not grant any significant sureties or guarantees. Detailed information regarding credit collaterals is presented in the Additional Explanations to the semi-annual 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 June 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 41,136 thousand.
- As at 30 June 2019, the Group is taking advantage of an insurance guarantee concerning the Common Transit Procedure, at PLN 500 thousand.
- As at 30 June 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 58,595 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 June 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 June 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 the reporting period, 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 financial liabilities. Observed in recent months, the growing balance of overdue liabilities is, in the opinion of the Issuer's Management Board, temporary and connected in particular with outlays on Warsaw airport (investments in premises, stocking). The Issuer expects that, in connection with foreseen growth in sales revenue generated from sales activity at Warsaw airport, the balance of overdue liabilities will be gradually decreasing (in particular, due to the oncoming seasonal air traffic growth).

As at the date of preparation of this report, in order to improve the structure and level of current capital needed due to increased capital requirements, the possibility to obtain financing is being considered, among others in the form of loans from non-banking sector entities or the possibility to carry out an issue of short- or medium-term corporate bond, as well as the possibility to take advantage of other similar products.

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. (hereinafter: CDD) 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 (RAS) and Niederrhein Airport Shop GmbH (NAS) (hereinafter: Agreement). 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. The Issuer recognized in the consolidated financial statements profit on the sale of subsidiary in the amount PLN 1,040 thousand. 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.

In connection with the review of strategic options, pending on the date of preparation of this report, the Group does not exclude the possibility of further transactions concerning other asset groups controlled by the Issuer's Capital Group.

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

11. Information about employment

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

Company	*30.06.2019*	*31.12.2018*	*Change*
PHZ Baltona S.A.	214	220	-6
BH Travel Retail Poland Sp. z o.o.	177	90	87
Centrum Obsługi Operacyjnej Sp. z o.o.	90	93	-3
Centrum Usług Wspólnych Baltona Sp. z o.o.	46	47	-1
Baltona Shipchandlers Sp. z o.o.	30	32	-2
Baltona France SAS	21	15	6
Baltona Italy S.r.l.	12	9	3
Gredy Company SRL	13	13	0
Flemingo Duty Free Ukraine	22	21	1
Baltona Duty Free Estonia OÜ	39	33	6
Liege Airport Shop BVBA	2	6	-4
Grupa Chacall-De Decker	0	24	-24
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:

- Results achieved by newly opened shops, cafes and retail outlets in Poland, including the shops opened at Chopin Airport in Warsaw, in Tallin and in Wrocław, which commenced operation in 2018 and in 2019 as well as cafes in Warsaw opened in attractive locations namely in Central Railway Station and in Nowy Świat Street.
- Beginning of lower, post-seasonal air traffic.
- Development of operating activity at retail outlets (including achievement of a satisfactory stock and sales level) 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 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.

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- Conclusion on 27 November 2018 of an annex with Port Lotniczy Poznań-Ławica Sp. z o.o. [Poznań-Ławica Airport], enabling the Lessor to extend the lease term after expiry of the agreement, i.e. after 6 July 2019 on the terms identified in the annex. The extended lease term may apply no longer than until 7 November 2019.
- The results of the analysis of options indicated in current report No. 25/2019 of June 12, 2019 regarding the potential issue of short-term debt instruments and conducting the sale of assets, as well as the optimization or further simplification of the organizational structure of the Issuer's Capital Group.
- Maintaining the optimal for the current scale of operations of the Issuer's Capital Group level of access to financial products from financial institutions, insurers and institutions offering guarantees.
- Obtaining financing to ensure a satisfactory level of liquidity in the perspective of a period of lower air traffic.
- The results of negotiations on analyses related to the letter received on 12 June 2019 from Flemingo International Limited informing about the signing by Flemingo and Ashdod Holding Limited, i.e. the dominant shareholder of the Company, of a non-binding letter of intent with a potential investor who expressed initial interest in the possibility of financing the Company based on for short-term debt instruments (bonds) that would be issued by the Company and additionally secured by Ashdod or Flemingo, as well as the possibility of acquiring the Issuer's existing shares.
- The Management Board's decision on August 14, 2019 to start the process of merging the Issuer with the following subsidiaries: Centrum Usług Wspólnych Baltona Sp. z o.o. and Sandpiper 3 Sp. z o.o. The merger is planned in accordance with art. 492 § 1 item 1 of the Commercial Companies Code, i.e. by transferring all assets of the Subsidiaries to the Issuer, without increasing the Company's share capital. Due to the fact that the Issuer holds all the shares of Subsidiaries, the merger will be carried out in a simplified mode in accordance with art. 516 § 6 of the Code of Commercial Companies.
- Achieving a satisfactory level of operational efficiency as part of logistics processes implemented within the Group.
- Securing working capital financing at the level ensuring profitable level of stocking.
- Prospects of growth in scheduled passenger traffic at Warsaw-Modlin Airport and at other airports where shops of the Group companies are located.
- Maintaining the appropriate level of stock at the Group’s shops.
- Maintaining current and acquisition of new sources of financing, including in particular bank credits.
- Development of currency exchange rates, in particular with regard to the EUR/PLN pair.
- Development of interest rates determining the costs of service of the Group’s indebtedness.
- Political situation in Ukraine.
- Cost optimisations achieved via negotiations and process changes.

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

Operational area

During the period of 6 months ended on 30 June 2019, the Group focused on optimizing operations, in particular regarding the need to secure operating financing and the completion of investments related to locations at 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 March 31, 2019, an annex was signed extending the duration of the Agreement until June 30, 2019.

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. At the turn of the 1st and 2nd 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 3rd quarter of 2019.

On May 29, 2019, a subsidiary of the Issuer, CDD Holding B.V. has entered into an agreement with a foreign entity operating in the same industry in Western Europe to acquire from CDD all shares of two CDD subsidiaries, i.e. Rotterdam Airport Tax-Free Shop B.V and Niederrhein Airport Shop GmbH. The total sale price of RAS & NAS is approximately EUR 1.51 million (i.e. approximately PLN 6.5 million) and was paid on the date of conclusion of the Agreement. Transfer of ownership of shares in RAS & NAS took place on the date of conclusion of the Agreement. As a result of the transaction, the Issuer recognized in the reporting period in the consolidated financial statements Net profit from the sale of a subsidiary in the amount of PLN 1,040 thousand. The above transaction was carried out in connection with the assessment made by the Issuer regarding the decrease in the attractiveness of the location, where operated assets being the subject of the transaction, with the intention of focusing operational and management activities as well as financial resources on the development of activities in alternative locations where companies from the Issuer's Capital Group operate.

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.

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 9.6 million net, while the amount claims under penalties connected with delays in commencing activity for particular outlets amounts to PLN 5.3 million, totalling PLN 14.9 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. If the parties agree on a financial settlement based on the third party's opinion, reconciliation of the Issuer's liabilities towards PPL will be performed in 3 monthly instalments payable during the 4th quarter of 2019. If the third party's opinion is not issued by the end of August 2019, the parties will undertake further negotiations in order to perform mutual financial settlements based on the findings made so far.
Irrespective of the above, pursuant to the provisions of concluded documents, the Issuer decided to accept the claims of PPL concerning settlement related to 3 lease agreements for which the periods of temporary activity fell from July to August/October 2018. The financial settlements include payments of rent at PLN 7.4 million net and penalties for delays in commencing business activity at particular outlets at PLN 1 million; in total, PLN 8.4 million net. The amount resulting from the settlement is recognised in the financial statements in whole as long-term liabilities. The Issuer undertook to pay the liabilities at the above amount in the form of monthly payments during the period from May 2020 until December 2020. Moreover, the parties agreed on the principles governing

repayment of the above liabilities in case of delays as compared with originally agreed deadlines. In connection with conclusion of the Settlement, terms of the standard rental agreement collateral – i.e. bank guarantee – and statement on submission to enforcement proceedings accompanying guarantee instruments will also be updated, provided however that amendment of the guarantee will not involve any increase of the guarantee sum, except for the cases foreseen in the lease agreements (e.g. rent indexation).

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 settlements. Irrespective of the above arrangements, in May 2019 the Company received further charge notes from PPL covering penalties for delays in accomplishment of specific activities identified in the agreement. 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 declared till the end of June 2019 as discussed above, disputed by the Company, amounts to PLN 12.3 million in connection with delay penalties.

After the balance sheet date, i.e. on August 28, 2019, the Parent Undertaking received a bilaterally signed annex concluded with the Polish Airport State Enterprise [PPL] under which: i] extended until December 5, 2019, the deadline if issuing an external entity's opinion, the parties will enter into further negotiations in order to make mutual settlements on the basis of the arrangements made so far; ii] in the case of settlement between the parties based on the opinion of an external entity, the settlement of the Issuer's obligations to PPL in 3 monthly installments was moved from the fourth quarter of 2019 to the period January - April 2020. Other significant terms of the Agreement have not changed significantly.

Locations and investments

Moreover, investment outlays performed during the first half of 2019 on fitting out the premises amounted to app. PLN 17.7 million, while estimated outlays planned until the end of 2019 will amount to app. PLN 6.8 million more. The amount of planned outlays includes mainly completion of the investment at Warsaw Chopin Airport and construction of a new shop at Montpellier airport in France.

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 recognized 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 recognized assets under the right of use and liabilities under lease in its financial statements, amounting to PLN 537,362 thousand and PLN 551,918 thousand, respectively. Recognition of the above asset involves the obligation to perform depreciation write-offs during the terms of agreements recognized 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.

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 June 2019 in the consolidated statements of Baltona Group amounted to PLN 814,905 thousand and increased by PLN 523,195 thousand, i.e. by 179% 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 6 months ended on 30 June 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. Overview of factors and events, including in particular untypical ones, which have material influence onto the shortened financial statements

During the period of 6 months ended on 30 June 2019, the Group achieved total sales revenue of PLN 250,3 million, which denotes an increase in absolute amounts by over PLN 47,7 million, i.e. by 23,6% as compared with the corresponding period of 2018. As compared with the first half of 2018, public retail sales decreased by 8%, while wholesale and shipchandling increased by 20% and 144%, respectively. Growth of sales revenue in 2019 resulted mainly from shop openings and resumption of activity at Warsaw Chopin Airport. At the same time, the Issuer indicates that delays in store openings at Chopin Airport coincided in a period of high air traffic season, which resulted in higher revenues, although on a year-to-year basis it was lower than expected by the Company's Management Board. In the opinion of the Company's Management Board, the above may adversely affect the outlook for results in the following months, which are considered out of season.

The result of the Group’s operating activity after the first half of 2019 was the loss of PLN 33,354 thousand; to compare, the result for the corresponding period of the previous year was the loss of PLN 2,240 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, cost of goods sold and costs of employee benefits – amounting to PLN 51.5 million, PLN 20,4 million and PLN 6,3 million, respectively.

The EBITDA result generated in first half of 2019 (calculated as the operating result adjusted by depreciation) generated during the period amounted to PLN 21.075 thousand and was by 3108% higher as compared with the first half of 2018, when it amounted to PLN 657 thousand. Growth in the EBITDA measure was influenced by the above mentioned cost of depreciation, resulting from amortization of the recognised asset under the right of use, and amortization of outlays on newly opened shops.

To compare, the Group’s net result for the period of 6 months ended on 30 June 2019 closed with the loss of PLN 44,824 thousand. The negative net financial result was affected by the operating activities described above and to some extent an increase in the cost of servicing of loans incurred in previous periods.

Financial results of the Group for the period of 6 months ended on 30 June 2019 was 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 recognize depreciation of the above assets totaling PLN 41,2 million and lease interest of PLN 9,9 million in the costs of the reporting period, and exclusion of the fixed part of rents from third party services amounting to PLN 36,6 million,

• recognition of depreciation connected with an intangible asset, recognized as the right to conclude an agreement, totaling PLN 5 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 a central warehouse, changing the supply chain and switching to direct deliveries from commercial goods producers

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. As a result, sales revenue generated during the first half of the year is usually lower.

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 six months ended on 30 June 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.

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 six months ended on 30 June 2019, PHZ “Baltona” S.A. did not pay out or declare any dividend.

19. Events after the date of preparation of the semi-annual shortened financial statements, not disclosed in the statements, but which may have significant impact onto the Issuer’s financial results

On August 14, 2019, the Management Board of the Parent Company decided to start the process of merging the Issuer with the following subsidiaries: Centrum Usług Wspólnych Baltona Sp. z o.o. and Sandpiper 3 Sp. z o.o. The merger is planned in accordance with art. 492 § 1 item 1 of the Commercial Companies Code, i.e. by transferring all assets of the Subsidiaries to the Issuer, without increasing the Company's share capital. Due to the fact that the Issuer holds all the shares of Subsidiaries, the merger will be carried out in a simplified mode in accordance with art. 516 § 6 of the Code of Commercial Companies.

On August 28, 2019, the Company received a bilaterally signed annex concluded with Przedsiębiorstwo Państwowe Porty Lotnicze [PPL] under which: i] the deadline was extended until December 5, 2019, in which if an external entity's opinion is not issued, the parties undertake further negotiations in order to make mutual settlements on the basis of the arrangements made so far; ii] in the case of settlement between the parties based on the opinion of an external entity, the settlement of the Issuer's obligations towards PPL in 3 monthly instalments was moved from the fourth quarter of 2019 to the period January - April 2020. Other significant terms of the Agreement have not changed significantly.

In the first half of September, 2019, the Company received an annex to the lease agreement with Górnośląskie Towarzystwo Lotnicze S.A. extending the period of validity of the lease agreement until 31.08.2020, provided that the Lessee settles the arrears to the Lessor for the rent until 30.09.2019.

On September 13, 2019, the Company received a statement from the Bank pursuant to which the current period of granting the loan under the multi-purpose credit line to PLN 76 million was extended until October 31, 2019. At the same time, the Issuer is conducting talks with the Bank regarding the conditions for providing access to banking products in the long term and about agreeing these conditions, the Issuer will inform in the mode of the next current report.

The Management Board of Przedsiębiorstwo Handlu Zagranicznego "Baltona" S.A. informs that on September 30, 2019, it received information about the obtaining by the State Enterprise "Airports" (Przedsiębiorstwo Państwowe „Porty Lotnicze") [PPL] of the initial consent of corporate bodies to conclude an investment agreement and accompanying documentation, based on 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 from the Flemingo Capital Group [Seller] shall determine the terms of the sale transaction by the Seller to PPL of all the Company's shares held.

Currently, the Issuer is awaiting information on the finalization of the examination of formal and legal conditions, which must be met by the parties to conclude contracts in the case, and in the absence of formal obstacles to agree on the final arrangements and the date of their conclusion.

At the same time, the Issuer notes that due to the fact that in the process the Company is a party to talks only to the extent that it concerns the issue of bonds (it is not a party to talks regarding the sale of the Company's shares), there may be circumstances unknown to the Company lying on the side of the Seller or PPL in the case of occurrences, the implementation of which contracts may not be completed. About the next stages of the above the issuer will inform in the course of relevant current reports about the process and detailed terms of the bond issue.

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 contingent liabilities of the Capital Group are presented in the additional explanations notes to the semi-annual shortened consolidated financial statements.

21. Information regarding the principles of preparation of financial statements

The semi-annual 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 semi-annual 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 of maintaining the lack of proper stocking in stores at Chopin Airport resulting in disproportionate investment costs and lease related costs derived from this airport revenues.

Irrespective of the above, as a result of changes in the airport logistics model, which currently based on deliveries from own central warehouse, i.e. based on direct relationships with manufacturers, the Issuer identifies temporary risk related to 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 organizational 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 2nd quarter of 2019. The Issuer's intention is to achieve an optimal level stocking commercial locations at the Warsaw airport in the perspective until the end of this year, however the key factor determining the possibility of achieving the optimal level of stocking is obtaining external funds to finance working capital.

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 June 2019 and as at 31 August 2019 is presented below.

	31.08.2019			31.03.2019		
category	1-30 days	31-60 days	above 61 days	1-30 days	31-60 days	above 61 days
overdue liabilities	17 090	14 078	1 582	13 754	9 625	3 496

The balance of overdue liabilities increased during the 2nd quarter of 2019 as a result of the following circumstances:
•necessity of investment outlays in order to open retail locations at Warsaw airport as soon as possible;

• investment 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.

The Issuer also indicates that the rate of increase in sales revenues generated as part of its operations commercial space at the Warsaw airport in recent months has been lower than expected in the long run from the previous reporting period, as a consequence of which the balance of past due liabilities is subject to further increase. Due to the approaching end of the period of seasonal increase in air traffic, the Issuer identifies in the perspective of the following months the risk of insufficient reduction of the level of overdue liabilities. Thus, if external financing is not obtained on the expected one level and in the anticipated schedule, the Management Board of the Company considers it necessary to take it restrictive measures mitigating the risk associated with overdue debt.

As at the date of publication of this report, the Issuer estimates that the balance of past due consolidated liabilities up to approx. PLN 39.3 million.

At the turn of the 1st and 2nd 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 3rd quarter of 2019.

In order to secure ongoing payments, the Group has also undertaken the following actions:

- arrangements with business partners aimed at obtaining prepayments for marketing services provided,
- optimization of the inventory level,
- negotiations with suppliers of goods and services regarding extension of payment terms.

Information regarding indebtedness under financial agreements (credits, loans and lease agreements) as at 30 June 2019 and 31 August 2019 is presented below:

Long-term liabilities

	31.08.2019	**30.06.2019**
Secured credits and loans	30 699	30 699
Loans from related entities	20 175	19 292
Liabilities under financial lease	1 349	1 436
	52 223	**51 427**

All amounts are presented in thousands Polish zlotys (PLN) unless stated otherwise

Short-term liabilities

	31.08.2019	30.06.2019
Overdrafts	37 355	11 764
Secured credits and loans	10 309	33 231
Loans from related entities	78	78
Valuation of derivative instruments (IRS)	638	584
Liabilities under financial lease	710	742
	49 090	**46 399**

The table does not include liabilities under financial lease, recognized 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.

As at 30 June 2019, Group companies had unused credit facilities at the total amount of PLN 4.800 thousand, which amounted to PLN 700 thousand at 31 August 2019, and to PLN 6.200 thousand as at the date of publication of this report.

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.

23. Statement of the Management Board

To the best knowledge of the Company's Management Board, the semi-annual shortened individual and consolidated financial statements for the first half of 2019 and comparable data have been drawn up in accordance with applicable principles of accounting and they reflect in a true, reliable and transparent manner the property and financial standing of PHZ Baltona S.A. and of the Capital Group of PHZ Baltona, as presented in the statements for the above period. This report of the Management Board on the activity of the Capital Group of PHZ Baltona for the first half of 2019 contains a true illustration of the development, achievements and standing of PHZ Baltona S.A. and its Capital Group, including an overview of the primary threats and risk.

All amounts are presented in thousands Polish zlotys (PLN) unless stated otherwise

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, 30 September 2019