Orbis Group

REPORT FOR THE THIRD QUARTER OF 2016

Warsaw, October 27, 2016

Table of contents

1 MAJOR EVENTS OF THE THIRD QUARTER OF 2016 – PRESIDENT'S COMMENT

In 2016, quarter after quarter we have been making progress in each of our strategic priorities: Performance, Portfolio, People with visible impact on both our operating and financial results and guest satisfaction. Orbis has taken full advantage of favourable economic climate, thanks to active revenue management together with effective sales and distribution forces in efforts fitting to our guests expectation we achieved record-high results.

PERFORMANCE

Robust financial outcomes were confirmed by 8.6% increase of net sales up to PLN 1 036.2 million and EBITDAR growth of 11.1% (up to PLN 376.9 million) as compared to 9M of 2015 results. Operating EBITDA amounted to PLN 302.8 million, which represented 15.0% growth comparing to last year. We delivered strong results at the operational level as well, as manifested by +11.2% RevPAR increase up to PLN 171.9 for the whole Group. This high result was achieved thanks to +8.2% growth of the average room rate as well as through increase in occupancy (by 2.0 p.p. up to 73.2%) and was visible in all the countries of the region. Looking into the future and analysing our bookings for coming months I confirm our ambitious operating EBITDA target set in July.

PORTFOLIO

Asset management and development of Groups' portfolio is an important pillar of Orbis strategy. In 3Q we celebrated openings of our 2 owned hotels: ibis Gdansk Stare Miasto (120 rooms) and Mercure Kraków Stare Miasto (200 rooms), both built in line with green certification by BREEAM, which gave Orbis the pioneer position in Poland in this field. The capital investments spent on these projects together 2014-2016 years totalled over PLN 110 million. In 3Q Orbis has also created value through further renovations of owned hotels and transformation of property portfolio (Mercure Opole sale and franchise back). Consolidating Orbis leadership position our development team signed 4 new asset light agreements for hotels in Poland, Romania and Estonia (over 600 rooms in total). These contracts help us further remodel the structure of business and will drive a hotel brands visibility. Orbis development plan stays robust with 27 hotels in the pipeline (3 100 rooms) that should enter the market until 2020. In our expansion plan we are focused on main business hubs and key gateway cities, "opening doors" to new promising markets in the region, e.g. Romania and Macedonia, and remain ready for any value creative opportunities.

PEOPLE

We wouldn't have achieved these results without engagement of our teams, who effectively bring Company's strategy into life. Thus, on People side, in the 3Q Orbis was focused not only on attracting and retaining the best talents, supporting the digital transformation but also - or most of all, on bringing to life a new culture, a new leadership style so that Orbis becomes a company that encourages initiative. While opening the Mercure Kraków Stare Miasto hotel, we deployed a totally innovative way of recruiting candidates, based on real-life situations where interpersonal skills, natural openness & Feel Welcome spirit counted most. Moreover, Orbis has set up a Shadow Comex consisting of millennials, 10 persons – women and men, from hotels and head office but all under 35 years of age. The role of the "Orbis Shadow Comex" is to bring a new perspective, a different approach and new ideas to the Orbis Management Board. In order to succeed and make Orbis a trendsetter in hospitality business, we need a diversity of thoughts, ideas and approaches.

Both in the third quarter and over the whole first 9 months of the year Orbis empowered its position in the region. I strongly confirm our ability to create value for our stakeholders in the future, based on our clear and visible strategy focused on Performance, Portfolio and People. In the coming months we have still ambitious goals to achieve, including cultural transformation, leading to enhance guests' experience and building capabilities in the digital world, which "reinvent" hospitality.

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2 SELECTED FINANCIAL AND OPERATING FIGURES

2.1 Orbis Group

Consolidated income statement	PLN `000		EUR `000	
	9 months ended Sep. 30, 2016	9 months ended Sep. 30, 2015	9 months ended Sep. 30, 2016	9 months ended Sep. 30, 2015
Net sales	1 036 248	954 529	237 193	229 537
Operating profit	196 342	166 679	44 942	40 082
Net profit for the period	151 427	129 086	34 661	31 041
Net profit for the period attributable to owners of the parent	151 419	129 072	34 659	31 038
Basic and diluted earnings per share attributable to owners of the parent (in PLN)	3,29	2,80	0,75	0,67

Consolidated statement of cash flows	PLN `000		EUR `000	
	9 months ended Sep. 30, 2016	9 months ended Sep. 30, 2015	9 months ended Sep. 30, 2016	9 months ended Sep. 30, 2015
Net cash generated by operating activities	279 512	239 877	63 979	57 683
Net cash used in investing activities	(224 152)	(602 728)	(51 307)	(144 939)
Net cash generated by financing activities	120 597	396 480	27 604	95 342
Net cash flows, total	175 957	33 629	40 276	8 087

Consolidated statement of financial position	PLN `000		EUR `000	
	Sep. 30, 2016	Dec. 31, 2015	Sep. 30, 2016	Dec. 31, 2015
Non-current assets	2 216 418	2 088 391	514 012	490 060
Current assets	554 700	372 448	128 641	87 398
Assets classified as held for sale	28 494	23 057	6 608	5 411
Equity	1 886 223	1 783 288	437 436	418 465
Equity attributable to owners of the parent	1 886 078	1 783 155	437 402	418 434
Non-current liabilities	642 393	454 837	148 978	106 732
Current liabilities	270 996	245 771	62 847	57 672

Selected operating figures	9 months ended Sep. 30, 2016	9 months ended Sep. 30, 2015
Number of hotels (at the end of period)	117	107
Number of rooms (at the end of period)	19 779	18 679
Occupancy rate (%)	73,2	71,0
Revenue per Available Room in PLN	171,9	153,5

2.2 Orbis S.A.

Income statement	PLN `000		EUR `000	
	9 months ended Sep. 30, 2016	9 months ended Sep. 30, 2015	9 months ended Sep. 30, 2016	9 months ended Sep. 30, 2015
Net sales	518 144	440 065	118 601	105 823
Operating profit	92 875	69 759	21 259	16 775
Net profit for the period	118 934	87 419	27 223	21 022
Basic and diluted earnings per share (in PLN)	2,58	1,90	0,59	0,46

Statement of cash flows	PLN `000		EUR `000	
	9 months ended Sep. 30, 2016	9 months ended Sep. 30, 2015	9 months ended Sep. 30, 2016	9 months ended Sep. 30, 2015
Net cash generated by operating activities	137 377	113 590	31 445	27 315
Net cash generated by/used in investing activities	13 112	(588 714)	3 001	(141 569)
Net cash generated by financing activities	121 991	396 813	27 923	95 422
Net cash flows, total	272 480	(78 311)	62 370	(18 832)

Statement of financial position	PLN `000		EUR `000	
	Sep. 30, 2016	Dec. 31, 2015	Sep. 30, 2016	Dec. 31, 2015
Non-current assets	2 346 905	2 393 760	544 273	561 718
Current assets	389 719	98 457	90 380	23 104
Assets classified as held for sale	37 637	32 200	8 728	7 556
Equity	1 968 164	1 924 883	456 439	451 691
Non-current liabilities	637 550	453 349	147 855	106 382
Current liabilities	168 547	146 185	39 088	34 304

The following exchange rates were used to translate the presented figures into EUR:

- For items of the income statement and the statement of cash flows:
  - 4.3688 – the exchange rate calculated as the average of exchange rates quoted by the National Bank of Poland on the last day of each month during 9 months of 2016,
  - 4.1585 – the exchange rate calculated as the average of exchange rates quoted by the National Bank of Poland on the last day of each month during 9 months of 2015.
- For items of the statement of financial position:
  - 4.3120 – the exchange rate quoted by the National Bank of Poland on September 30, 2016,
  - 4.2615 – the exchange rate quoted by the National Bank of Poland on December 31, 2015.

(figures quoted in PLN thousand, unless otherwise stated)

3 CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE ORBIS GROUP

3.1 Consolidated income statement

	3 months ended Sep. 30, 2016	9 months ended Sep. 30, 2016	3 months ended Sep. 30, 2015	9 months ended Sep. 30, 2015
Net sales	**396 374**	**1 036 248**	**362 903**	**954 529**
Outsourced services	(80 602)	(217 334)	(70 437)	(193 476)
Employee benefit expense	(85 348)	(253 282)	(78 663)	(234 812)
Raw materials and energy used	(52 146)	(147 483)	(51 735)	(143 597)
Taxes and charges	(10 846)	(31 373)	(10 903)	(32 393)
Other expenses by nature	(3 682)	(10 417)	(4 967)	(12 361)
Net other operating income/(expenses)	(189)	530	(35)	1 433
EBITDAR	**163 561**	**376 889**	**146 163**	**339 323**
Rental expense	(25 038)	(74 077)	(26 028)	(76 070)
Operating EBITDA	**138 523**	**302 812**	**120 135**	**263 253**
Depreciation and amortisation	(36 989)	(109 841)	(34 758)	(103 946)
Operating profit without the effects of one-off events	**101 534**	**192 971**	**85 377**	**159 307**
Result on sale of real property	4 282	5 859	9 953	9 953
Revaluation of non-current assets	0	(909)	0	0
Restructuring costs	(140)	(371)	(2)	(1 034)
Result of other one-off events	(857)	(1 208)	0	(1 547)
Operating profit	**104 819**	**196 342**	**95 328**	**166 679**
Finance income	833	1 946	504	6 077
Finance costs	(7 115)	(14 826)	(3 684)	(12 079)
Share of net profits/(losses) of associates	188	127	111	(13)
Profit before tax	**98 725**	**183 589**	**92 259**	**160 664**
Income tax expense	(18 676)	(32 162)	(16 450)	(31 578)
Net profit for the period	**80 049**	**151 427**	**75 809**	**129 086**
- attributable to owners of the parent	80 049	151 419	75 796	129 072
- attributable to non-controlling interests	0	8	13	14

Earnings per ordinary share				
Basic and diluted earnings attributable to owners of the parent	1,74	3,29	1,64	2,80

(figures quoted in PLN thousand, unless otherwise stated)

3.2 Consolidated statement of comprehensive income

	3 months ended Sep. 30, 2016	9 months ended Sep. 30, 2016	3 months ended Sep. 30, 2015	9 months ended Sep. 30, 2015
Net profit for the period	**80 049**	**151 427**	**75 809**	**129 086**
Items that will not be reclassified subsequently to profit or loss:				
Actuarial gains/losses arising from the defined benefit plan	0	62	0	0
Income tax relating to items that will not be reclassified subsequently	0	(12)	0	0
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(4 906)	6 361	4 817	1 198
The effective portion of the gain or loss on the hedging instrument entered into for cash flow hedges	375	261	(825)	(825)
Income tax relating to items that may be reclassified subsequently	(71)	(50)	0	0
Other comprehensive income/(loss) after tax	**(4 602)**	**6 622**	**3 992**	**373**
Total comprehensive income for the period	**75 447**	**158 049**	**79 801**	**129 459**
- attributable to owners of the parent	75 447	158 037	79 786	129 445
- attributable to non-controlling interests	0	12	15	14

(figures quoted in PLN thousand, unless otherwise stated)

3.3 Consolidated statement of financial position

Assets	As at:			
	Sep. 30, 2016	Jun. 30, 2016	Dec. 31, 2015	Sep. 30, 2015
Non-current assets	**2 216 418**	**2 226 467**	**2 088 391**	**2 058 126**
Property, plant and equipment	2 047 912	2 057 810	1 923 863	1 904 715
Investment property	8 813	8 938	10 287	10 777
Intangible assets, of which:	112 631	113 201	114 189	113 803
- goodwill	107 252	107 252	107 252	107 252
Investments in associates	10 536	10 385	10 151	10 165
Other financial assets	7 888	7 888	7 888	7 888
Other long-term investments	464	464	464	464
Deferred tax assets	27 848	27 424	21 128	9 860
Other long-term assets	326	357	421	454
Current assets	**554 700**	**348 266**	**372 448**	**382 058**
Inventories	6 770	6 572	6 763	6 251
Trade receivables	77 399	72 007	50 555	73 966
Income tax receivables	518	1 335	368	3
Other short-term receivables	23 410	31 993	34 502	31 769
Short-term financial assets	0	0	8 577	0
Cash and cash equivalents	446 603	236 359	271 683	270 069
Assets classified as held for sale	**28 494**	**24 006**	**23 057**	**11 046**
TOTAL ASSETS	**2 799 612**	**2 598 739**	**2 483 896**	**2 451 230**

(figures quoted in PLN thousand, unless otherwise stated)

Equity and Liabilities	As at:			
	Sep. 30, 2016	Jun. 30, 2016	Dec. 31, 2015	Sep. 30, 2015
Equity	**1 886 223**	**1 810 776**	**1 783 288**	**1 729 561**
Equity attributable to owners of the parent	**1 886 078**	**1 810 631**	**1 783 155**	**1 729 444**
Share capital	517 754	517 754	517 754	517 754
Reserves	132 900	132 596	132 689	132 508
Retained earnings	1 226 254	1 146 205	1 129 899	1 077 866
Foreign currency translation reserve	9 170	14 076	2 813	1 316
Non-controlling interests	**145**	**145**	**133**	**117**
Non-current liabilities	**642 393**	**438 812**	**454 837**	**467 002**
Borrowings	105 225	105 066	122 466	140 013
Bonds	501 896	299 331	299 229	301 170
Deferred tax liabilities	737	881	620	1 001
Deferred revenue	4 100	4 150	5 300	4 428
Other non-current liabilities	4 860	4 179	3 072	825
Provision for retirement benefits and similar obligations	22 188	22 190	22 823	19 218
Provisions for liabilities	3 387	3 015	1 327	347
Current liabilities	**270 996**	**349 151**	**245 771**	**254 667**
Borrowings	35 289	35 289	36 646	35 289
Other financial liabilities	534	909	795	825
Trade payables	115 929	109 802	77 874	100 587
Liabilities associated with property, plant and equipment	7 651	15 715	34 734	6 297
Current tax liabilities	8 579	5 561	4 874	14 185
Deferred revenue	31 875	40 610	20 585	27 179
Other current liabilities	67 315	137 433	66 456	67 371
Provision for retirement benefits and similar obligations	2 757	2 757	2 693	1 870
Provisions for liabilities	1 067	1 075	1 114	1 064
TOTAL EQUITY AND LIABILITIES	**2 799 612**	**2 598 739**	**2 483 896**	**2 451 230**

(figures quoted in PLN thousand, unless otherwise stated)

3.4 Consolidated statement of changes in equity

	Equity attributable to owners of the parent				Non-controlling interests	Total
	Share capital	Reserves	Retained earnings	Foreign currency translation reserve		
Twelve months ended December 31, 2015						
Balance as at January 1, 2015	**517 754**	**133 333**	**1 301 117**	**118**	**0**	**1 952 322**
- net profit for the period	0	0	181 553	0	29	181 582
- other comprehensive income/(loss)	0	(644)	(448)	2 695	1	1 604
Total comprehensive income/(loss) for the period	**0**	**(644)**	**181 105**	**2 695**	**30**	**183 186**
- accounting for business combination under common control	0	0	(283 207)	0	103	(283 104)
- dividends	0	0	(69 116)	0	0	(69 116)
Balance as at December 31, 2015	**517 754**	**132 689**	**1 129 899**	**2 813**	**133**	**1 783 288**
of which: nine months ended September 30, 2015						
Balance as at January 1, 2015	**517 754**	**133 333**	**1 301 117**	**118**	0	**1 952 322**
- net profit for the period	0	0	129 072	0	14	129 086
- other comprehensive income/(loss)	0	(825)	0	1 198	0	373
Total comprehensive income/(loss) for the period	**0**	**(825)**	**129 072**	**1 198**	**14**	**129 459**
- accounting for business combination under common control	0	0	(283 207)	0	103	(283 104)
- dividends	0	0	(69 116)	0	0	(69 116)
Balance as at September 30, 2015	**517 754**	**132 508**	**1 077 866**	**1 316**	**117**	**1 729 561**
Nine months ended September 30, 2016						
Balance as at January 1, 2016	**517 754**	**132 689**	**1 129 899**	**2 813**	**133**	**1 783 288**
- net profit for the period	0	0	151 419	0	8	151 427
- other comprehensive income/(loss)	0	211	50	6 357	4	6 622
Total comprehensive income for the period	**0**	**211**	**151 469**	**6 357**	**12**	**158 049**
- transaction with a related party	0	0	17 286	0	0	17 286
- income tax relating to transaction with a related party	0	0	(3 284)	0	0	(3 284)
- dividends	0	0	(69 116)	0	0	(69 116)
Balance as at September 30, 2016	**517 754**	**132 900**	**1 226 254**	**9 170**	**145**	**1 886 223**
of which: three months ended September 30, 2016						
Balance as at July 1, 2016	**517 754**	**132 596**	**1 146 205**	**14 076**	**145**	**1 810 776**
- net profit for the period	0	0	80 049	0	0	80 049
- other comprehensive income/(loss)	0	304	0	(4 906)	0	(4 602)
Total comprehensive income/(loss) for the period	**0**	**304**	**80 049**	**(4 906)**	**0**	**75 447**
Balance as at September 30, 2016	**517 754**	**132 900**	**1 226 254**	**9 170**	**145**	**1 886 223**

(figures quoted in PLN thousand, unless otherwise stated)

3.5 Consolidated statement of cash flows

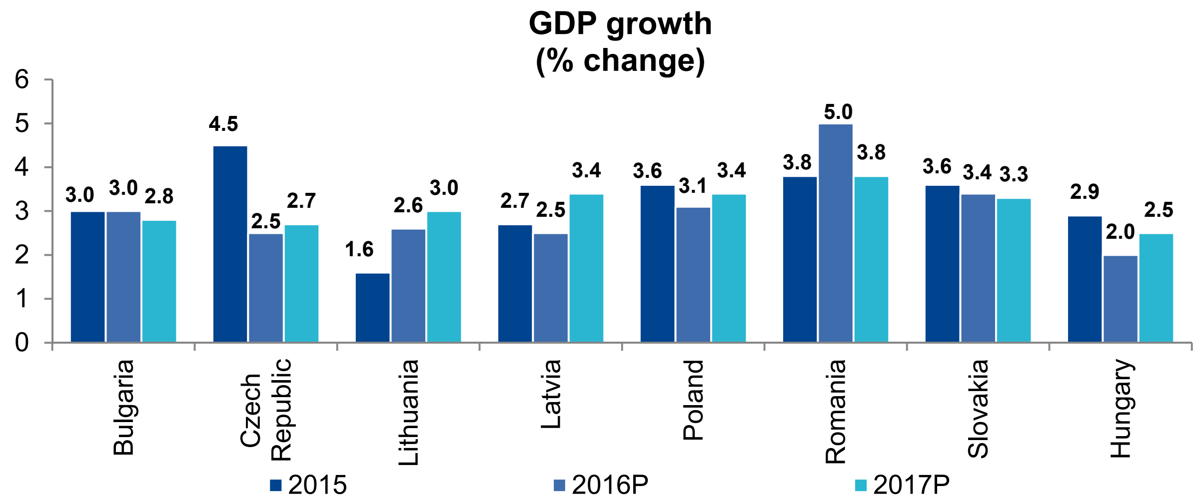
	3 months ended Sep. 30, 2016	9 months ended Sep. 30, 2016	3 months ended Sep. 30, 2015	9 months ended Sep. 30, 2015
OPERATING ACTIVITIES				
Profit before tax	**98 725**	**183 589**	**92 259**	**160 664**
Adjustments:	**35 426**	**134 165**	**34 427**	**107 541**
Share of net (profits)/losses of associates	(188)	(127)	(111)	13
Depreciation and amortisation	36 989	109 841	34 758	103 946
Foreign exchange (gains)/losses	2 440	2 733	(221)	(5 043)
Interest and other borrowing costs	3 797	10 313	3 263	10 385
Gain from investing activities	(4 207)	(5 662)	(10 491)	(10 476)
Change in receivables	3 227	(24 684)	(969)	(16 868)
Change in liabilities, excluding borrowings	4 046	34 187	7 347	15 172
Change in deferred revenue	(9 835)	5 222	(648)	7 532
Change in provisions	362	1 504	(463)	(642)
Change in inventories	(198)	(7)	151	675
Other adjustments	(1 007)	845	1 811	2 847
Cash generated from operations	**134 151**	**317 754**	**126 686**	**268 205**
Income taxes paid	(15 714)	(38 242)	(12 864)	(28 328)
Net cash generated from operating activities	**118 437**	**279 512**	**113 822**	**239 877**
INVESTING ACTIVITIES				
Proceeds from disposal of property, plant and equipment, intangible assets and investment property	4 423	6 907	19 207	21 533
Interest received	600	1 298	412	1 110
Other investing cash inflows	1 050	8 249	0	2 000
Payments for property, plant and equipment, investment property, intangible assets and investment property	(41 819)	(240 596)	(22 909)	(63 731)
Net cash outflow to acquire subsidiaries	0	0	0	(563 640)
Increase in share capital of related parties	0	(10)	0	0
Net cash used in investing activities	**(35 746)**	**(224 152)**	**(3 290)**	**(602 728)**
FINANCING ACTIVITIES				
Proceeds from borrowings	0	0	0	476 445
Issue of bonds	200 000	200 000	0	300 000
Proceeds from shareholder	0	17 286	0	0
Dividends and other payments to owners	(69 116)	(69 116)	(69 116)	(69 116)
Repayment of borrowings	0	(19 039)	(330)	(300 330)
Interest paid and other financing cash outflows resulting from received borrowings	(1 058)	(3 700)	(1 310)	(9 441)
Interest paid and other financing cash outflows resulting from issue of bonds	(607)	(4 834)	(999)	(1 078)
Net cash generated from/(used in) financing activities	**129 219**	**120 597**	**(71 755)**	**396 480**
Change in cash and cash equivalents	**211 910**	**175 957**	**38 777**	**33 629**
Effects of exchange rate changes on the balance of cash held in foreign currencies	(1 666)	(1 037)	0	(3 063)
Cash and cash equivalents at the beginning of the period	**236 359**	**271 683**	**231 292**	**239 503**
Cash and cash equivalents at the end of the period	**446 603**	**446 603**	**270 069**	**270 069**

4 COMMENTS ON THE ORBIS GROUP RESULTS

4.1 External environment

Continued recovery in the mood of anxiety on global markets

The pace of economic growth in the countries of Central and Eastern Europe has slowed down after a period of dynamic growth. It is above all attributable to a decline in investments, particularly in the construction industry, in connection with a temporary decrease in the inflow of EU funding which intensively supported infrastructural investments in the past years. In the face of the reduced investments and moderate rate of foreign demand increase, private consumption proved to be the most important source of growth. The situation in UK connected with the outcome of the BREXIT referendum also had an adverse impact upon the economic environment.



Source: Eurostat, International Monetary Fund, World Economic Outlook, October 2016 (2016-2017 projection)

High turnover of the manufacturing sector in Poland and in the region

The value of PMI which is the litmus paper of the business trends remained positive. In Poland PMI was at 52.2 at the end of September. Acceleration was reported after a weak start of the third quarter, fuelled by increased inflow of exports contracts. Also in the Czech Republic and in Hungary the PMI remained above 50 points, which indicates an increase in industrial turnover.

Improvement in the labour market

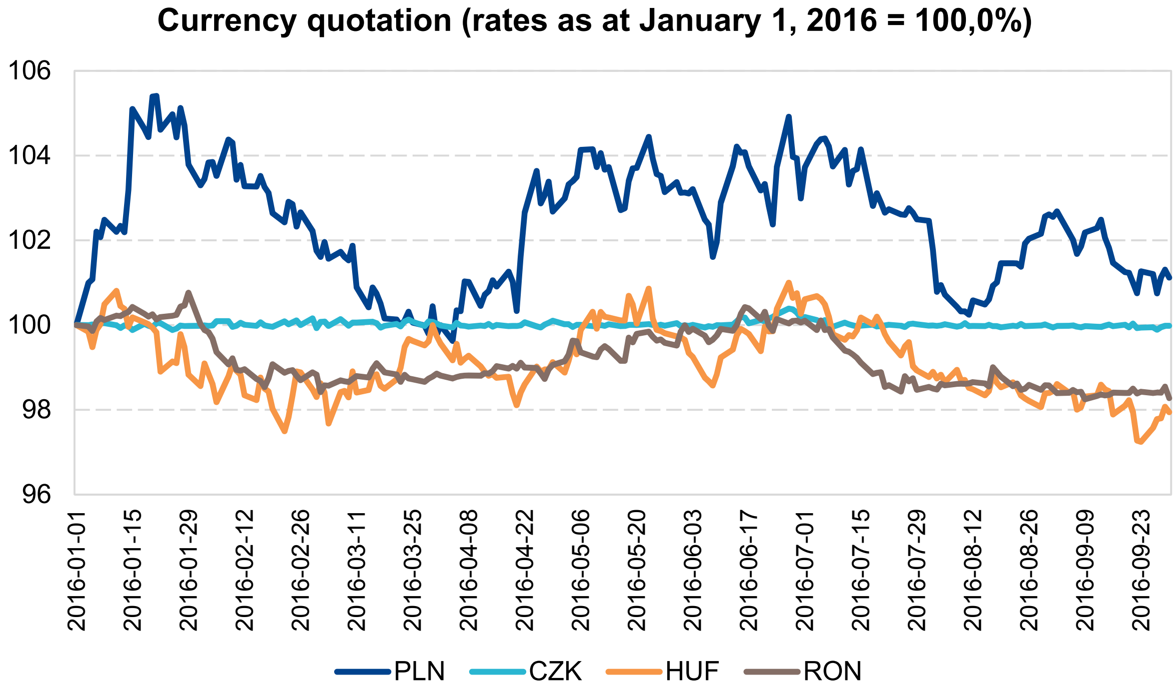
The labour market continued to go up. In most countries of the region a steep decline of the unemployment rate as compared to the same period in the past year was reported in the third quarter, which translates into a single-digit unemployment rate. In some economies (in Poland, Czech Republic, Romania and Hungary) the unemployment rate reached the all-time lows in history. On the Polish market, due to a low unemployment rate (8.5% at the end of September 2016) and a high number of job offers, wages and salaries growth acceleration is expected.

Intensified deflation at the start of the year

In most countries of the region deflation was primarily the result of a decline in energy commodities' prices on world markets, which translated into a drop of energy prices. The deflation that has been lasting for a long time now in Poland (it is now 26 months since the rate has turned negative) does not as yet have a negative impact on decisions of business operators. Inflation expectations remain low.

Weakening of currencies against the EUR

The deteriorated growth prospects and global sentiment have adversely affected currencies of the region versus the euro in the third quarter of 2016. Despite this unfavourable change, fluctuations have not been significant. In September the PLN/EUR rate fluctuated around PLN 4.30, which by historical standards means a typical "weak zloty". Limited currency volatility in the countries of Central and Eastern Europe is partially a upshot of the fact that this time the source of increased risk in the world is the major business partner of the countries in the region, that is the Euroland. Solid macroeconomic data coming from the United States may adversely impact the currency market in the future.



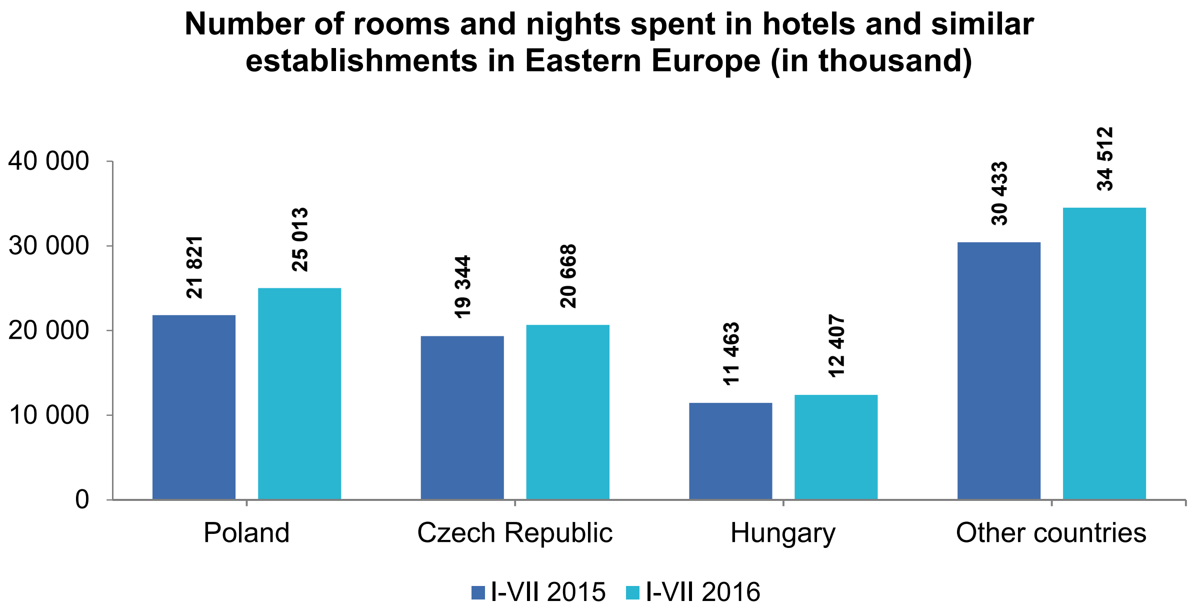
Source: Thomson Reuters

Forecasts indicate stabilization of the pace of economic growth

Faster private consumption increase than increase of the purchasing power associated with the decline in commodity prices is a sign of very good business trend. Increased growth of consumption in the countries of the region can be explained by the fact that the decline in energy prices was accompanied by a clear improvement in the labour markets preferably translating into consumer sentiment as well as easing of both fiscal and monetary policies. On the Polish market, the '500+' program launched in April gave an additional boost to consumption. It is estimated that this program may drive consumer demand by PLN 8.5 billion in 2016, pushing consumption growth to almost 5% y/y (from approx.3%).

Hotel market

In the first nine months of 2016 the operating ratios of hotels from major cities of Central and Eastern Europe improved. Both the Occupancy Rate and Average Room Rate rose in most capitals of countries where the Orbis Group operates.



Source: Eurostat

From among the cities where Orbis Group hotels are located, the highest increase in occupancy rate as compared to the past year was reported in Wrocław (+6.3 pp as compared to 9 months of 2015). It is attributable to the growing attractiveness of this city both as a business and tourist destination – Wrocław is the 2016 European Capital of Culture. Considerable increases in occupancy rates have also been reported on the Poznan market, where the local tourist organisation PLOT operates with robust strength (+5.3 pp as compared to 9 months of 2015). A major increase in occupancy has also been reported by hotels in Bratislava and Bucharest (+4.7 pp and +3.7 pp respectively), while Budapest reported a minor drop (-1.0 pp). The highest hotel occupancy levels in the 9 months of 2016 have been achieved in Kraków, Warszawa, Tri-City and Prague (above 75%).

In the reporting period the average room rates rose in the region as well. The sharpest increase was observed in Wrocław (+14.6%) and Kraków (+13.2%) as compared to the corresponding period of 2015).

Figures for the first nine months of 2016 confirm the persistent considerable differences in revenue per available room (RevPAR) on the hotel market of Eastern Europe. The steepest increase in RevPAR of approx. 25.3% was reported in Tri-City and Wrocław (a result of relatively high price and occupancy). Among the CEE cities where the Group operates, high RevPAR was reported in hotels in Bratislava, Bucharest and Sofia.

4.2 Important events of 9 months of 2016

On January 13, 2016, Orbis S.A. executed a preliminary sale agreement concerning:
a) an organised part of the enterprise formed by the Mercure Mrągowo Resort & SPA Hotel located at ul. Giżycka 6 in Mrągowo (the "OPE Mrągowo Hotel");
b) the real property on which the OPE Mrągowo Hotel is operated (the "Real Property").

The total value of the sale transaction of the OPE Mrągowo Hotel and the Real Property was agreed at a net sum of PLN 20 000 thousand and it covers the price for the sale of the OPE Mrągowo Hotel, the price for the sale of the Real Property and the rent for the lease of the Real Property. The above amount includes:
1) The price for the purchase of the OPE Mrągowo Hotel amounting to PLN 400 thousand. Down-payment equal to the entire price was paid on the date of execution of the Preliminary Agreement.
2) The rent for the lease of Real Property for the period until the execution of final Real Property sale agreement in a maximum total amount of PLN 1 000 thousand.
3) Price for the purchase of the Real Property amounting to PLN 18 600 thousand. The said amount shall be paid in accordance with the following arrangements:
    a) on the date of execution of the Preliminary Agreement, the Buyer made a down-payment of PLN 3 100 thousand,
    b) the sum of PLN 4 000 thousand shall be paid by the Buyer prior to the signing of the final Real Property sale agreement (of which amount PLN 500 thousand was paid by the Buyer on May 19, 2016),
    c) the sum of PLN 11 500 thousand shall be paid in instalments, by December 31, 2019. Payment of this amount shall be secured by mortgage established on the Real Property.

On February 29, 2016, in accordance with the terms and conditions of the preliminary sale agreement dated January 13, 2016, between Orbis S.A. (as the Seller) and DEPORIUM INC Sp z o.o. with its registered address in Raszyn (the "Buyer") executed a sale agreement (the "Sale Agreement") of an organised part of the enterprise, namely the "Mercure Mrągowo Resort & SPA" (the "OPE Mrągowo Hotel"), with the exception of the real properties on which the OPE Mrągowo Hotel is located ("Real Properties"). Acquisition of the Mrągowo Hotel took place in accordance with the terms and conditions laid down in the preliminary sale agreement, that is for a net purchase price of PLN 400 thousand.

Simultaneously with the execution of the Sale Agreement the following agreements executed by Orbis S.A. and the Buyer came into force:
- the Real Properties lease agreement, which is binding as from the date of signing of the Sale Agreement until December 31, 2016, not later however than until the date of execution of the final Real Properties sale agreement. According to the terms and conditions of the lease agreement, the total lease rent payable to the Seller for a term of 10 months shall be equal to a net sum of PLN 1 million, and if the final sale agreement of the Real Properties is executed before the expiry of the term of 10 months, then the value of the rent payable until the end of the agreed lease term (i.e. December 31, 2016) shall be added to the purchase price of the Real Properties;
- the franchise agreement, under which the Buyer shall continue to operate the OPE Mrągowo Hotel under the "Mercure" brand.

Furthermore, Orbis S.A. and the Buyer remain bound by the preliminary sale agreement of the Real Properties, according to which the final sale agreement shall be executed by December 31, 2016.

On the 17 February 2016, in performance of the preliminary sale agreement signed on 24 November 2015, the subsidiary company, in which Orbis S.A. holds 99.92% of shares - Accor-Pannonia Hotels Zrt., a private company limited by shares incorporated under the laws of Hungary, with its corporate seat in Budapest, concluded with Flums Korlátolt Felelősségű Társaság, a limited liability company incorporated under the laws of Hungary, with its corporate seat in Budapest, the final sale agreement under which Accor-Pannonia Hotels Zrt. acquired:
- the properties situated in Budapest, including the Ibis Budapest Heroes Square hotel building (having 139 rooms) with furniture, fixtures and equipment of this hotel and
- the property situated in Budapest including the Mercure Budapest City Center hotel building (having 227 rooms) with furniture, fixtures and equipment of this hotel, hereinafter jointly referred as ("Hotels").

The aggregate price for acquisition of the Hotels (with furniture, fixtures and equipment) amounted to EUR 27,500 thousand net. The payment of part of the price in the amount of EUR 16,000 thousand was financed from a loan granted to Accor-Pannonia Hotels Zrt. by the Hekon-Hotele Ekonomiczne S.A. (at present Orbis S.A.)

The aim of the acquisition of the Hotels (with furniture, fixtures and equipment) is optimization of hotel business conducted by Orbis S.A., including elimination of costs associated with leasing of the Hotels.

On July 29, 2016, Orbis.S.A. issued 200 thousand ordinary bearer bonds of ORB B 290721 series, of a nominal value of PLN 1 000 each and of a total nominal value of PLN 200 000 thousand. The issue price of bonds is equal to their nominal value. For more information about bonds issued please refer to point 5.11 and to current reports no. 31/2016, 32/2016, 33/2016, 35/2016, 36/2016, 41/2016 and 42/2016.

In August 2016, in connection with the sale agreement executed on December 21, 2015 concerning the real property located in Warsaw at ul. Bitwy Warszawskiej 1920 r., Orbis S.A. has been informed by the buyer about the receipt by him of the building permit. In connection with the foregoing, pursuant to the real property sale agreement, the sale price payable to Orbis S.A. was adjusted in such a way so that the buyer paid to Orbis an additional net amount of PLN 4 420 thousand, which gives a total real property net purchase price of PLN 26 420 thousand (please refer to current report no. 37/2016).

On September 1, 2016, a merger of subsidiaries, i.e. Orbis S.A. ("Merging Company") with Hekon-Hotele Ekonomiczne S.A. ("Merged Company"), was entered in the National Court Register. The objective of the planned Merger is to streamline the organisational structure of the Orbis Group. The Merger will also allow optimizing and centralizing tasks and functions, and in consequence improving the Group's management process. For more information about bonds issued please refer to point 8.4 and to current reports no. 14/2016, 16/2016, 17/2016, 21/2016, 23/2016 and 38/2016.

On September 15, 2016, its subsidiary company - UAB Hekon with its registered office in Vilnius (the "Buyer") - concluded with UAB Merko bustas with its registered office in Vilnius (the "Seller"), a preliminary purchase agreement of "ibis" hotel building and parking premises ("ibis Hotel"), which will be built by the Seller on the plot of land located at Ceikiniu 3, Vilnius, in accordance with Buyer's conception. The "ibis" Hotel will have 164 rooms, a restaurant, a bar and 2 meeting rooms and will be compliant to Accor standards.

The final purchase agreement will be executed upon fulfilment by the Seller of all terms and conditions provided in the Preliminary Agreement, related in particular to construction and obtaining a use permit of the "ibis" Hotel and ensuring that "ibis" Hotel will be free of any encumbrances. The final purchase agreement shall be executed by June 30, 2018. The total purchase price for the "ibis" Hotel shall not exceed a net sum of EUR 8 526 thousand plus VAT. The purchase price will be paid according to the conditions and dates settled in the Preliminary Agreement (please refer to current report no. 39/2016).

Moreover, on September 29, 2016, Orbis S.A. executed with an individual investor a preliminary sale and purchase agreement of an organized part of the enterprise of the Mercure Opole Hotel located at Aleja Krakowska 57/59 in Opole (the "Hotel") for a net price of PLN 10 500 thousand. The preliminary agreement provides that the final sale agreement shall be executed by November 30, 2016, subject to the consent of the Orbis's General Meeting of Shareholders for the sale of the Hotel. The payment of the sale price by the Buyer shall be made in accordance to the following arrangements:

- 10% of the net sale price, that is PLN 1 050 000 (one million fifty thousand Polish zloty) was paid as an earnest money to the account of the Issuer prior to the signing of the preliminary agreement,
- the remaining 90% of the net sale price, that is PLN 9 450 000 (nine million four hundred fifty thousand Polish zlotys) shall be paid no later than 3 (three) days from the date of execution of the final sale agreement.

Moreover, in connection with the above transaction, a franchise agreement was signed under which, after finalization of the sale, the Hotel shall continue to operate under the "Mercure" brand. According to the franchise agreement, the Parties also agreed that the Buyer (the franchisee) shall be entitled to entrust the management of the Hotel to Hotel De Silva sp. o.o. with its registered office in Piaseczno (please refer to current report no. 40/2016).

(figures quoted in PLN thousand, unless otherwise stated)

4.3 Operating activities

4.3.1 Hotel portfolio of the Orbis Group

The Orbis Group is the largest hotel operator in Poland and in Central & Eastern Europe. As at the end of March 2016, the Group's network comprised a total of 117 hotels with nearly 19.8 thousand rooms. The majority of these hotels (71 establishments) operate in Poland.

Hotel portfolio	Sep. 30, 2016	Jun. 30, 2016	Dec. 31, 2015	Sep. 30, 2015	Sep. 30, 2016 / Dec. 31, 2015	Sep. 30, 2016 / Sep. 30, 2015
Number of hotels, of which:	**117**	**114**	**108**	**107**	**8.3%**	**9.3%**
Owned and leased hotels	81	79	79	79	2.5%	2.5%
Managed hotels	10	10	10	10	0.0%	0.0%
Franchised hotels	26	25	19	18	36.8%	44.4%
Number of rooms, of which in:	**19 779**	**19 403**	**18 824**	**18 679**	**5.1%**	**5.9%**
Owned and leased hotels	15 412	15 092	15 298	15 298	0.7%	0.7%
Managed hotels	1 571	1 571	1 570	1 570	0.1%	0.1%
Franchised hotels	2 796	2 740	1 956	1 811	42.9%	54.4%

4.3.2 Operating ratios

Owned hotels[1]

During nine months of 2016, the Revenue per Available Room (RevPAR) in owned hotels of the Orbis Group stood at PLN 171.9, i.e. was by 11.2% higher compared to the like-for-like figures for nine months of 2015. In the third quarter of 2016 the Revenue per Available Room in owned hotels of the Orbis Group reached PLN 203.3, i.e. it grew by 12.8% as compared to the past year.

During nine months of 2016, the average Revenue per Available Room ranged from PLN 126 in economy hotels to PLN 196.8 in hotels of the Up&Midscale segment and from PLN 117.1 to PLN 174.7 respectively, during the same period of the past year (like-for-like). RevPAR growth is attributable in particular to higher average room rates (ARR growth rate in economy hotels by 7.3% and by 8.3% in hotels of the Up&Midscale segment) as well as higher occupancy as compared to nine months of 2015 (increase of occupancy by 0.3 pp in economy hotels and by 2.8 pp in hotels of the Up&Midscale segment). Revenue per Available Room in the third quarter of the year was higher than the nine-month average and stood at PLN 147.0 in economy hotels and PLN 233.3 in 3-star hotels and upscale segment hotels.

RevPAR figures of owned hotels differed also across geographical segments. Hotels in all the regions reported growth in RevPAR, both during 9 months of 2016 and during the third quarter of the year as compared with the corresponding periods of the past year (like-for-like figures). During the period of 9 months, hotels operating in other countries (Lithuania, Romania and Slovakia) reached the highest revenue level of PLN 219.9 per one available room (up by 13.2% as compared with the past year). RevPAR in hotels operating in the Czech Republic equalled PLN 191.3, in Hungary PLN 182.7, which represents an increase by 10.9% and 10.1% respectively as compared to nine months of 2015. Hotels of the Orbis Group located in Poland reported RevPAR of PLN 162.5, which means an increase by 11.4%. Due to the seasonality of sales in the hospitality industry, all the geographical regions in which the Orbis Group operates, reached higher RevPAR in the third quarter of 2016 than for the period of 9 months of the year. The RevPAR dynamics in the third quarter equalled 12.9% in hotels located in other countries, 14.5% in hotels located in Poland, 12.6% in Czech hotels and 8.8% in the Hungarian hotels.

[1] Include results of owned and leased hotels of the following companies: Orbis S.A., UAB Hekon, Katerinska Hotel s.r.o., Accor Pannonia Hotels Zrt., Accor Pannonia Slovakia, Accor Hotels Romania S.R.L.

(figures quoted in PLN thousand, unless otherwise stated)

Increase of foreign currency average exchange rates during nine months of 2016 also had a positive impact upon the level of the reported RevPAR of hotels located abroad as compared to fx rates for 9 months of 2015 (please refer to Section 5.9).

Operating ratios of owned hotels by main category	9 months of 2016	9 months of 2015	change (%)	9 months of 2016	9 months of 2015	change (%)
	As reported			like-for-like		
Orbis Hotel Group						
Occupancy rate (%)	73.2	71.0	2.2 p.p.	73.2	71.2	2.0 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	235.0	216.2	8.7%	235.0	217.1	8.2%
Revenue per Available Room (RevPAR) in PLN	171.9	153.5	12.0%	171.9	154.6	11.2%
Economy Hotels						
Occupancy rate (%)	74.0	74.2	-0.2 p.p.	74.8	74.5	0.3 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	168.2	156.9	7.2%	168.6	157.2	7.3%
Revenue per Available Room (RevPAR) in PLN	124.5	116.4	7.0%	126.0	117.1	7.6%
Up & Midscale Hotels (3 stars and more)						
Occupancy rate (%)	72.7	69.6	3.1 p.p.	73.1	70.3	2.8 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	268.8	243.7	10.3%	269.3	248.6	8.3%
Revenue per Available Room (RevPAR) in PLN	195.5	169.7	15.2%	196.8	174.7	12.7%

Operating ratios of owned hotels by main category	Q3 2016	Q3 2015	change (%)	Q3 2016	Q3 2015	change (%)
	As reported			like-for-like		
Orbis Hotel Group						
Occupancy rate (%)	84.1	82.0	2.1 p.p.	84.2	82.2	2.0 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	241.5	218.4	10.6%	241.5	219.3	10.1%
Revenue per Available Room (RevPAR) in PLN	203.2	179.0	13.5%	203.3	180.2	12.8%
Economy Hotels						
Occupancy rate (%)	83.5	82.6	0.9 p.p.	84.5	83.8	0.7 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	174.1	158.7	9.7%	173.9	159.5	9.0%
Revenue per Available Room (RevPAR) in PLN	145.3	131.0	10.9%	147.0	133.6	10.0%
Up & Midscale Hotels (3 stars and more)						
Occupancy rate (%)	84.4	81.7	2.7 p.p.	84.5	81.9	2.6 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	276.4	245.5	12.6%	276.2	249.8	10.6%
Revenue per Available Room (RevPAR) in PLN	233.4	200.5	16.4%	233.3	204.7	14.0%

(figures quoted in PLN thousand, unless otherwise stated)

Operating ratios of owned hotels by geographical segment	9 months of 2016	9 months of 2015	change (%)	9 months of 2016	9 months of 2015	change (%)
	As reported			like-for-like		
Poland						
Occupancy rate (%)	72.1	69.2	2.9 p.p.	72.1	69.4	2.7 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	225.4	208.9	7.9%	225.3	210.2	7.2%
Revenue per Available Room (RevPAR) in PLN	162.6	144.5	12.5%	162.5	145.9	11.4%
Hungary						
Occupancy rate (%)	73.3	73.1	0.2 p.p.	73.3	73.1	0.2 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	249.3	227.1	9.8%	249.3	227.1	9.8%
Revenue per Available Room (RevPAR) in PLN	182.7	166.0	10.1%	182.7	166.0	10.1%
Czech Republic						
Occupancy rate (%)	75.2	75.7	-0.5 p.p.	75.2	75.7	-0.5 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	254.3	228.0	11.5%	254.3	228.0	11.5%
Revenue per Available Room (RevPAR) in PLN	191.3	172.5	10.9%	191.3	172.5	10.9%
Other countries						
Occupancy rate (%)	83.4	80.0	3.4 p.p.	83.4	80.0	3.4 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	263.8	242.9	8.6%	263.8	242.8	8.6%
Revenue per Available Room (RevPAR) in PLN	219.9	194.2	13.2%	219.9	194.2	13.2%

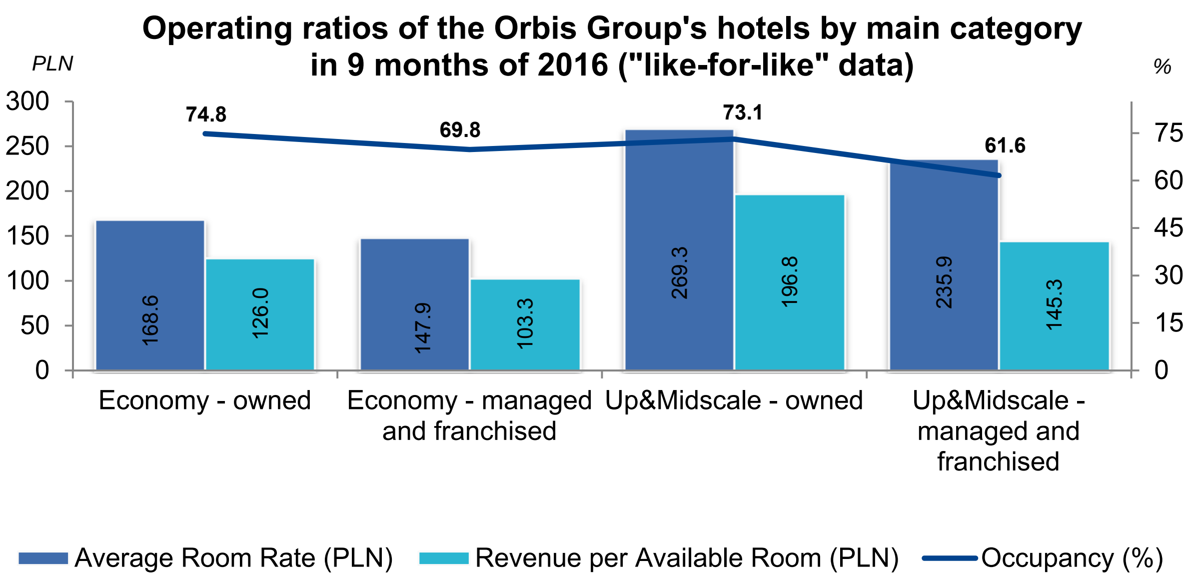
Operating ratios of owned hotels by geographical segment	Q3 2016	Q3 2015	change (%)	Q3 2016	Q3 2015	change (%)
	As reported			like-for-like		
Poland						
Occupancy rate (%)	81.4	78.3	3.1 p.p.	81.4	78.4	3.0 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	233.0	210.1	10.9%	232.9	211.3	10.2%
Revenue per Available Room (RevPAR) in PLN	189.6	164.4	15.3%	189.7	165.7	14.5%
Hungary						
Occupancy rate (%)	89.9	90.1	-0.2 p.p.	89.9	90.1	-0.2 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	250.6	229.6	9.1%	250.6	229.6	9.1%
Revenue per Available Room (RevPAR) in PLN	225.3	207.0	8.8%	225.3	207.0	8.8%
Czech Republic						
Occupancy rate (%)	87.8	88.2	-0.4 p.p.	87.8	88.2	-0.4 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	267.5	236.6	13.1%	267.5	236.6	13.1%
Revenue per Available Room (RevPAR) in PLN	235.0	208.7	12.6%	235.0	208.7	12.6%
Other countries						
Occupancy rate (%)	90.3	87.8	2.5 p.p.	90.3	87.8	2.5 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	264.0	240.5	9.8%	264.0	240.5	9.8%
Revenue per Available Room (RevPAR) in PLN	238.5	211.2	12.9%	238.5	211.2	12.9%

The following factors contributed to the growth in Revenue per Available Room reported in Q3 2016:

- **Increase in the occupancy rate.**

  In the third quarter of 2016, high level of own hotel occupancy was reported across the entire Orbis Group. The average occupancy was 84.2%, which means an increase by 2.0 pp as compared with the third quarter of 2015 (like-for-like).
  When broken down to geographical segments, the highest room occupancy was reported in hotels operating in Lithuania, Romania and Slovakia (90.3%). Increase in the occupancy rate in the other countries equalled 2.5 pp. Hotels located in Poland reported occupancy of 81.4% in the third quarter of the year (increase by 3.0 pp in comparison to the past year). High level of occupancy has also been reported by hotels operating in Hungary and in the Czech Republic (by respectively 89.9% and 87.8%), and these hotels reported a slight decrease in occupancy as compared to the third quarter of 2015 (-0.2 pp in Hungary and -0.4 pp in the Czech Republic).
  In terms of business segments, economy hotels and Up&Midscale hotels reported hotel occupancy rate at the same level of 84.5%. The average occupancy rate in the Up&Midscale hotels was up by 2.6 pp as compared to the third quarter of the past year, while in the economy segment, hotel occupancy increased by 0.7 pp.

- **Increase in the Average Room Rate (ARR)**
  In the third quarter of 2016, customers of hotels in the Orbis Group paid on average PLN 241.5 per room, i.e. 10.1% more as compared with the like-for-like figures for the third quarter in the past year. The least amount was paid on average by guests for rooms in hotels located in Poland (PLN 232.9 per room night), i.e. by 10.2% more than in the comparable period of 2015. On the other hand, the highest ARR rate was achieved by hotels in the Czech Republic (PLN 267.5 per room). Hotels operating in the Czech Republic have also reported the highest growth dynamics of 13.1%. Clients of hotels located in Hungary paid on average PLN 250.6 per night (increase by 9.1% as compared to the third quarter of 2015) and the ARR in other countries amounted to PLN 264.0 (growth dynamics of 9.8%). In the third quarter of 2016, an increase in average room rates in certain business segments was reported. In the economy hotel segment, the average room rate totalled PLN 173.9, which gives a 9.0% increase as compared to the third quarter of 2015. On the other hand, the average rate in the Up&Midscale hotel segment equalled PLN 276.2 (growth by 10.6% versus the third quarter last year).



(figures quoted in PLN thousand, unless otherwise stated)

Managed and franchised hotels

As at the end of September 2016, the Orbis Group network comprised of 36 hotels operating on the basis of franchise or management agreements. At the end of the past year, the Group's portfolio comprised in aggregate 28 managed or franchised hotels.

During the period of 9 months of 2016, the Revenue per Available Room in managed or franchised hotels stood at PLN 124.2 i.e. was by 15.0% higher as compared to like-for-like figures for 9 months of 2015. Revenue per Available Room ranged from PLN 103.3 in economy hotels to PLN 145.3 in Up & Midscale hotels. In the third quarter of 2016, the RevPAR in managed or franchised hotels stood at PLN 139.3.

The Average RevPAR generated by managed or franchised hotels differed substantially across geographical segments. Hotels operating in Hungary reported the highest RevPAR of PLN 224.3 (like-for-like figures). The lowest RevPAR was reported in hotels operating in the Czech Republic (PLN 87.0). Hotels located in other countries slightly outdid the Group's average RevPAR (PLN 134.5) and reported the highest growth rate of 15.9% as compared to figures for 9 months of 2015. Polish hotels of the Orbis Group generated Revenue per Available Room at the level of PLN 102.6, i.e. by 13.2% higher than in the corresponding period of the past year. In Q3 of the year hotels located in Poland and in the Czech Republic reported substantially high RevPAR increases of 22.0% and 19.0% respectively. It is the result of growth of the average room rate.

Operating ratios of managed and franchised hotels by main category	9 months of 2016	9 months of 2015	change (%)	9 months of 2016	9 months of 2015	change (%)
	as reported			like-for-like		
Orbis Hotel Group						
Occupancy rate (%)	62.8	59.6	3.2 p.p.	65.7	59.7	6.0 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	184.6	180.9	2.0%	188.9	181.0	4.4%
Revenue per Available Room (RevPAR) in PLN	115.9	107.8	7.5%	124.2	108.0	15.0%
Economy Hotels						
Occupancy rate (%)	64.4	62.1	2.3 p.p.	69.8	62.2	7.6 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	147.0	140.3	4.8%	147.9	139.7	5.9%
Revenue per Available Room (RevPAR) in PLN	94.7	87.2	8.6%	103.3	86.9	18.9%
Up & Midscale Hotels (3 stars and more)						
Occupancy rate (%)	61.0	57.0	4.0 p.p.	61.6	57.1	4.5 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	226.9	226.2	0.3%	235.9	226.6	4.1%
Revenue per Available Room (RevPAR) in PLN	138.4	129.0	7.3%	145.3	129.5	12.2%

(figures quoted in PLN thousand, unless otherwise stated)

Operating ratios of managed and franchised hotels by main category	Q3 2016	Q3 2015	change (%)	Q3 2016	Q3 2015	change (%)
	As reported			like-for-like		
Orbis Hotel Group						
Occupancy rate (%)	69.2	68.7	0.5 p.p.	73.4	69.0	4.4 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	184.5	178.7	3.2%	189.9	178.7	6.3%
Revenue per Available Room (RevPAR) in PLN	127.7	122.8	4.0%	139.3	123.4	12.9%
Economy Hotels						
Occupancy rate (%)	71.5	73.4	-1.9 p.p.	80.1	74.2	5.9 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	153.4	145.3	5.6%	155.1	144.0	7.7%
Revenue per Available Room (RevPAR) in PLN	109.8	106.6	3.0%	124.2	106.9	16.2%
Up & Midscale Hotels (3 stars and more)						
Occupancy rate (%)	66.6	63.8	2.8 p.p.	66.6	63.8	2.8 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	221.6	219.6	0.9%	232.0	219.6	5.6%
Revenue per Available Room (RevPAR) in PLN	147.7	140.0	5.5%	154.6	140.0	10.4%

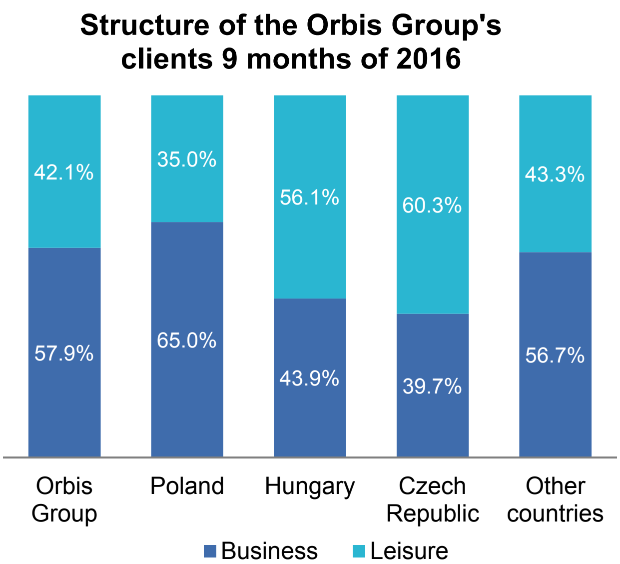
Operating ratios of managed and franchised hotels by geographical segment	9 months of 2016	9 months of 2015	change (%)	9 months of 2016	9 months of 2015	change (%)
	As reported			like-for-like		
Poland						
Occupancy rate (%)	51.4	48.2	3.2 p.p.	52.3	47.9	4.4 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	187.7	188.6	-0.5%	196.3	189.0	3.9%
Revenue per Available Room (RevPAR) in PLN	96.4	90.8	6.2%	102.6	90.6	13.2%
Hungary						
Occupancy rate (%)	76.4	70.6	5.8 p.p.	76.4	74.9	1.5 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	293.5	255.8	14.7%	293.5	263.0	11.6%
Revenue per Available Room (RevPAR) in PLN	224.3	180.5	24.3%	224.3	197.1	13.8%
Czech Republic						
Occupancy rate (%)	56.5	55.0	1.5 p.p.	56.5	55.0	1.5 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	153.9	145.3	5.9%	153.9	145.3	5.9%
Revenue per Available Room (RevPAR) in PLN	87.0	79.9	8.9%	87.0	79.9	8.9%
Other countries						
Occupancy rate (%)	70.9	66.3	4.6 p.p.	73.8	66.3	7.5 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	179.7	174.9	2.7%	182.4	174.9	4.3%
Revenue per Available Room (RevPAR) in PLN	127.4	116.0	9.8%	134.5	116.0	15.9%

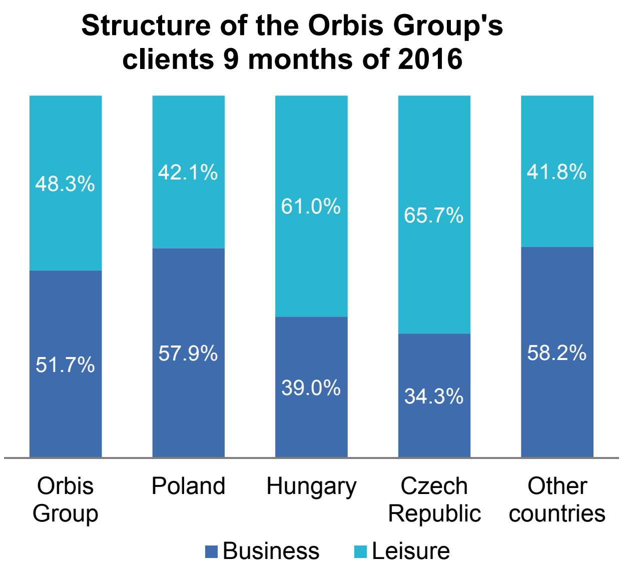
(figures quoted in PLN thousand, unless otherwise stated)

Operating ratios of managed and franchised hotels by geographical segment	Q3 2016	Q3 2015	change (%)	Q3 2016	Q3 2015	change (%)
	As reported			like-for-like		
Poland						
Occupancy rate (%)	57.6	57.0	0.6 p.p.	62.8	57.0	5.8 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	183.1	179.1	2.2%	198.6	179.3	10.8%
Revenue per Available Room (RevPAR) in PLN	105.5	102.1	3.3%	124.7	102.2	22.0%
Hungary						
Occupancy rate (%)	88.4	85.8	2.6 p.p.	88.4	85.8	2.6 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	311.1	286.3	8.7%	311.1	286.3	8.7%
Revenue per Available Room (RevPAR) in PLN	275.0	245.6	12.0%	275.0	245.6	12.0%
Czech Republic						
Occupancy rate (%)	67.6	63.1	4.5 p.p.	67.6	63.1	4.5 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	159.0	143.2	11.0%	159.0	143.1	11.1%
Revenue per Available Room (RevPAR) in PLN	107.5	90.3	19.0%	107.5	90.3	19.0%
Other countries						
Occupancy rate (%)	77.6	75.3	2.3 p.p.	79.0	75.3	3.7 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	181.3	174.8	3.7%	181.6	174.8	3.9%
Revenue per Available Room (RevPAR) in PLN	140.8	131.7	6.9%	143.4	131.7	8.9%

4.3.3 Clients

In the current year business clients accounted for almost 60% of customers of the Orbis Group hotels. They formed the dominant group in the Group's hotels in Poland and in other countries (65.0% and 56.7% of all customers respectively). Conversely, in Czech Republic and Hungary it was tourists who formed the most numerous group of hotel customers, respectively accounting for 60.3% and 56.1% of all customers.



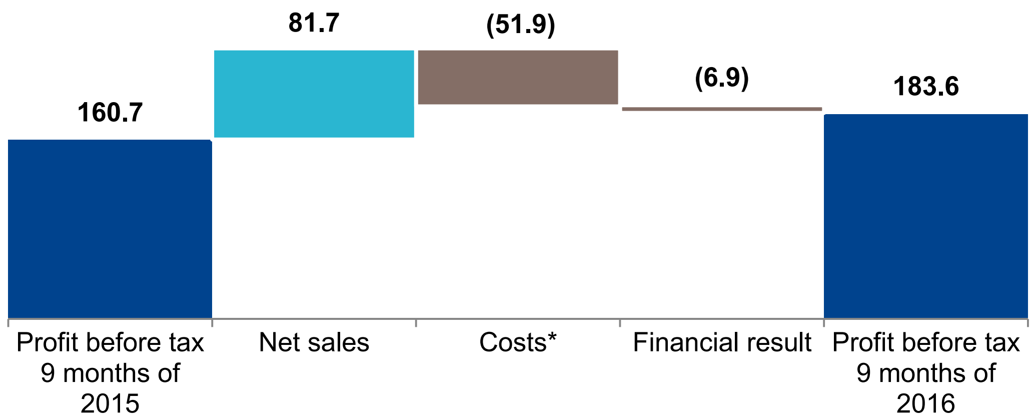


(figures quoted in PLN thousand, unless otherwise stated)

4.4 Financial results

In 9 months of 2016, the Orbis Group generated profit before tax amounting to PLN 183.6 million, while in 9 months of 2015 profit stood at PLN 160.7 million (result improved by 14.3%).

Sources of creation of profit before tax in 9 months of 2016



** Costs including the result from other operating activities*

Income statement – analytical approach	9 months ended Sep. 30, 2016	9 months ended Sep. 30, 2015	change (%)
	As reported		
Net sales	1 036 248	954 529	8.6%
Net sales „like-for-like”	*1 034 660*	*938 536*	*10.2%*
EBITDAR	376 889	339 323	11.1%
Operating EBITDA	302 812	263 253	15.0%
EBITDA „like-for-like”	*302 971*	*261 007*	*16.1%*
Operating loss (EBIT) without the effects of one-off events	192 971	159 307	21.1%
Operating loss (EBIT)	196 342	166 679	17.8%
Net result from financing activities	(12 880)	(6 002)	-114.6%
Profit before tax	183 589	160 664	14.3%

Income statement – analytical approach	Q3 2016	Q3 2015	change (%)
	As reported		
Net sales	396 374	362 903	9.2%
Net sales „like-for-like”	*394 786*	*355 738*	*11.0%*
EBITDAR	163 561	146 163	11.9%
Operating EBITDA	138 523	120 135	15.3%
EBITDA „like-for-like”	*138 682*	*118 214*	*17.3%*
Operating loss (EBIT) without the effects of one-off events	101 534	85 377	18.9%
Operating loss (EBIT)	104 819	95 328	10.0%
Net result from financing activities	(6 282)	(3 180)	-97.5%
Profit before tax	98 725	92 259	7.0%

In 9 months of 2016, the Group's net sales were at the level of PLN 1 036.2 million, i.e. rose by 8.6% as compared to figures for 9 months of 2015.

Positive business trends in the countries of the Central & Eastern Europe where the Orbis Group presently operates, increased demand for hospitality services as well as numerous promotional actions and flexible pricing strategy tailored to the current conditions on each individual market contributed to an increase in the Occupancy Rate and the Average Room Rate and, consequently, the Revenue per Available Room (RevPAR) in the Group's hotels.

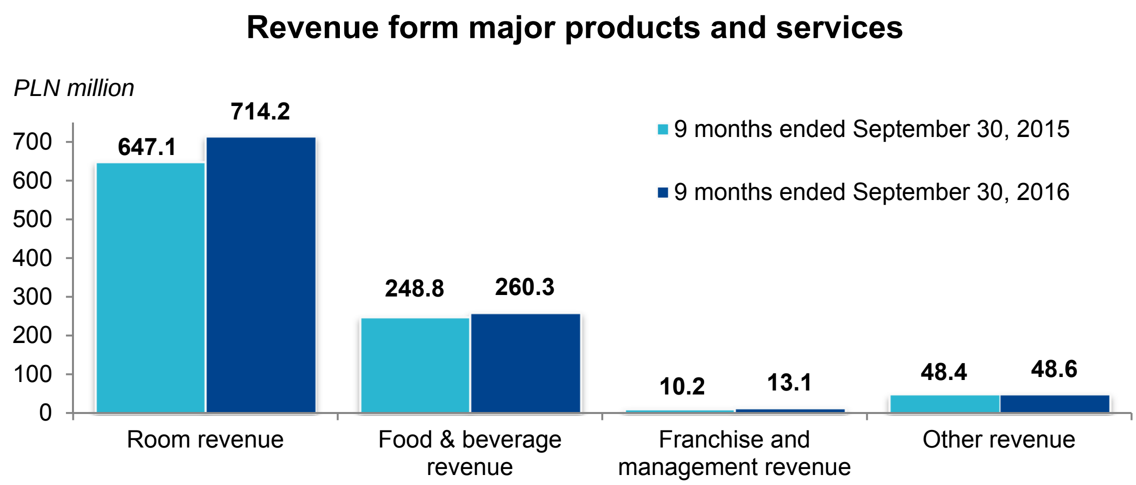
There were no significant changes in the structure of Group's revenue from major products and services versus 9 months of 2015. During three quarters of 2016, room revenue totalled PLN 714.2 million, which accounted for 68.9% of all the Group's revenues. The room revenue increased by 10.4% as compared to the figures for 9 months of the past year.

Growth in the number of guests in Orbis Group hotels had a positive impact on F&B revenue, which stood at PLN 260.3 million across the entire Group, accounting for 25.1% of consolidated revenues. As compared to the data for 9 months of 2015, the F&B revenue increased by 4.6%.

Revenue from franchise and management contributed 1.3% to the Group's. As compared to the figures for 9 months of the past year, revenues from franchise and management grew by 28.4%. In is particularly attributable to the expansion of the Group's hotel portfolio from 18 franchised hotels as at September 30, 2015 to 26 hotels at the end of the third quarter of 2016.

The other revenue, which is mainly derived from lease of property and car park spaces, amounted to PLN 48.6 million and accounted for 4.7% of consolidated revenue in 9 months of 2016.

The structure of Orbis Group sales broken down by products/services in the 1^{st} quarter of 2016 and 2015 was as follows:



In geographic terms, the highest share to the Group's net sales was contributed by hotels located in Poland (62.8%) and in Hungary (22.4%). Net sales generated by hotels in the Czech Republic and in other countries accounted for, respectively, 8.3% and 6.5% of consolidated sales.

In all the markets, the Group reported a significant growth in room revenues as compared to the past year. The greatest growth was achieved in the segment of individual guests travelling for business. This was above all the effect of a flexible pricing strategy and introducing attractive business packages.

A significant growth has also been reported in the MICE segment due to a number of trade fairs, conferences, industry meetings and major sporting events. In Poland, the following events have significantly contributed to the result: the European Men's Handball Championship, IIHF Ice Hockey World Championship Division I in Katowice, the European Economic Congress in Katowice and the NATO summit in Warsaw. In Hungary, the growth of room income was positively influenced by, among others, European Shooting Championship, the OECD Congress, and the Hungarian Grand Prix Formula 1.

The World Youth Days in Krakow and events connected with the celebrations of Wrocław being the European Capital of Culture as well as concerts and festivals held during the summer in a number of cities across Poland and in the capitals of other countries in the region had a positive impact on the revenues achieved by the Group in the current year.

In 2016, food&beverage revenues increased substantially as compared to the past year. Thanks to a greater number of hotel guests, the revenues from breakfasts have gone up. A significant share in the growth of revenue is also attributable to income generated from banquets, conferences and receptions. WineStone restaurants in hotels of the Mercure brand and NOVO^2 w Novotels also generate positive results.

The growing occupancy rate in the Group's hotels in the 9 months of 2016 resulted in an increase in direct operating costs, although the share of individual types of costs in net sales remained unchanged as compared to the past year. The greatest increase was reported in the cost of outsourced services, mainly commissions for sales agents, staff outsourcing costs, laundry and cleaning costs, as well as maintenance and repair costs. Compared to 9 months of 2015, the employee benefits expenses also increased as a result of higher employment, as well as salary and wage increases and growth in bonuses based on financial performance. The higher level of costs of raw materials and energy used is directly connected with higher volume of F&B sales.

Growth in expenses was lower than the revenue growth momentum. Consequently the Group generated EBITDAR of PLN 376.9 million, which translates into an increase by 11.1% versus 9 months of 2015.

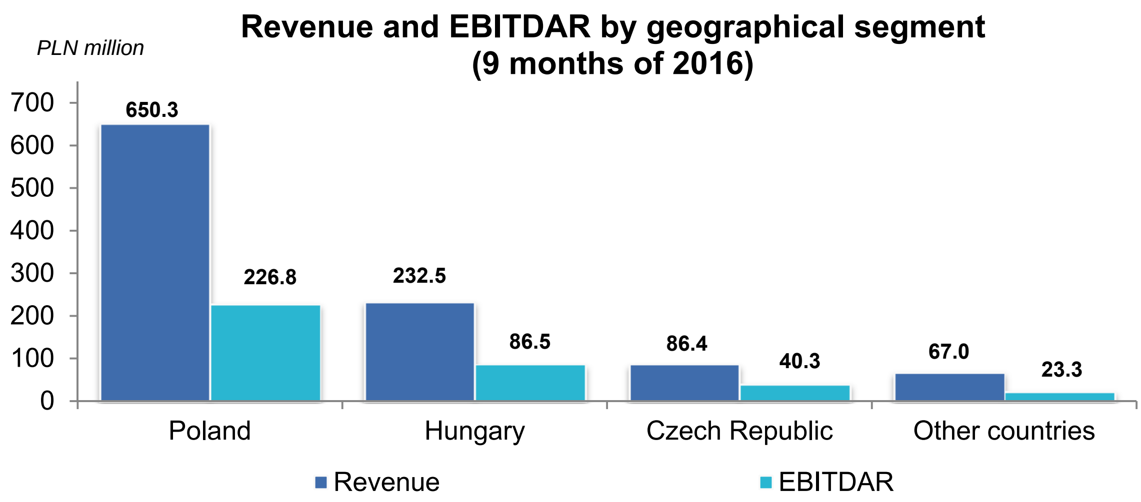
In the reporting period the rental expenses went down, while depreciation and amortisation went up at the same time. It is the result of a buyback transaction of two formerly leased hotels as well as a growth in the value of assets thanks to capital expenditure incurred on new and existing hotels.

As a result of the above, operating **EBITDA grew by 15.0% up to PLN 302.8 million**, while **operating result excluding one-off events amounted to PLN 193.0 million, i.e. improved by 21.1%** against 9 months of 2015.

During the first three quarters of 2016, the Orbis Group reported positive result of PLN 3.4 million from one-off events. Gain of PLN 5.9 million from the sale of real property (including PLN 4.4 million due to increase in the selling price of the real property located at ul. Bitwy Warszawskiej 1920 r. in Warsaw as a result of obtaining the building permit for this property) has been reduced by fixed assets impairment, restructuring costs and costs incurred in connection with the redemption of the leased hotels. As a result, the Group generated operating profit (EBIT) in the amount of PLN 196.3 million (growth by 17.8%).

In the current year, the Group generated lower result on financial activities. In 9 months of 2016, foreign exchange gains on revaluation of balances and transactions in foreign currencies constituted a major part of the finance income.

The Orbis Group ended 9 months of 2016 with a net profit of PLN 151.4 million, so the result was by 17.3% higher compared to figures for 2015.



4.5 Seasonality or cyclicality of operations

Sales of the Orbis Group throughout the year are marked by seasonality. Usually, major value of sales is generated during the third quarter of the year. The second quarter of the year is the second best in terms of contribution to sales volume. The first quarter is the last, in terms of sales.

Net sales	2014		2015		2016	
	PLN `000	% share of annual revenue	PLN `000	% share of annual revenue	PLN `000	% share of annual revenue
1st quarter	128 494	18.2%	229 201	18.2%	247 214	-
2nd quarter	198 290	28.0%	362 425	28.7%	392 660	-
3rd quarter	204 160	28.8%	362 903	28.7%	396 374	-
4th quarter	176 841	25.0%	308 197	24.4%		
Total	**707 785**	**100.0%**	**1 262 726**	**100.0%**	**1 036 248**	-

4.6 Segment reporting

The Orbis Group distinguishes two reportable operating segments:

- Up & Midscale Hotels that comprise hotels of the Sofitel, Pullman, MGallery, Novotel and Mercure brands,
- Economy Hotels that include ibis, ibis budget and ibis Styles hotels.

Unallocated operations comprise revenue and expense of the Head Office (including franchised and managed fees, as well as revenue and expense of investment property rentals) as well as non-recurring and one-off events, such as revaluation of non-financial non-current assets, result on disposal of real property and restructuring costs. Also, current and deferred income tax expense is recognised in unallocated operations (the Group does not calculate income tax for the respective operating segments).

Segment performance is evaluated based on, first and foremost, revenue as well as results at the level of EBIT (operating profit/loss) and EBITDA (operating profit/loss before depreciation & amortisation), with the exclusion of non-recurring and one-off events. Also, incurred capital expenditure is analysed on a regular basis.

Tables below present figures pertaining to revenue, results as well as capital expenditure of the operating segments of the Orbis Group. The figures presented below include the results of owned hotels as well as leased hotels.

(figures quoted in PLN thousand, unless otherwise stated)

9 months of 2016	Operating segments			Consolidated value
	Up & Midscale Hotels	Economy Hotels	Unallocated operations and consolidation adjustments	
Segment revenue, of which:	**795 135**	**217 986**	**23 127**	**1 036 248**
Sales to external clients	795 135	217 986	23 127	1 036 248
EBITDAR	**322 173**	**109 951**	**(55 235)**	**376 889**
Operating EBITDA	**259 181**	**99 976**	**(56 345)**	**302 812**
Depreciation and amortisation	(77 893)	(29 036)	(2 912)	(109 841)
Operating profit/(loss) without the effects of one-off events	**181 288**	**70 940**	**(59 257)**	**192 971**
Result of one-off events	0	0	3 371	3 371
Operating profit/(loss) (EBIT)	**181 288**	**70 940**	**(55 886)**	**196 342**
Share of net profits of associates	0	0	127	127
Finance income/costs	(1 062)	(719)	(11 099)	(12 880)
Income tax expense	0	0	(32 162)	(32 162)
Net profit (loss)	**180 226**	**70 221**	**(99 020)**	**151 427**
Capital expenditure	189 166	45 555	1 621	**236 342**

Q3 2016	Operating segments			Consolidated value
	Up & Midscale Hotels	Economy Hotels	Unallocated operations and consolidation adjustments	
Segment revenue, of which:	**300 742**	**87 338**	**8 294**	**396 374**
Sales to external clients	300 742	87 338	8 294	396 374
EBITDAR	**133 668**	**46 913**	**(17 020)**	**163 561**
Operating EBITDA	**112 426**	**43 497**	**(17 400)**	**138 523**
Depreciation and amortisation	(26 044)	(9 990)	(955)	(36 989)
Operating profit/(loss) without the effects of one-off events	**86 382**	**33 507**	**(18 355)**	**101 534**
Result of one-off events	0	0	3 285	3 285
Operating profit/(loss) (EBIT)	**86 382**	**33 507**	**(15 070)**	**104 819**
Share of net profits of associates	0	0	188	188
Finance income/costs	(292)	(247)	(5 743)	(6 282)
Income tax expense	0	0	(18 676)	(18 676)
Net profit (loss)	**86 090**	**33 260**	**(39 301)**	**80 049**
Capital expenditure	28 895	5 797	832	**35 524**

(figures quoted in PLN thousand, unless otherwise stated)

9 months of 2015	Operating segments			Consolidated value
	Up & Midscale Hotels	Economy Hotels	Unallocated operations and consolidation adjustments	
Segment revenue, of which:	**745 646**	**190 339**	**18 544**	**954 529**
Sales to external clients	745 646	190 339	18 544	954 529
EBITDAR	**293 137**	**96 076**	**(49 890)**	**339 323**
Operating EBITDA	**227 716**	**86 474**	**(50 937)**	**263 253**
Depreciation and amortisation	(75 026)	(26 638)	(2 282)	(103 946)
Operating profit/(loss) without the effects of one-off events	**152 690**	**59 836**	**(53 219)**	**159 307**
Result of one-off events	0	0	7 372	7 372
Operating profit/(loss) (EBIT)	**152 690**	**59 836**	**(45 847)**	**166 679**
Share of net losses of associates	0	0	(13)	(13)
Finance income/costs	(768)	(620)	(4 614)	(6 002)
Income tax expense	0	0	(31 578)	(31 578)
Net profit/(loss)	**151 922**	**59 216**	**(82 052)**	**129 086**
Capital expenditure	40 656	5 376	1 434	**47 466**

Q3 2015	Operating segments			Consolidated value
	Up & Midscale Hotels	Economy Hotels	Unallocated operations and consolidation adjustments	
Segment revenue, of which:	**283 527**	**73 020**	**6 356**	**362 903**
Sales to external clients	283 527	73 020	6 356	362 903
EBITDAR	**124 394**	**38 563**	**(16 794)**	**146 163**
Operating EBITDA	**102 118**	**35 174**	**(17 157)**	**120 135**
Depreciation and amortisation	(24 938)	(8 988)	(832)	(34 758)
Operating profit/(loss) without the effects of one-off events	**77 180**	**26 186**	**(17 989)**	**85 377**
Result of one-off events	0	0	9 951	9 951
Operating profit/(loss) (EBIT)	**77 180**	**26 186**	**(8 038)**	**95 328**
Share of net profits of associates	0	0	111	111
Finance income/costs	(230)	(231)	(2 719)	(3 180)
Income tax expense	0	0	(16 450)	(16 450)
Net profit/(loss)	**76 950**	**25 955**	**(27 096)**	**75 809**
Capital expenditure	16 416	3 192	664	**20 272**

In 9 months of 2016, the revenue of the Up & Midscale segment was by 6.6% higher as compared to the revenue for 9 months of 2015. This growth was driven predominantly by higher occupancy rate (up by 3.1 p.p.) in combination with higher average room rates (by 10,3%).

Revenue of the economy hotel segment rose by 14.5%. The reported rate of growth was attributable to an increase in average room rates (by 7.2%) accompanied by a slight decrease in the occupancy rate (by 0.2 p.p.).

4.7 Statement of financial position

On September 30, 2016, the Group's assets totalled PLN 2 799.6 million and rose by 12.7% comparing to December 31, 2015.

The major components of the Group's assets are non-current assets, out of which the predominant item are property, plant and equipment valued at PLN 2 047.9 million, accounting for 73.1% of assets. Due to the type of business pursued, the major item of property, plant and equipment are buildings and structures as well as land and rights to perpetual usufruct of land. Property, plant and equipment increased by 6.4% as compared with its value as at December 31, 2015. It is above all the result of a buyback of two hotels so far leased (the ibis Budapest Heroes Square and the Mercure Budapest City Center) by a subsidiary, Accor-Pannonia Hotels Zrt. The capital expenditure for the buyback of these hotels totalled PLN 124.0 million. Increase of the value of property, plant and equipment is also attributable to capital expenditure of PLN 112.4 million incurred for development of new hotels and upgrading the standard of the existing hotels. Depreciation and amortisation (PLN 107.1 million) also had an impact upon the value of property, plant and equipment.

Intangible assets (mainly goodwill) valued at PLN 112.6 million also make a major item of non-current assets. Their contribution to the Group's assets runs to 4.0%.

As regards current assets, the most significant changes in 9 months of 2016 occurred with regard to cash and cash equivalents, trade receivables, short-term receivables and short-term financial assets.

At the end of September 2016, the Orbis Group reported total cash and cash equivalents of PLN 446.6 million (16.0% of assets). A growth of this item by 64.4% on December 2015 resulted mainly from cash inflow from the bond issue which took place in the third quarter. The issue value was PLN 200 million.

Increase of trade receivables by 53.1% as compared to December 2015 is the result of a significant growth in the volume of rooms sold in September 2016 against the year end.

The other short-term receivables item comprises predominantly VAT receivables and prepayments. A decrease in the balance of this item from PLN 34.5 million at the end of 2015 to PLN 23.4 million as at September 30, 2016, (change by 32.1%) is attributable to, amongst others, posting of a prepayment, receivable by the Group as at December 31, 2015, in the amount of PLN 5.5 million for buyback of leased hotels, receipt of an instalment (of PLN 3.4 million) for the sale of the Mercure Kasprowy Hotel in Zakopane, as well as a reduction in the value of VAT receivable versus the year end. As at September 30, 2016, the balance of the Group's prepayments is higher as compared to 31 December 2015, mainly due to fees for perpetual usufruct of land.

Short-term financial assets as at December 31, 2015 included a loan granted by Accor-Pannonia Hotels Zrt. to external companies, namely City Budapest Zrt. and Hotel Liget. Zrt. This receivable was received in 2016 as part of the buyback transaction of two hotels located in Budapest.

The Group financed its operating activities predominantly with its own funds. On September 30, 2016, equity amounted to PLN 1 886.2 million (67.4% of equity and liabilities).

As at September 30, 2016, Orbis S.A. had the following non-current liabilities bearing interest:

- liabilities under the bond issue of PLN 501.9 million (17.9% of equity and liabilities),
- borrowings of PLN 105.2 million (3.8% of the balance sheet total),

and current liabilities (borrowings) of PLN 35.3 million (1.3% of equity and liabilities).

On September 30, 2016, the Group's net debt stood at PLN 195.8 million, i.e. accounted for 10.4% of equity.

Increase in the balance of trade payables is connected with higher occupancy than at the end of 2015, resulting in increased purchases in the Group's hotels.

A significant item of current liabilities consists of other current liabilities, including mainly tax and social security liabilities and accrued expenses of employee benefits (also for bonus payments and unused holiday leaves).

A much higher level of deferred revenue as at September 30, 2016 as compared to the year end results predominantly from prepayments received for accommodation services. Moreover, growth of current deferred revenue results from prepayments received against the purchase price of the Mercure Mrągowo Resort & SPA Hotel (PLN 3.6 million) and the Mercure Opole hotel (PLN 1.0 million).

Decline of liabilities associated with tangible assets in 9 months of 2016 results in particular from posting of expenditure incurred for the rebranding of the Orbis Wrocław Hotel into the ibis and Novotel brands, completion of construction works on the newly opened hotels: Mercure Kraków Stare Miasto and ibis Gdańsk Stare Miasto, as well as completion of modernisation works in the following hotels: Mercure Częstochowa Centrum, Mercure Poznań Centrum, Novotel Gdańsk Marina, Novotel Katowice Centrum and Sofitel Warszawa Victoria.

4.8 Statement of changes in equity

On September 30, 2016, equity amounted to PLN 1 886.2 million against PLN 1 783.3 million at the end of 2015.

The retained earnings of the Orbis Group include a net profit of PLN 151.4 million for 9 months of 2016. Increase of retained earnings is also attributable to posting of the payment of EUR 4.0 million (equivalent to PLN 17.3 million) received from Accor S.A. directly to retained earnings. The payment was made in connection with the agreement signed on January 15, 2016 (description in Section 5.17). Also the income tax resulting from this transaction was posted to equity. The dividend paid out for 2015 amounting to PLN 69.1 million had an adverse impact upon the value of retained earnings as at the end of September 2016.

The change in the Group's other reserves in 9 months of 2016 resulted from valuation of the derivative instrument hedging against the risk of interest rate change related to the bond issue of 2015. The information concerning this hedge was provided in Section 5.12.2.

The foreign currency translation reserve of the Group increased from PLN 2.8 million at the end of 2015 up to PLN 9.2 million as a result of translating foreign operations into the currency of presentation (PLN). The level of the foreign currency translation reserve was greatly impacted by the growth of average rates of exchange of foreign currencies as at the end of September 2016 as compared to December 31, 2015 (refer to Section 5.9).

4.9 Statement of cash flows

During first three quarters of 2016, net cash flows of the Orbis Group amounted to PLN 176.0 million (PLN 33.6 million in 9 months of 2015). In the 3rd quarter the change in the balance of cash amounted to PLN 211.9 million (PLN 38.8 million in the same period of 2015) and it resulted from the following factors:

- **Operating activities**
  A considerable rise in sales in 3Q 2016, achieved both thanks to higher prices and increase in occupancy rate, resulted in an improvement of pre-tax earnings and directly in higher operating cash flows compared to last year. Consequently, operating activities during the three months ended September 30, 2016 generated cash flows of PLN 118.4 million.

- **Investing activities**
  In the third quarter cash flows from financing activities have been formed mainly by expenses incurred on property, plant and equipment which totalled 41,8 million and concerned above all renovation works in the following hotels opened in the 3rd quarter: Mercure Kraków Stare Miasto, Novotel Wrocław Centrum and ibis Gdańsk Stare Miasto.
  Expenditures on investing activities were partially offset with the prepayment received for the sale of the Mercure Opole hotel (PLN 1.05 million) and obtaining additional PLN 4.4 million due to increase in the selling price of the real property located at ul. Bitwy Warszawskiej 1920 r. in Warsaw. As a result, in the three months ended on September 30, 2016, the cash flows from investing activities amounted to PLN -35.7 million.
  In 9 months of 2016, cash flows from investing activities amounted to PLN -224.2 million, which was mainly attributable to expenditures on property, plant and equipment in the amount of PLN 240.6 million. Within the frame of the lease buyout transaction of two hotels finalized in the first quarter, the Hungarian subsidiary of Accor Pannonia Hotels Zrt. made payments in the amount of EUR 24.2 million (approx. PLN 107 million).
  Cashflows from investing activities other than those generated in the third quarter include advance payment against the sale of the Mercure Mragowo Resort & Spa Hotel (PLN 3.6 million) and the receipt of the next instalment (PLN 3.4 million) from the sale of the Mercure Kasprowy Hotel in Zakopane.

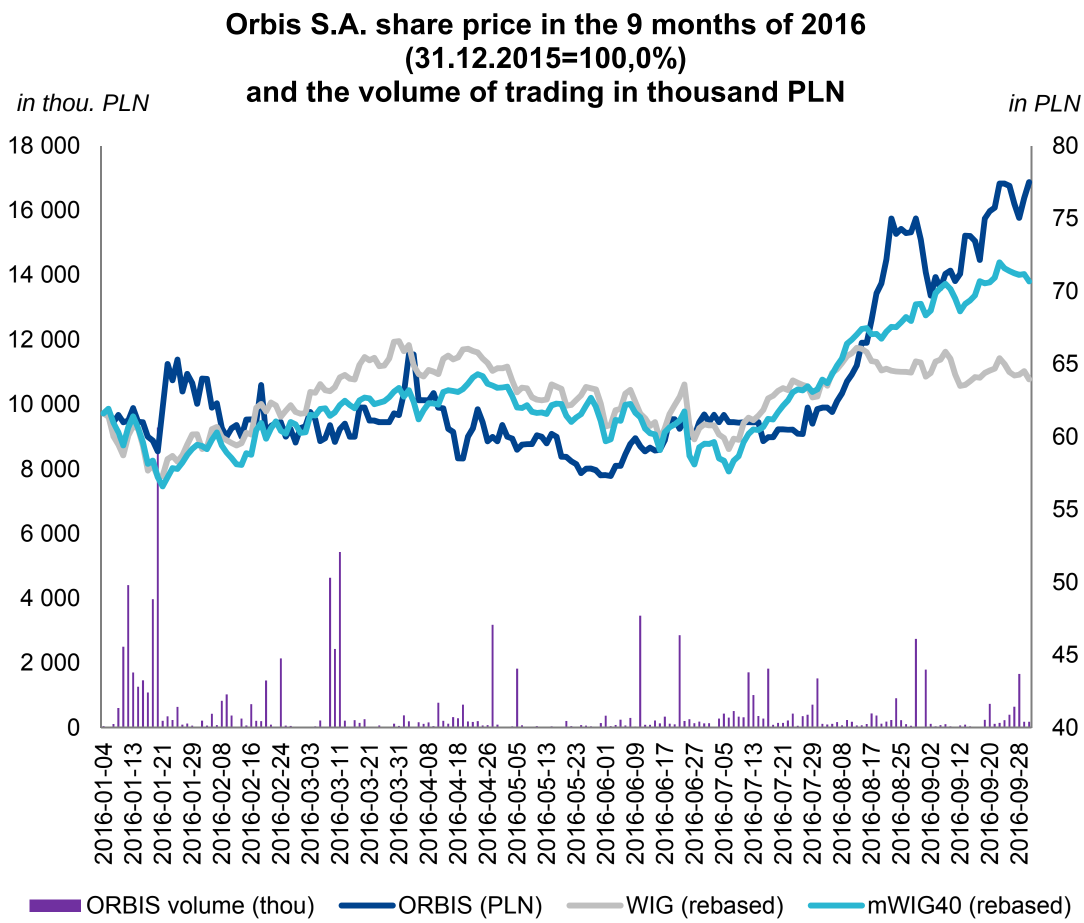
- **Financing activities**

  The issue of two hundred thousand bonds with a total nominal value of PLN 200 million was by the parent company was of crucial importance to the cash flows from financing activities generated in the third quarter of the year. The main item of expenditure was in turn the dividend of PLN 69.1 million paid out by Orbis S.A., and expenses related to external financing in the amount of PLN 1.7 million. As a result, the cash flow achieved in the third quarter was positive and amounted to PLN 129.2 million.

  Throughout the period of 9 months ended September 30, 2016, the Orbis Group generated cash flow from financing activities of PLN 120.6 million, which was affected, apart from the events of the third quarter, also by the receipt of PLN 17.3 million from Accor S.A. and expenses incurred during the first 6 months of 2016 for repayment of the principal of the loan incurred by Orbis S.A., reducing the outstanding balance of the overdraft in the current account by the subsidiary Katerinska Hotels s.r.o. as well as for payment of costs external borrowing by Orbis S.A.

4.10 Share price

In the first period from January 1 till September 30, 2016, the prices of Orbis S.A. shares ranged from PLN 57.30 to PLN 77.50. The spread between the highest and the lowest quotations was PLN 20.2, which accounted for 35% of the lowest price. The Orbis share closing price at the end of the third quarter of 2016 stood 21.2% above the WIG index, and by 9.7% above the mWIG40 index. The shares reached the highest price of PLN 77.50 on September 30, 2016. During 9 months of 2016, the average trading volume in Orbis securities equalled 8.2 thousand shares. Since the start of 2016, the price of Orbis shares rose by 35%.



(figures quoted in PLN thousand, unless otherwise stated)

4.11 Capital expenditure

During 9 months of 2016, capital expenditure of the Orbis Group amounted to PLN 236.3 million (PLN 47.5 million in the corresponding period of past year).

Capital expenditure of the Group	9 months ended Sep. 30, 2016	9 months ended Sep. 30, 2015
Development projects	73 767	28 344
Leased hotels buyback	123 969	0
Other expenditure	38 606	19 122
Total	**236 342**	**47 466**

A major portion of capital expenditure during 9 months of 2016 was appropriated for buyback of two hotels so far leased by Accor-Pannonia Hotels Zrt. The transaction involved the ibis Budapest Heroes Square Hotel (139 rooms) and the Mercure Budapest City Center Hotel (227 rooms). The purpose of leased hotels buyback is to optimise the hotel business of the Orbis Group, in particular to eliminate lease costs. The total net price paid by Accor-Pannonia Hotels Zrt. for the acquisition of the above-mentioned hotels totalled EUR 27.5 million, of which EUR 16.0 million was financed from a loan granted to the Hungarian company by Hekon-Hotele Ekonomiczne S.A.(at present Orbis S.A.)

Expenditure incurred in 2016 was also allocated for Orbis S.A. development projects. A total sum of PLN 73.8 million was appropriated for the following investment projects:

- Mercure Kraków Stare Miasto. The construction of the new hotel was completed in the third quarter of 2016, and in September the hotel was open for guests. The hotel offers 200, 5 conference rooms, a fitness center with a gym and a car park. The hotel was built in accordance with the requirements of the BREEM certification (for green buildings). The total cost of hotel construction incurred in the period 2014 - 2016 amounted to PLN 85 million.
- ibis Gdańsk Stare Miasto. A new hotel of the ibis brand joined the hotel portfolio of the Group in August 2016. This attractively located hotel offers 120 rooms, 3 conference rooms and a car park for guests. Ibis Gdańsk Stare Miasto is the first hotel in Poland which is newly built in line with the green BREEM certification requirements, for which it has been awarded the “Prime Property Prize 2016” in the “Green building” category. The total cost of the hotel construction incurred in the period 2014 - 2016 amounted to PLN 27 million.
- Orbis Wrocław. Within the frame of the ongoing modernization of the former Hotel Orbis Wroclaw hotel and its division into two hotels of different brands, in April 2016 the ibis part of the hotel building was opened for guests and in August the next 7 floors of the building, i.e. the Novotel, opened to visitors. The modernization included the rooms, hallways, conference rooms, the lobby, the restaurant and the fitness room. Following its modernization, ibis offers 112 rooms located on 4 floors, a restaurant, a bar and meeting rooms with a total area of 800 square meters, and Novotel offers 192 modern equipped and air-conditioned rooms, 13 meeting rooms, a restaurant and NOVO^2 bar, a fitness area and car park.
- Novotel Poznań Centrum. Modernization of the hotel planned for the years 2016-2017 involving the division of the hotel and a partial rebranding into ibis has started. In 2016, work was carried out on mock-up rooms and design works. The first stage of modernization started in the third quarter and included signing a contract with the General Contractor of the investment project. The last phase of the modernization project will be launched in the fourth quarter of 2017.

Other expenditure incurred during 9 months of 2016 (PLN 38.6 million) was earmarked for upgrading the standard of hotels operating in the Group and improving security, fire safety and IT expenditure.

(figures quoted in PLN thousand, unless otherwise stated)

The key investment projects implemented in 2016 include modernization and rebranding of the Mercure Budapest Duna and Mercure Budapest Metropol into ibis Styles hotels (ibis Styles Budapest Center and ibis Styles Budapest City). The remaining expenditure was allocated for, amongst others, rearrangement of rooms in the Sofitel Grand Hotel in Sopot, modernisation of conference rooms including FF&E replacement in Novotel Gdańsk Marina and Novotel Poznań Centrum, renovation of a restaurant in the Novotel Kraków City West, modernisation of the lobby, reception and upgrading of the bar to the WineStone standard in the Mercure Poznań Centrum hotel and the Mercure Wrocław Centrum hotel. Major capital expenditure was also allocated for hotels: Sofitel Victoria, Mercure Gdynia Centrum and Novotel Katowice. Modernisation works have also progressed in other selected hotels of the ibis and ibis budget brands.

As regards expenditure on IT, a comprehensive reception systems replacement project was completed in 2016 in all the Orbis Group hotels in Poland. In the fourth quarter of 2016, the project involving a professional WiFi access service based on the latest wireless solutions will be started. In addition to offering top quality of service to guests, investments in WiFi and new iPMS systems render the Orbis Group ready for new projects implemented within the framework of the "Digital Plan" which has been implemented since 2015. Other expenditure on information technology concerned a planned replacement and modernization of the existing IT infrastructure in hotels and the Head Office as a result of the duration of use, security policy, elimination of outdated technology solutions and current business needs.

4.12 Human resources

In the first quarter of 2016, the average employment in the Orbis Group stood at 3 909 full time equivalents, having risen by 3.7% compared to the same period of last year.

Average employment (in full-time equivalents)	9 months ended Sep. 30, 2016	9 months ended Sep. 30, 2015	% change
Poland	2 530	2 479	2.1%
Hungary	895	841	6.4%
Czech Republic	224	208	7.7%
Other countries	260	243	7.0%
Total	**3 909**	**3 771**	**3.7%**

During 9 months of 2016 the Orbis Hotel group completed, in the form of both traditional and e-learning training courses, over 5 200 training days for nearly 3 100 employees (7 200 participants).

4.13 Social Responsibility (CSR)

The Orbis Group combines the pursuit of its business and development of its network with respect for the natural environment and social issues.

Orbis devotes special attention to people, that is guests and staff, who are the main pillar of the company's strategy. Within the frame of the "Culinary Excellence" program, a series of multi-brand culinary workshops aimed at cooperation and sharing of knowledge has been organised in a number of cities in Poland. The workshop participants included students, cooks, chefs and culinary experts. The program will also be deployed in Hungary and in the Czech Republic.

Being a major employer in the hospitality industry in Eastern Europe, Orbis can have an influence on social issues in the countries of its region. The Company's Management Board, aware of its social impact, introduced the "Ethics and Corporate Social Responsibility Charter" containing a set of rules of conduct and business ethics. The Charter has been incorporated into the Employment By-Laws.

The "Women At AccorHotels Generation" (WAAG) corporate network which brings together 220 members in the Orbis Group has carried out a mentoring program in Romania, Bulgaria, the Czech Republic and Poland. A total of 25 pairs in the whole region continued within the frame of the so-called WAAG Empowerment Program. A series of workshops dedicated to communication skills improvement for hotel employees in Warsaw have been provided (20 persons).

The WAAG network also cooperates with external women organizations such as the “Professional Women Network" or “Dress for Success” whose aim is to help women in difficult situation in Poland. In Orbis S.A., 40% hotel general managers are women and the company strives to maintain a gender balance amongst its top management and executives.

The Orbis Group is involved in efforts aimed at protecting children against abuse in the tourism industry with the support of the “We give strength to our children” foundation (formerly “Nobody’s Children Foundation”). The Company expanded its WATCH (“We Act Together for Children”) prevention policy and implemented appropriate procedures in Hungary, the Czech Republic and Slovakia. As a result, 100 more hotel employees in Budapest, Prague and Bratislava have been trained in the third quarter of 2016. These measures make employees aware of the scale of the threat and knowledge of methods and procedures ensures that they can effectively counteract them.

Orbis S.A. carries out the “Plant for the Planet” reforestation program by investing funds saved on washing towels for planting trees. These actions are supported by those guests of hotels who consciously decide to re-use their towels, which saves money. With regard to forestation programme in Romania, the Company cooperates with the Mihai Eminescu Trust foundation, and in Poland with a non-governmental organisation AgriNatura. Under the “Kosztela” agricultural and forest project, Orbis has financed the planting of 5 000 fruit trees of old, disappearing varieties. Traditional orchards are planted in central Poland on ecological family farms and are a considerable help for those farmers who decided to cultivate organic crops, which are the only source of income for the family.

In the third quarter of 2016 the Orbis Group has implemented the “Healthy and Sustainable Food Charter” with an aim to reduce the volume of food waste and general waste (such as used-up cosmetics waste packaging) Furthermore, the “Urban Garden” project has also been launched, so far in the countries of Eastern Europe, whereupon 25 urban gardens were created in which herbs and vegetables are grown. Local food and organic product suppliers are preferred.

Orbis has opened two hotels designed and built in accordance with the BREEAM requirements, namely the “green” ibis Gdańsk Stare Miasto and Mercure Kraków Stare Miasto. It confirms transition into a new model - more sustainable and low-carbon - of hospitality industry.

4.14 Position of the Management Board as regards viability of previously published forecasts

On July 28, 2016, the forecasted EBITDA of the Orbis Group for 2016 was disclosed in the current report no. 34/2016 in the range from PLN 360 to 370 million. The forecasted EBITDA includes the result of operating activities, excluding the impact of one-off events, such as sale of properties, revaluation of non-current assets or costs of employment restructuring.

The Orbis Group’s EBITDA for 9 months of 2016 amounts to PLN 302.8 million. In the Management Board’s opinion, as at the date of publication of the financial statements, there are no factors that might pose a threat to the viability of the forecast.

4.15 Factors to affect the Orbis Hotel Group’s operations in subsequent quarters

The hotel market is highly correlated with business trends. It is expected that in 2017 the upward trend in the region of the Central and Eastern Europe will be sustained. In most of the countries where the Orbis Group operates, improvement of the real GDP up to 3.4 in Poland and 2.5 in Hungary, and 2.7 in the Czech Republic is projected. Further decline of the unemployment rate (down to 6.2% in Poland, 5.8% in Hungary, and 4.1% in the Czech Republic)[2] and continued pressure on wages are also expected in the entire region, which should be reflected in growing household expenditure.

Furthermore, apart from the relatively low prices improvement of infrastructure in the form of new roads, rail connections and cheap flights will encourage visitors to arrive in Poland. The growth of the hotel market in the Central and Eastern Europe is also linked with the perception of the entire region as safe in the face of continuing economic uncertainty and political and threat of terrorism in Western Europe.

[2] Eurostat, International Monetary Fund, World Economic Outlook, October 2016 (2016-2017 projection)

Prestigious cultural and sporting events also have a significant impact on the growth in demand for hotel services. In 2017 Poland will host the Men's European Volleyball Championship. It will be held in the third quarter in major cities across Poland. In addition, in July Wrocław will organize The World Games 2017, Warsaw will host the European Judo Championships, and the prestigious World Music Fair: WOMEX World Music Expo will be held in Katowice in October. On the other hand, Budapest will host two major sporting events next year, i.e. the World Judo Championships and swimming championships.

Further increase of hotels supply in the region is expected in 2017. The prospect of stable growth in the hospitality market attracts many investments. Hotel operators are trying to increase their market share both through construction of new hotels as well as by upgrading the standard of the existing hotel portfolios. Warsaw and other large cities in the Central and Eastern Europe enjoy an unending popularity amongst both foreign and domestic tourists. In the past few years, there is also an increase in the number of guests traveling on business who ensure high occupancy from Monday through Friday. Struggling for competitive advantage, hotel operators strive to meet the customer expectations by offering all kinds of conveniences. Being customer-oriented, specifically the improvement of service standards is necessary given the growing popularity of booking platforms such as AirBnB.

Basic risks and threats viewed as factors of significance for the development of the Group are described in Note 34 to the Consolidated Financial Statements for 2015.

(figures quoted in PLN thousand, unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.1 Basic information about the Issuer

The Group's parent company is Orbis Spółka Akcyjna with its corporate seat in Warsaw, ul. Bracka 16, 00-028 Warsaw, Poland. The parent company of the Group is entered in the Register of Business Operators maintained by the District Court in Warsaw, XII Commercial Division of the National Court Register under the number KRS 0000022622. According to the Polish Classification of Business Activity [PKD], the Company's business operations are classified under section I, item 5510Z.

5.2 Business operations

The scope of core business operations of Orbis S.A. includes mainly:

- hotels and other lodging units,
- food and beverage services,
- activities related to organisation of fairs, exhibitions and congresses,
- lease and management of own or leased real estate,
- management of real estate on mandate basis.

The term of Orbis S.A. and the companies forming the Group is unlimited

Orbis' strategic partner is Accor, the world's leading hotel operator and the European market leader.

The Orbis Group is the largest hotel operator in Poland and Central & Eastern Europe. As at the end of September, the Group's structure comprised 117 hotels located in 9 countries. The Orbis Group hotels operate under Accor brands: Sofitel, Pullman, MGallery, Novotel, Mercure, ibis, ibis Styles and ibis budget.

5.3 The Issuer's shareholders

The list of Orbis S.A. shareholders determined on the basis of the list of shareholders authorized to attend the Annual General Meeting convened for June 2, 2016, is as follows:

Shareholder	Number of shares and votes	% of the total number of shares and votes at the GM
Accor S.A.	24 276 415	52.69
of which: subsidiary Accor S.A. – Accor Polska Sp. z o.o.	*2 303 849*	*4.99*
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	4 589 000	9.96
Amplico Otwarty Fundusz Emerytalny and Metlife Amplico Dobrowolny Fundusz Emerytalny managed by Amplico Powszechne Towarzystwo Emerytalne	3 600 000	7.81
Nationale-Nederlanden Otwarty Fundusz Emerytalny	3 448 653	7.48
Others	10 162 940	22.06

As at the date of publication of the Report, the Company did not have any information about agreements that may in future bring about changes in the proportions of the holding of shares by the present shareholders.

5.4 Statutory bodies of the Issuer

On June 2, 2016, the Annual General Meeting of Orbis S.A. Shareholders appointed the Supervisory Board of the 10th tenure

From January 1 till September 30, 2016, Orbis S.A. Supervisory Board was composed of the following persons:

- Jan Ozinga – Chairman (Chairman of the Supervisory Board from June 2, 2016; Member of the Supervisory Board till June 2, 2016),
- Bruno Coudry – Member,
- Artur Gabor – Independent Member,
- Christian Karaoglanian – Member,
- Jacek Kseń – Independent Member,
- Jean-Jacques Morin – Member (appointed member of the Supervisory Board from June 2, 2016),
- Laurent Picheral – Member ,
- Andrzej Procajło – Member,
- Andrzej Przytula – Member,
- Jarosław Szymański – Member,
- Sophie Isabelle Stabile – Chairman (mandate of the Supervisory Board Member expired on June 2, 2016).

From January 1 till September 30, 2016, Orbis S.A. Management Board was composed of the following members:

- Gilles Clavie – President of the Management Board, Chief Executive Officer,
- Ireneusz Węgłowski – Vice-President of the Management Board,
- Marcin Szewczykowski – Member of the Management Board, Finance Director.
- Dominik Sołtysik - Member of the Management Board (from June 2, 2016).

On June 2, 2016, the Supervisory Board appointed Dominik Sołtysik for the position of a Member of Orbis S.A. Management Board .

5.5 The holding of Orbis S.A. shares by members of the Supervisory Board and the Management Board

As at the day of publication of the report, Vice-President of the Management Board, Mr. Ireneusz Andrzej Węgłowski, held 3 000 Orbis S.A. shares. Other members of the Management Board did not hold any Company shares.

Among the members of the Supervisory Board, solely Mr. Jacek Kseń held 2 010 Orbis S.A. shares.

No changes occurred in respect of the holding of Orbis S.A. shares by managing and supervising persons during 9 months of 2016.

5.6 Share capital and dividends paid

As at September 30, 2016, the share capital of Orbis S.A. comprised the share capital disclosed in the amount set out in the Statutes and entered in the court register, adjusted for effects of hyperinflation, i.e.:

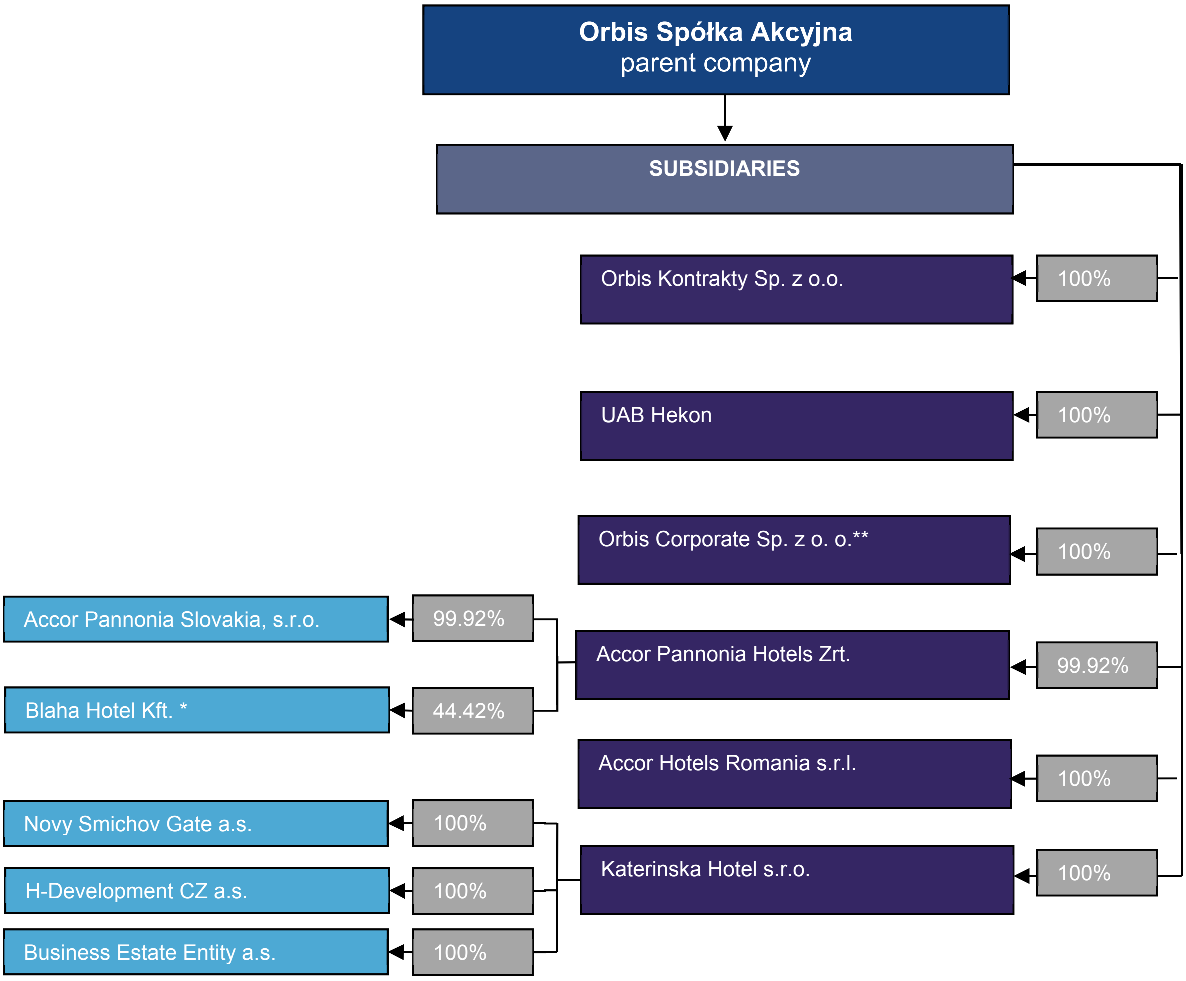
- Number of shares – 46 077 008,
- Par value per share - PLN 2,
- Share capital set out in the Statutes of Orbis S.A. – PLN 92 154 thousand,
- Hyperinflation restatement of share capital – PLN 425 600 thousand ,
- Carrying amount of share capital – PLN 517 754 thousand.

During 9 months of 2016 the value of share capital did not change.

By virtue of resolution of the General Meeting of Shareholders dated June 2, 2016, net profit generated by Orbis S.A. in 2015 was appropriated for the dividend totalling PLN 69 116 thousand, i.e. PLN 1.50 per share. The dividend was paid on August 3, 2016. A decision was also made to keep the remaining part of profit, amounting to PLN 40 087 thousand, in the Company as retained earnings.

5.7 The structure of the Group

As at September 30, 2016 the Orbis Group comprised the following companies:



** An associate accounted for in the consolidated financial statements using the equity method*

*** Company excluded from consolidation, it does not pursue business activities*

5.8 Description of principal accounting policies

The presented condensed interim consolidated financial statements are in compliance with the International Financial Reporting Standards approved by the European Union, issued and valid on the date of these financial statements, including International Accounting Standard 34 *Interim Financial Reporting*.

The principal accounting policies applied in the preparation of the consolidated financial statements are set out in Note 2.3 to the annual consolidated financial statements for 2015. The accounting policies have been consistently applied to all the years presented in the financial statements.

The consolidated financial statements have been prepared on the assumption that the Parent Company and the Orbis Group companies will continue as a going concern in the foreseeable future.

The financial statements of the companies forming the Group have been prepared in the currency of the primary economic environment in which the respective companies operate (in "the functional currency"). The consolidated financial statements are prepared in the Polish zloty (PLN), which is the presentation and functional currency of the parent company.

All financial figures are quoted in PLN thousand, unless otherwise stated.

5.9 Currency exchange rates

Items of statements of financial position of foreign subsidiary companies were translated into the Polish currency at the average exchange rate quoted by the National Bank of Poland as at September 30, 2016. Items of the income statement, statement of comprehensive income and statements of cash flows of foreign subsidiary companies were translated into the Polish currency at the exchange rates being the arithmetic mean of average exchange rates quoted by the National Bank of Poland at the day ending each month during 9 months of 2016 and of 2015. Exchange rates used to translate statements of foreign subsidiary companies are presented in the table below:

Currency	Average exchange rate in the reporting period		Exchange rate at the end of the reporting period			
	3 months ended Sep. 30, 2016	3 months ended Sep. 30, 2015	Sep. 30, 2016	Jun. 30, 2016	Dec. 31, 2015	Sep. 30, 2015
EUR/PLN	4.3688	4.1585	4.3120	4.4255	4.2615	4.2386
HUF/PLN	0.0140	0.0135	0.0139	0.0140	0.0136	0.0135
CZK/PLN	0.1616	0.1520	0.1596	0.1636	0.1577	0.1560
RON/PLN	0.9742	0.9382	0.9675	0.9795	0.9421	0.9600

(figures quoted in PLN thousand, unless otherwise stated)

5.10 Borrowings

On December 19, 2014, Orbis S.A. (as the borrower) together with the subsidiary Hekon – Hotele Ekonomiczne S.A. (as the guarantor) executed a credit facility agreement with Bank Polska Kasa Opieki S.A. and Société Générale S.A. by virtue of which the Banks granted to Orbis S.A. a credit facility of up to the sum of PLN 480 000 thousand. According to the executed agreement, the credit facility was allocated for:

- financing 80% of the price payable for interests in companies in Eastern Europe purchased by Orbis S.A.;
- corporate purposes of Orbis S.A., up to the sum not higher than PLN 50 000 thousand.

The interest rate on the credit facility was determined according to a variable interest rate equal to WIBOR for three-month deposits (WIBOR 3M) plus the banks' margin. Interest will be paid at the end of each quarter, while capital instalments at the end of June and December. Pursuant to the current payment schedule, the date of payment of the last instalment falls on June 26, 2020.

As at September 30, 2016, Orbis S.A. had liabilities under a credit facility of PLN 140 514 thousand. During 9 months of 2016, Orbis S.A. paid PLN 3 385 thousand as interest on credit facilities and PLN 315 thousand as commissions and other borrowing costs resulting from credit facilities.

Borrowings	As at:			
	Sep. 30, 2016	Jun. 30, 2016	Dec. 31, 2015	Sep. 30, 2015
Liabilities arising from credit facilities (outstanding capital)	141 156	141 156	158 801	176 445
Credit facilities valued at amortised cost	(642)	(801)	(1 046)	(1 143)
Overdrafts	0	0	1 357	0
Total borrowings	**140 514**	**140 355**	**159 112**	**175 302**

The amount of undrawn credit lines under overdrafts as at September 30, 2016, was PLN 44.0 million, of which the credit lines undrawn by Orbis S.A. amounted to PLN 20.1 million and those of Katerinska Hotel s.r.o.: PLN 23.9 million (i.e. CZK 150.0 million). The remaining Group companies did not have undrawn credit lines under overdrafts.

5.11 Issue, redemption and repayment of debt and equity securities

On June 26, 2015, Orbis S.A. issued 300 thousand ordinary bearer bonds of the ORB A 260620 series, of a nominal value of PLN 1 000 each and a total nominal value of PLN 300 000 thousand. The issue price of the bonds is equal to their nominal value. The funds raised from this bond issue were used for partial repayment of a credit facility.

The bonds bear interest per annum at a variable interest rate at WIBOR for six-month deposits (WIBOR 6M) plus interest rate margin of 0.97%. Interest will be payable in 6-month interest periods.

The bonds will be redeemed on June 26, 2020 at their nominal value. Prior to the redemption date, on June 26, 2018, Orbis may redeem all the issued bonds or 50% of the issued bonds by paying to bondholders the nominal value of the bonds plus a premium of 1% of the nominal value of the bonds and the amount of interest due for the interest period ending on the date on which the early bond redemption takes place.

On September 17, 2015, Orbis bonds were launched in the BondSpot alternative debt trading system operating on the Catalyst market.

Moreover, on July 29, 2016, Orbis S.A. issued another 200 thousand ordinary bearer bonds of ORB B 290721 series of a nominal value of PLN 1 000 each and of a total nominal value of PLN 200 000 thousand. The issue price of the Bonds equals their nominal value.

Bonds bear interest per annum at a variable interest rate at WIBOR 6M plus interest rate margin of 1.05%. The interest shall be payable in 6 (six) monthly interest periods.

(figures quoted in PLN thousand, unless otherwise stated)

The bonds shall be redeemed on July 29, 2021 at their nominal value. Orbis shall have the right to redeem 100% or 50% of Bonds prior to their redemption date, on July 29, 2019 by way of paying to bondholders a 1% premium for premature redemption of bonds in addition to the nominal value of the bonds and the amount of interest for the interest period ending on the date of premature redemption of bonds.

On October 20, 2016, the bonds were introduced to trading in the debt securities alternative trading system at BondSpot S.A. (the Catalyst market).

During 9 months of 2016, Orbis S.A. paid PLN 4 122 thousand of interest on issued bonds and PLN 607 thousand of commission and other costs related to debt incurred by issue of bonds. Moreover, in June 2016 the Company paid PLN 105 thousand of Interest Rate Swap interest payment (refer to section 5.12.2).

Bonds	As at:			
	Sep. 30, 2016	Jun. 30, 2016	Dec. 31, 2015	Sep. 30, 2015
Proceeds from the bond issue	500 000	300 000	300 000	300 000
Valuation of bonds at amortised cost	1 896	(669)	(771)	1 170
Total bonds	**501 896**	**299 331**	**299 229**	**301 170**

5.12 Financial instruments

5.12.1 Fair value of financial instruments

As at September 30, 2016 and December 31, 2015 the only financial instruments that were measured at fair value following their initial recognition and were recognised at fair value in the statement of financial position were derivative instruments, i.e. interest rate swap.

The table below presents fair values and carrying amounts of financial assets and liabilities (including items that are not measured at fair value, but in respect of which fair value disclosures are required):

	As at September 30, 2016		As at December 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents	446 603	446 603	271 683	271 683
Other financial assets (long-term)	7 888	7 888	7 888	7 888
Short-term financial assets (loans granted)	0	0	8 577	8 577
Trade receivables and other short-term receivables	81 973	81 973	62 668	62 668
Financial liabilities				
Borrowings	140 514	142 759	159 112	160 551
Debt securities - bonds issued	501 896	504 681	299 229	303 000
Derivative instruments (liabilities)	534	534	795	795
Trade payables and other current and non-current liabilities	136 834	136 834	122 042	122 042

According to the Management Board, the carrying amount of financial instruments of the Group, except for liabilities arising from credit facilities and issued bonds was close to their fair value.

The fair value of liabilities arising from credit facilities was determined as the present value of future cash flows, discounted at a current interest rate

The fair value of bonds issued in 2015 was determined based on their price on the Catalyst bond market as at the end of the reporting period (or a date close to that day). The fair value of bonds issued in July 2016 (which as at the end of the reporting period were not quoted on an active market) was determined as the present value of future cash flows, discounted at a current interest rate.

The fair value of a derivative instrument was determined as the present value of estimated future cash flows on the basis of monitoring of yield curves.

In terms of applied measurement procedures, issued bonds introduced into BondSPot alternative trading system on Catalyst are classified to Level 1 of fair value hierarchy (fair value determined on the basis of prices quoted on an active market). Liabilities under credit facilities, unquoted bonds and derivative instruments are classified to Level 2 of fair value hierarchy (fair value determined on the basis of observable market data, other than direct market quotations).

The Group did not perform any reclassifications between fair value levels in the current period.

5.12.2 Hedge accounting

To reduce the risk of changing interest rates and hedge future cash flows, on September 15, 2015 Orbis S.A. entered into a pay-floating receive-fixed Interest Rate Swap with the bank Société Générale S.A. The amount of the hedging instrument is PLN 150 million, which accounts for 50% of the value of the first tranche of bond issue (PLN 300 million). The swap matures on June 26, 2018. Interest payment dates fall every six months, starting from June 27, 2016, and have been correlated with dates of payment of interest on bonds. During the present reporting period, the Company paid PLN 105 thousand as interest payments under the IRS transaction.

As at the end of the presented reporting periods, the swap's fair value was disclosed in the Group's equity through other comprehensive income. In 2016, no ineffectiveness arising from cash flow hedges occurred that would require to be disclosed in the financial result of the Group.

(figures quoted in PLN thousand, unless otherwise stated)

5.13 Changes in estimates of amounts

5.13.1 Impairment of assets

Movements in impairment loss in 9 months of 2016	Impairment loss on:						
	tangible assets	investment property	intangible assets	assets held for sale	shares	receivables	financial assets
as at January 1, 2016	**(122 645)**	**(375)**	**(627)**	**(9 055)**	**(37)**	**(6 245)**	**(1 031)**
recognised impairment loss	(307)	(598)	(4)	0	(10)	(1 645)	0
utilised impairment loss	29	354	1	0	0	299	0
reversed impairment loss	0	0	0	0	0	1 271	0
impairment loss not subject to reversal*	5 067	24	76	0	0	0	0
reclassification to assets held for sale	9 046	0	0	(9 046)	0	0	0
exchange differences on translation	(895)	0	(10)	0	0	(83)	(26)
as at September 30, 2016	**(109 705)**	**(595)**	**(564)**	**(18 101)**	**(47)**	**(6 403)**	**(1 057)**

Movements in impairment loss - 3rd quarter of 2016	Impairment loss on:						
	tangible assets	investment property	intangible assets	assets held for sale	shares	receivables	financial assets
as at July 1, 2016	**(121 095)**	**(598)**	**(588)**	**(9 055)**	**(47)**	**(6 232)**	**(1 060)**
recognised impairment loss	0	0	0	0	0	(588)	0
utilised impairment loss	0	0	1	0	0	272	0
reversed impairment loss	0	0	0	0	0	120	0
impairment loss not subject to reversal*	1 679	3	10	0	0	0	0
reclassification to assets held for sale	9 046	0	0	(9 046)	0	0	0
exchange differences on translation	665	0	13	0	0	25	3
as at September 30, 2016	**(109 705)**	**(595)**	**(564)**	**(18 101)**	**(47)**	**(6 403)**	**(1 057)**

** The value of impairment recognised in the previous periods, which cannot be reversed (due to IAS 36, according to which the net book value of property, plant and equipment and investment property arising from the reversal of impairment should not exceed the amount that would have been determined if no impairment had been recognised). This value of impairment is recognised as accumulated depreciation. As a result, the balance of impairment as at the end of the period equals the amount reversible in the event of expiry of circumstances underlying the recognition of impairment.*

In 9 months of 2016 and in 2015, no circumstances occurred in the Group that would indicate a need to recognise impairment losses on inventories.

(figures quoted in PLN thousand, unless otherwise stated)

5.13.2 Provisions for liabilities

Movements in provisions in 9 months of 2016	Provision for:				
	jubilee awards	retirement & disability benefits	litigations	restructuring	other liabilities
As at January 1, 2016	**18 367**	**7 149**	**777**	**336**	**1 328**
Provision recognised in the period	859	288	0	0	2 336
Provision utilised in the period	(785)	(141)	0	(343)	0
Provision released in the period	(610)	(200)	0	0	0
Exchange differences on translation	0	18	0	7	13
As at September 30, 2016, of which:	**17 831**	**7 114**	**777**	**0**	**3 677**
Short-term provisions	2 043	714	777	0	290
Long-term provisions	15 788	6 400	0	0	3 387

The release of provisions for jubilee awards and retirement and disability benefits results from the sale, on February 29, 2016, of an organized part of the enterprise in the form of the Mercure Mrągowo Resort & SPA hotel.

Increase of other provisions in 9 months ended September 30, 2016 mainly includes a provision recognised in accordance with IAS 37 for an onerous contract, i.e. ibis operating lease contract in Slovakia.

Movements in provisions in Q3 2016	Provision for:				
	jubilee awards	retirement & disability benefits	litigations	restructuring	other liabilities
As at July 1, 2016	**17 831**	**7 116**	**777**	**0**	**3 313**
Provision recognised in the period	0	0	0	0	406
Exchange differences on translation	0	(2)	0	0	(42)
As at September 30, 2016, of which:	**17 831**	**7 114**	**777**	**0**	**3 677**
Short-term provisions	2 043	714	777	0	290
Long-term provisions	15 788	6 400	0	0	3 387

5.14 Deferred tax assets and liabilities

Deferred tax	As at:		Impact on statement of comprehensive income
	Sep. 30, 2016	Dec. 31, 2015	
Deferred tax assets	27 848	21 128	6 720
Deferred tax liabilities	737	620	(117)
Change in deferred tax assets and liabilities, of which:			**6 603**
impact on profit or loss			6 311
impact on other comprehensive income (incl. exchange differences on translation)			292

5.15 Contingent assets and liabilities

5.15.1 Liabilities arising from credit facility agreements

On December 19, 2014, Orbis S.A. (as the borrower) together with the subsidiary Hekon – Hotele Ekonomiczne S.A. (as the guarantor) executed a credit facility agreement with Bank Polska Kasa Opieki S.A. and Société Générale S.A. by virtue of which the Banks granted to Orbis S.A. a credit facility of up to the sum of PLN 480 000 thousand, used in the amount of PLN 476 445 thousand.

Orbis S.A.' s liabilities under the credit facility agreement have been secured by way of:

- aggregate contractual mortgage of up to PLN 720 000 thousand, established for the benefit of Bank Polska Kasa Opieki S.A. (Mortgage Administrator) on the right to perpetual usufruct and ownership title of the building situated in it, in which building Orbis S.A. runs the Sofitel Warsaw Victoria hotel (land and mortgage register No. WA4M/00193711/1 and WA4M/00193710/4);
- assignment as a collateral security of Orbis S.A.'s rights under the insurance policies of the Real Properties;
- commitment made by Orbis S.A. to each of the Banks to submit itself to voluntary debt enforcement procedure;
- financial pledge on cash deposited on bank accounts kept by Bank Polska Kasa Opieki S.A.;
- granting a power of attorney to all the bank accounts of Orbis S.A. to Bank Polska Kasa Opieki S.A. (credit agent and collateral agent).

The market value of Sofitel Warsaw Victoria, determined by independent property valuers as at December 1, 2015, amounted to PLN 208 258 thousand. The book value of the real properties is PLN 120 500 thousand as at September 30, 2016.

The issued bonds have been secured by a joint contractual mortgage established on the Mercure Warszawa Grand hotel (KW No. WA4M/00159685/9), Novotel Warszawa Centrum hotel (KW No. WA4M/00072550/0) and Mercure Warszawa Centrum hotel (KW No. WA4M/00097244/3) up to the sum of PLN 625 000 thousand. The mortgage was established for the benefit of the mortgage administrator, that is, Bank Polska Kasa Opieki S.A. with its corporate seat in Warsaw, which will act in its own name, but for the account of bondholders. The total market value of the Mercure Warszawa Grand hotel and the Novotel Warszawa Centrum hotel encumbered by mortgage, determined by independent property valuers as at May 29, 2015, was PLN 468 476 thousand. The book value of these real properties as at September 30, 2016 is PLN 195 191 thousand. Additionally, the market value of the Mercure Warszawa Centrum hotel determined as at December 01, 2015, by the valuation survey dated 7 July 2016 was PLN 177 229 thousand. The book value of these real properties as at September 30, 2016 is PLN 55 726 thousand.

To secure the claims under the bank credit facility taken by Blaha Hotel Szállodaüzemeltető Kft., a pledge has been established on interests held by Accor Pannonia Hotels Zrt. (subsidiary of Orbis S.A. that holds 44.46% interest in Blaha Hotel Kft). As at the end of September 2016, the value of debt totalled PLN 3 230 thousand. The credit facility repayment date has been set for December 31, 2020.

In order to secure the claims under the agreement for the lease of the Novotel hotel in Vilnius, concluded on July 12, 2002 by UAB Hekon and UAB Pinus Proprius, a bank guarantee has been issued by Société Générale S.A. Branch in Poland for the benefit of UAB Pinus Proprius (Beneficiary of the Guarantee) for the liabilities of UAB Hekon (Applicant of the Guarantee) that may arise under the executed agreement The amount of the bank guarantee is EUR 250 thousand, the guarantee remains valid till March 31, 2019.

5.15.2 Liabilities arising from agreements for the sale of assets

Under the agreement for the sale of interests in Wioska Turystyczna Wilkasy Sp. z o.o., entered into on May 26, 2014 by and between Orbis S.A. and three natural persons, Orbis S.A. (as the seller) submitted surety for breach of representations and warranties made to the buyers in connection with the concluded agreement, up to the amount of PLN 1 750 thousand.

Orbis S.A. will be released from its liability for representations relating to tax issues and public law liabilities after the lapse of 5 full financial years, and from its liability for other representations after the lapse of 12 months from the date of the agreement.

(figures quoted in PLN thousand, unless otherwise stated)

5.16 Legal claims

Legal claims	Description and the Company's stance
Litigation - description Proceedings for handing over of real property located in Warsaw, in the district of Wilanów, at ul. St.Kostki Potockiego 27, marked as the plot of land no. 21/1 with an area of 4 397 sq.m. **Value of the litigation** The Plaintiff determined the value of litigation at PLN 5 million, as the value of real property or, alternatively, at PLN 377 thousand which corresponds to the 3-month lease/tenancy rent due for this type of real property **Date of launching the legal proceedings** Statement of claim dated September 29, 2005 **Parties to the proceedings** Plaintiff: State Treasury, represented by the Municipal Office of the Capital City of Warsaw, Defendant: Orbis S.A.	Orbis S.A. motions that the claim be dismissed in its entirety. Presently, the case is being examined by the Court of Appeals in Warsaw (court of second instance). Proceedings have been suspended until final resolution of the issue concerning the ownership title to the real property in administrative proceedings. Administrative proceedings initiated by heirs of the former owner, Adam Branicki, for restitution of the real property "Kolonia Adamówka Wilanowska dz. 15" are currently pending before the Head of Mazowieckie Voivodship, i.e. the authority of first instance. During these proceedings, at a hearing on January 5, 2010 the applicants' attorney filed a written declaration, informing that the party he represents would not seek compensation from Orbis S.A. for the use of the real property. The declaration forms an appendix to the record of the hearing. However, the declaration was not supported by a relevant power of attorney granted by the heirs of Adam Branicki authorizing the attorney to renounce claims on their behalf. As at the day of report publication no steps are being taken in this case.
Litigation - description Proceedings for declaration of invalidity of an administrative decision of the President of the City of Warsaw dated April 11, 1950, No. L dz. WPB/3116/49/P concerning refusal to reinstate a time limit for filing an application for a temporary ownership title to the land located at ul. Wspólna 19, land and mortgage reg. no. 1651/2 letter C (the area of a former real property with land and mortgage reg. no. 1651/2 letter C, corresponds partially to the current plot of land no. 133/2 administered by Orbis S.A., on which a driveway to the building of the Grand Warszawa hotel is situated, and to the plot of land no. 133/1 that is held by Orbis S.A. in perpetual usufruct, on which a part of the Hotel building is situated). **Value of the litigation** Unknown **Date of launching the legal proceedings** Application dated March 2, 2000 **Parties to the proceedings** Applicant: J. Ostrowska - Bazgier (heirs of Abraham Juda vel Adam Kaltman) Participant: ”Parking- Wspólnota” Sp. z o.o in liquidation Participant: Orbis S.A.	On August 10, 2010, the Minister of Infrastructure issued a decision (served on Orbis S.A. on August 19, 2010) declaring invalidity of the administrative decision of the President of the City of Warsaw of 1950 refusing to grant to the applicants the temporary ownership title to the land concerned. On September 1, 2010, Orbis S.A. applied for re-consideration of the case. The Law Office “Domański, Zakrzewski. Palinka” [DZP] was appointed to defend the case on behalf of Orbis S.A. In subsequent pleadings, DZP challenged the timely filing of the decree motion by former owners. The proceedings have been suspended. On August 25, 2012, the Applicant filed a motion with the Ministry of Transport, Construction and Maritime Economy for revocation of decision No. 755/93 of the Head of Mazowieckie Voivodship concerning the acquisition by Orbis S.A. of the right to perpetual usufruct of the land built-up with the Grand Hotel at ul. Krucza 28 in Warsaw. Orbis S.A. motioned for refusal to initiate proceedings on this case. The Minister of Transport, Construction and Maritime Economy suspended proceedings on this case. Orbis S.A. filed petition for ascertainment of acquisition of the estate of the deceased persons with unknown place of residence. The Court resumed proceedings on this case and in first instance issued decision dismissing the application of Orbis S.A. Orbis S.A. filed an appeal against this decision. The Regional Court revoked the decision of the District Court for Warszawa – Śródmieście dated March 14, 2014 concerning dismissal of the application of Orbis S.A. for ascertainment of acquisition of the estate of Bajla Arager and Ita Frajdla Sadowska and referred the case to the District Court for reconsideration. The case was joined by the City of Warsaw, which made an application for ascertaining acquisition of estate of Bajla Arager and Ita Frajdla. The case is pending.
Litigation - description Request to reimburse aid received from the Polish Agency for Enterprise Development PARP **Value of the litigation** PLN 616 thousand plus interest **Date of launching the legal proceedings** July 21, 2014 **Parties to the proceedings** Requesting party: Polish Agency for Enterprise Development [PARP] Requested party: Orbis S.A.	As a beneficiary under the Human Capital Operational Programme 2007-2013, Orbis S.A. received aid for a training programme, co-financed by the European Union. As a result of a control of programme implementation, PARP claimed that Orbis S.A. had violated the terms of the programme by applying discriminating criteria and assessments in drawing up the offer. Hence, PARP requested Orbis S.A., under the sanction of issuing a decision, to pay a penalty of 25% of eligible expenditure under the programme, which is equivalent to an amount of PLN 616 thousand. Orbis S.A. challenged PARP's position in its entirety. Despite absence of an administrative decision on the reimbursement, in 2014 PARP used the bank guarantee and drew an amount of approx. PLN 504 thousand. Orbis S.A. will claim this amount by means of civil proceedings. On April 11, 2016, a decision reaffirming PARP's position was delivered. In this decision, PARP demands reimbursement of PLN 200 thousand with interest accruing from different payment deadlines specified in the decision. Orbis S.A appealed against the decision. The Minister of Infrastructure upheld PARP decision. On July 11, 2016 Orbis S.A. paid to PARP a sum of PLN 261 thousand. Orbis S.A. intends to file an appeal with the Voivodship Administrative Court.
Litigation - description Statement of claim for determining that the contractual penalty for the delay in constructing a hotel in Elbląg was not due, or was invalidly reserved. **Value of the litigation** PLN 350 thousand **Date of launching the legal proceedings** Statement of claim dated April 19, 2013 **Parties to the proceedings** Plaintiff: Orbis S.A. (formerly: Hekon-Hotele Ekonomiczne S.A.) Defendant: Municipality of the town of Elbląg	Hekon Hotele-Ekonomiczne S.A. lost its case in proceedings before the court of first instance and subsequently, as a result of the filed appeal, the court of second instance held that the provision concerning the contractual penalty had been invalid from the beginning, and the court held that the contractual penalties paid by Hekon Hotele-Ekonomiczne S.A. should be reimbursed. The municipality of the town of Elbląg filed a last-resort (cassation) appeal and Hekon S.A. filed for dismissal of the appeal. The Supreme Court decided to consider the case at a hearing in camera on October 22, 2015. The Court revoked the decision of the Court of Appeal and referred the case to be reconsidered. On March 1 the Appellate Court issued a ruling on this case and statement of reasons was issued in April. The Court ruled that only the contractual penalty of PLN 100 thousand for the year 2010 is due to the town of Elbląg. According to the

(figures quoted in PLN thousand, unless otherwise stated)

	statement of reasons for this judgement, contractual penalties for subsequent years are not due, since according to the position of the Supreme Court contained in the last-resort (cassation) judgment, the contractual penalty so imposed would have to be paid indefinitely. The Court dismissed the remaining claims of Hekon-Hotele Ekonomiczne S.A. and ruled on the value of costs. In June 2016 Hekon filed a cassation appeal against the judgment of the Appellate Court in Gdańsk. The company awaits a decision whether or not the cassation appeal will be considered. On the basis of the request for payment received in October, Orbis S.A. paid to the municipality of the town of Elbląg a sum of PLN 163 thousand by way of the awarded penalty and costs of litigation.

Furthermore, as at September 30, 2016, 12 proceedings were pending before the Self-Government Appellate Board concerning revaluation of annual rates of fees for perpetual usufruct of land located in the following cities:

- Warsaw (ibis & ibis budget Reduta, ibis Warszawa Centrum, plot of land in Łopuszańska street);
- Poznań (Novotel Malta);
- Częstochowa (Mercure Częstochowa Centrum)
- Sopot (Sofitel Grand);
- Gdańsk (Novotel Centrum, Mercure Gdańsk Stare Miasto and adjacent area Mercure Posejdon, Novotel Marina);
- Zegrze (built-up plot of land).

In the Group's opinion, fee revaluations made by Presidents of respective cities are either unjustified or calculations should be based on different rates. As at the end of the reporting period, accumulated value of the fees challenged by the Group totals PLN 6 289 thousand and is disclosed in other current liabilities.

In the third quarter of 2016, Orbis S.A. received a ruling to its favour concerning fees for perpetual usufruct of real property in Kraków, on which the ibis and ibis budget Kraków Stare Miasto hotels are located. The Regional Court in Kraków determined a lower value of annual fees for 2010-2016 than proposed by the City Mayor. The Court allocated the value of payments made by Orbis S.A. so far in the amount of PLN 1 932 thousand against the difference between the current fee and the new value of the fee.

A tax audit was completed in June 2016 in the company Accor Pannonia Hotels Zrt., devoted to VAT and CIT tax payments during the years 2011-2012. According to the decision of the tax authorities, the company paid additional liabilities to the tax office together with interest in the amount of approx. PLN 325 thousand (HUF 23.2 million).

5.17 Related party transactions

Within the meaning of IAS 24, parties related to the Group include members of the managing and supervising staff and close members of their families, non-consolidated subsidiaries and associates, as well as Accor S.A. (significant shareholder) and its related parties.

Revenues from related parties comprise revenues for sales support, promotion of the Accor network and development of the Le Club Accorhotels program in Poland and in the Baltic States.

Purchases of services from related parties comprise mainly:
- franchise fees;
- reservation fees;
- fees for using IT applications;
- costs connected with the Le Club Accorhotels loyalty program.

Within the framework of the agreement signed by Accor S.A. and Orbis S.A. on January 15, 2016, Orbis S.A. received a sum of EUR 4 million (equivalent to PLN 17.3 million).The payment of this sum concerned directly the release of Accor S.A. from the guarantee it granted to Orbis S.A. as part of the agreement to purchase shares in subsidiaries and was connected with the operations of specified assets (the ibis Budapest Heroes Square hotel and the Mercure Budapest City Center hotel) in Hungary, which assets were purchased in 2016 by a subsidiary Accor-Pannonia Hotels Zrt. The transaction with the shareholder and, consequently, the sum received does not constitute income of Orbis S.A. according to the International Financial Reporting Standards, because it is no way connected with the operations of the Company or the Group, which is why it was recognized directly in Orbis S.A. equity (in the "retained earnings" item).

(figures quoted in PLN thousand, unless otherwise stated)

Figures presented below concern other transactions with the Accor Group companies.

Sales and purchases	3 months ended Sep. 30, 2016	3 months ended Sep. 30, 2015	9 months ended Sep. 30, 2016	9 months ended Sep. 30, 2015
Net sales of services	**1 716**	**1 154**	**5 319**	**4 857**
- from the parent company	1 147	1 001	4 487	4 287
- from other Accor Group companies	546	118	729	445
- from associates	23	35	103	125
Purchases of goods and services	**17 272**	**15 174**	**45 839**	**38 880**
- from the parent company	12 110	10 693	33 510	28 221
- from other Accor Group companies	5 162	4 481	12 329	10 659

Receivables and payables	As at:			
	Sep. 30, 2016	Jun. 30, 2016	Dec. 31, 2015	Sep. 30, 2015
Trade receivables	**5 427**	**5 771**	**5 253**	**5 318**
- from the parent company	4 579	4 699	4 752	4 670
- from other Accor Group companies	514	702	276	356
- from associates	334	370	225	292
Trade payables	**17 544**	**20 380**	**11 915**	**22 438**
- from the parent company	13 901	17 268	9 956	15 418
- from other Accor Group companies	3 613	3 087	1 916	6 999
- from associates	30	25	43	21
Trade payables	**0**	**36 415**	**0**	**0**
- from the parent company	0	32 959	0	0
- from other Accor Group companies	0	3 456	0	0

No impairment loss was recognised on the presented receivables.

Balances arising from related party transactions will be settled by way of payments.

Transactions with related parties are effected on an arm's length basis.

Pursuant to the agreement concluded on September 24, 2015, Orbis S.A. and Hekon - Hotele Ekonomiczne S.A. formed the Tax Group. The Agreement was signed for the term of three tax years, i.e. from January 1, 2016 till December 31, 2018. Due to the merger of both companies, the Tax Group lost its tax status as of September 1, 2016.

Benefits (including wages and salaries, awards, post-employment benefits and retirement benefits) paid in accordance with contractual obligations to the Members of the Management Board and the Supervisory Board of Orbis S.A. in 9-month periods ended September 30, 2016 and September 30, 2015, amounted to PLN 3 650 thousand and PLN 3 202 thousand, respectively. In 2016, the number of seats in the Orbis S.A. Management Board has been expanded to include one more Board Member (see item 5.4).

No transactions involving transfer of rights or obligations, either free of charge or against consideration, were executed between the Group and related parties:

- members of the Management Board and the Supervisory Board of Orbis S.A.,
- spouses, next-of-kin or relatives of the first and second degree of members of the Management Board and the Supervisory Board of Orbis S.A., Orbis S.A. subsidiaries and associates,
- persons linked by a relation of guardianship, adoption or custody with members of the Management Board and the Supervisory Board of Orbis S.A., Orbis S.A. subsidiaries and associates.

5.18 Important events after the reporting period

In the Orbis Group there were no important events after the reporting period.

CONDENSED INTERIM FINANCIAL STATEMENTS OF ORBIS S.A.

Novotel Wrocław Centrum

(figures quoted in PLN thousand, unless otherwise stated)

6 CONDENSED INTERIM FINANCIAL STATEMENTS OF ORBIS S.A.

6.1 Income statement

	3 months ended Sep. 30, 2016	9 months ended Sep. 30, 2016	3 months ended Sep. 30, 2015	9 months ended Sep. 30, 2015
Net sales	**211 275**	**518 144**	**165 732**	**440 065**
Outsourced services	(45 334)	(113 574)	(33 369)	(92 394)
Employee benefit expense	(47 689)	(132 777)	(38 733)	(115 849)
Raw materials and energy used	(29 340)	(78 480)	(25 654)	(73 023)
Taxes and charges	(7 152)	(20 558)	(7 002)	(21 783)
Other expenses by nature	(1 316)	(4 606)	(1 370)	(3 671)
Net other operating income/(expenses)	99	283	(363)	(593)
EBITDAR	**80 543**	**168 432**	**59 241**	**132 752**
Rental expense	(1 956)	(5 841)	0	0
Operating EBITDA	**78 587**	**162 591**	**59 241**	**132 752**
Depreciation and amortisation	(26 187)	(73 731)	(23 174)	(69 212)
Operating profit without the effects of one-off events	**52 400**	**88 860**	**36 067**	**63 540**
Result on sale of real property	4 282	4 370	9 953	9 953
Revaluation of non-current assets	0	0	(3 352)	(3 352)
Restructuring costs	(124)	(355)	(2)	(382)
Operating profit	**56 558**	**92 875**	**42 666**	**69 759**
Finance income	472	56 783	105	43 371
Finance costs	(6 672)	(14 300)	(3 679)	(11 988)
Profit before tax	**50 358**	**135 358**	**39 092**	**101 142**
Income tax expense	(10 119)	(16 424)	(8 426)	(13 723)
Net profit for the period	**40 239**	**118 934**	**30 666**	**87 419**
Earnings per ordinary share				
Basic and diluted earnings per share (in PLN)	0,87	2,58	0,67	1,90

(figures quoted in PLN thousand, unless otherwise stated)

6.2 Statement of comprehensive income

	3 months ended Sep. 30, 2016	9 months ended Sep. 30, 2016	3 months ended Sep. 30, 2015	9 months ended Sep. 30, 2015
Net profit for the period	**40 239**	**118 934**	**30 666**	**87 419**
Items that will not be reclassified subsequently to profit or loss:				
Actuarial gains/losses arising from the defined benefit plan	0	62	0	0
Income tax relating to items that will not be reclassified subsequently	0	(12)	0	0
Items that may be reclassified subsequently to profit or loss:				
The effective portion of the gain or loss on the hedging instrument entered into for cash flow hedges	375	261	(825)	(825)
Income tax relating to items that may be reclassified subsequently	(71)	(50)	0	0
Other comprehensive income/(loss) after tax	**304**	**261**	**(825)**	**(825)**
Total comprehensive income for the period	**40 543**	**119 195**	**29 841**	**86 594**

6.3 Statement of financial position

Assets	As at:			
	Sep. 30, 2016	Jun. 30, 2016	Dec. 31, 2015	Sep. 30, 2015
Non-current assets	**2 346 905**	**2 408 819**	**2 393 760**	**2 402 010**
Property, plant and equipment	1 682 155	1 071 182	1 048 402	1 032 082
Investment property	10 154	298 775	306 708	309 015
Intangible assets, of which:	111 784	3 682	4 308	4 296
- goodwill	107 252	0	0	0
Investments in subsidiaries	465 921	1 025 569	1 025 569	1 047 811
Other financial assets	68 256	7 888	7 888	7 888
Other long-term investments	464	464	464	464
Deferred tax assets	7 845	902	0	0
Other long-term assets	326	357	421	454
Current assets	**389 719**	**164 304**	**98 457**	**101 019**
Inventories	3 758	2 933	3 259	2 867
Trade receivables	33 575	43 024	27 155	37 110
Income tax receivables	0	539	0	908
Other short-term receivables	9 990	11 615	6 102	9 491
Short-term financial assets	8 870	0	0	0
Cash and cash equivalents	333 526	106 193	61 941	50 643
Assets classified as held for sale	**37 637**	**33 149**	**32 200**	**20 189**
TOTAL ASSETS	**2 774 261**	**2 606 272**	**2 524 417**	**2 523 218**

(figures quoted in PLN thousand, unless otherwise stated)

Equity and Liabilities	As at:			
	Sep. 30, 2016	Jun. 30, 2016	Dec. 31, 2015	Sep. 30, 2015
Equity	**1 968 164**	**1 948 421**	**1 924 883**	**1 922 064**
Share capital	517 754	517 754	517 754	517 754
Reserves	132 900	132 596	132 689	132 508
Retained earnings	1 317 510	1 298 071	1 274 440	1 271 802
Non-current liabilities	**637 550**	**431 846**	**453 349**	**467 249**
Borrowings	105 225	105 066	122 466	140 013
Bonds	501 896	299 331	299 229	301 170
Deferred tax liabilities	0	0	3 450	2 966
Deferred revenue	4 100	4 150	5 300	4 428
Other non-current liabilities	4 860	4 179	3 072	825
Provision for retirement benefits and similar obligations	21 469	19 120	19 832	17 847
Current liabilities	**168 547**	**226 005**	**146 185**	**133 905**
Borrowings	35 289	35 289	35 289	35 289
Other financial liabilities	534	909	795	825
Trade payables	49 167	37 009	30 484	32 467
Liabilities associated with property, plant and equipment	4 906	11 004	27 877	5 123
Current tax liabilities	6 600	4 930	3 066	6 352
Deferred revenue	24 503	26 294	10 766	15 818
Other current liabilities	44 103	107 515	34 705	35 106
Provision for retirement benefits and similar obligations	2 668	2 278	2 353	1 862
Provisions for liabilities	777	777	850	1 063
TOTAL EQUITY AND LIABILITIES	**2 774 261**	**2 606 272**	**2 524 417**	**2 523 218**

(figures quoted in PLN thousand, unless otherwise stated)

6.4 Statement of changes in equity

	Share capital	Reserves	Retained earnings	Total
Twelve months ended December 31, 2015				
Balance as at January 1, 2015	**517 754**	**133 333**	**1 253 499**	**1 904 586**
- net profit for the period	0	0	109 203	109 203
- other comprehensive income/(loss)	0	(644)	(887)	(1 531)
Total comprehensive income/(loss) for the period	**0**	**(644)**	**108 316**	**107 672**
- settlement of the merger with subsidiary	0	0	(18 259)	(18 259)
- dividends	0	0	(69 116)	(69 116)
Balance as at December 31, 2015	**517 754**	**132 689**	**1 274 440**	**1 924 883**
of which: nine months ended September 30, 2015				
Balance as at January 1, 2015	**517 754**	**133 333**	**1 253 499**	**1 904 586**
- net profit for the period	0	0	87 419	87 419
- other comprehensive income/(loss)	0	(825)	0	(825)
Total comprehensive income/(loss) for the period	**0**	**(825)**	**87 419**	**86 594**
- dividends	0	0	(69 116)	(69 116)
Balance as at September 30, 2015	**517 754**	**132 508**	**1 271 802**	**1 922 064**
Nine months ended September 30, 2016				
Balance as at January 1, 2016	**517 754**	**132 689**	**1 274 440**	**1 924 883**
- net profit for the period	0	0	118 934	118 934
- other comprehensive income/(loss)	0	211	50	261
Total comprehensive income for the period	**0**	**211**	**118 984**	**119 195**
- transaction with a shareholder	0	0	17 286	17 286
- income tax relating to transaction with a shareholder	0	0	(3 284)	(3 284)
- accounting for business combination under common control	0	0	(20 800)	(20 800)
- dividends	0	0	(69 116)	(69 116)
Balance as at September 30, 2016	**517 754**	**132 900**	**1 317 510**	**1 968 164**
of which: three months ended September 30, 2016				
Balance as at June 1, 2016	**517 754**	**132 596**	**1 298 071**	**1 948 421**
- net profit for the period	0	0	40 239	40 239
- other comprehensive income/(loss)	0	304	0	304
Total comprehensive income for the period	**0**	**304**	**40 239**	**40 543**
- accounting for business combination under common control	0	0	(20 800)	(20 800)
Balance as at September 30, 2016	**517 754**	**132 900**	**1 317 510**	**1 968 164**

(figures quoted in PLN thousand, unless otherwise stated)

6.5 Statement of cash flows

	3 months ended Sep. 30, 2016	9 months ended Sep. 30, 2016	3 months ended Sep. 30, 2015	9 months ended Sep. 30, 2015
OPERATING ACTIVITIES				
Profit before tax	**50 358**	**135 358**	**39 092**	**101 142**
Adjustments:	**34 077**	**24 621**	**22 178**	**26 760**
Depreciation and amortisation	26 187	73 731	23 174	69 212
Foreign exchange gains/(losses)	2 761	2 076	2	(5 085)
Interest, borrowing costs and dividends	3 916	(44 589)	3 509	(26 286)
Gain from investing activities	(4 413)	(4 375)	(10 495)	(10 492)
Change in receivables	20 341	(4 359)	3 279	(10 321)
Change in liabilities, excluding borrowings	(7 647)	(893)	1 024	1 798
Change in deferred revenue	(6 929)	3 631	(1 398)	4 656
Change in provisions	0	(798)	(463)	(593)
Change in inventories	(139)	187	194	519
Other adjustments	0	10	3 352	3 352
Cash generated from operations	**84 435**	**159 979**	**61 270**	**127 902**
Income taxes paid	(9 995)	(22 602)	(7 271)	(14 312)
Net cash generated by operating activities	**74 440**	**137 377**	**53 999**	**113 590**
INVESTING ACTIVITIES				
Proceeds from disposal of property, plant and equipment, intangible assets and investment properties	4 423	5 056	19 207	21 532
Dividends and share of profits	0	55 272	0	37 506
Repayment of loans granted	7 716	7 716	0	0
Interest received	383	746	162	432
Cash acquired due to business combination with a subsidiary	46 825	46 825	0	0
Other investing cash inflows	1 050	8 249	0	2 000
Payments for property, plant and equipment, intangible assets and investment properties	(35 057)	(110 742)	(19 908)	(53 603)
Net cash outflow to acquire interest in related parties	0	0	0	(596 581)
Increase in share capital of related parties	0	(10)	0	0
Net cash generated by/(used in) investing activities	**25 340**	**13 112**	**(539)**	**(588 714)**

(figures quoted in PLN thousand, unless otherwise stated)

	3 months ended Sep. 30, 2016	9 months ended Sep. 30, 2016	3 months ended Sep. 30, 2015	9 months ended Sep. 30, 2015
FINANCING ACTIVITIES				
Proceeds from borrowings	0	0	0	476 445
Issue of bonds	200 000	200 000	0	300 000
Proceeds from shareholder	0	17 286		0
Dividends and other payments to owners	(69 116)	(69 116)	(69 116)	(69 116)
Repayment of borrowings	0	(17 645)	0	(300 000)
Interest paid and other financing cash outflows resulting from received borrowings	(1 058)	(3 700)	(1 321)	(9 438)
Interest paid and other financing cash outflows resulting from issue of bonds	(607)	(4 834)	(999)	(1 078)
Net cash generated by financing activities	**129 219**	**121 991**	**(71 436)**	**396 813**
Change in cash and cash equivalents	**228 999**	**272 480**	**(17 976)**	**(78 311)**
Effects of exchange rate changes on the balance of cash held in foreign currencies	(1 666)	(895)	0	(2 887)
Cash at the beginning of the period	**106 193**	**61 941**	**68 619**	**131 841**
Cash at the end of the period	**333 526**	**333 526**	**50 643**	**50 643**

7 COMMENTS ON ORBIS S.A. RESULTS

7.1 External environment

Information on the macroeconomic landscape and the situation of the hotel industry is provided in Section 4.1 of the Consolidated Financial Statements of the Orbis Group.

7.2 Income statement

During 9 months of 2016, Orbis S.A. generated net profit of PLN 118.9 million as compared to net profit at the level of PLN 87.4 million in the corresponding period of 2015.

Income statement – analytical approach	9 months ended Sep. 30, 2016	9 months ended Sep. 30, 2015	Change	
			PLN `000	%
Net sales	**518 144**	**440 065**	**78 079**	**17.7**
of which:				
Room revenue	321 361	255 667	65 694	25.7
Food & beverage revenue	134 197	121 568	12 629	10.4
Franchise and management revenue	9 948	9 447	501	5.3
Other revenue	52 638	53 383	(745)	-1.4
EBITDAR	**168 432**	**132 752**	**35 680**	**26.9**
Operating EBITDA	**162 591**	**132 752**	**29 839**	**22.5**
Operating profit (EBIT)	**92 875**	**69 759**	**23 116**	**33.1**
Net result from financing activities	42 483	31 383	11 100	35.4
Profit before tax	**135 358**	**101 142**	**34 216**	**33.8**
Net profit	**118 934**	**87 419**	**31 515**	**36.1**

Income statement – analytical approach	3 months ended Sep. 30, 2016	3 months ended Sep. 30, 2015	Change	
			PLN `000	%
Net sales	**211 275**	**165 732**	**45 543**	**27.5**
of which:				
Room revenue	142 008	101 117	40 891	40.4
Food & beverage revenue	49 681	42 687	6 994	16.4
Franchise and management revenue	3 272	3 460	(188)	-5.4
Other revenue	16 314	18 468	(2 154)	-11.7
EBITDAR	**80 543**	**59 241**	**21 302**	**36.0**
Operating EBITDA	**78 587**	**59 241**	**19 346**	**32.7**
Operating profit (EBIT)	**56 558**	**42 666**	**13 892**	**32.6**
Net result from financing activities	(6 200)	(3 574)	(2 626)	-73.5
Profit before tax	**50 358**	**39 092**	**11 266**	**28.8**
Net profit	**40 239**	**30 666**	**9 573**	**31.2**

The registration, on September 1, 2016, of merger with Hekon-Hotele Ekonomiczne S.A. had a major impact upon the improvement of the result as compared to the past year. Under this merger, Orbis took over 25 hotels of this subsidiary. As at September 30, 2016, the Orbis network comprised of 54 hotels (at the end of September 2015, the Orbis portfolio included 26 hotels). In addition, the following factors positively contributed to the 2016 result:

- **Improvement of operating results on all the markets.** In most hotels of the Company as compared to the past year, both the occupancy rate and the average room rate increased, which translated into higher Revenue per Available Room. This was above all the effect of a flexible pricing strategy and introducing seasonal promotional offers and attractive business packages. In addition, numerous trade fairs, conferences, industry meetings and major sporting events have positively contributed to the results attained in individual cities. In the third quarter of 2016, major events included the NATO summit in Warsaw, the World Youth Days in Krakow and events connected with the celebrations of Wrocław being the European Capital of Culture.
- **Maintaining a tight cost discipline**. Operating expenses (including rental expense and depreciation/amortisation) totalled PLN 429.6 million, i.e. were by 14.3% higher than in 9 months of 2015. Major increases were reported in the costs of outsourced services (as a result of hotel occupancy increase) and costs of employee benefits (among others due to higher employment, salary increases and increase of financial performance-related bonuses). In 9 months of 2016 the Company also paid the property rental costs of PLN 5.8 million. These are the costs of lease of the building where the Sofitel Wrocław Old Town hotel is operated (taken over by Orbis S.A. on October 1, 2015, due to merger with Hotek Polska Sp. z o.o.).
- **A significant change in the net finance income.** The substantial increase of finance income resulted mainly from the higher dividend for 2015 it received from Hekon-Hotele Ekonomiczne S.A. and Accor Hotels Romania s.r.l. The finance expenses include negative foreign exchange differences from transactions in foreign currencies.

7.3 Statement of financial position

On September 30, 2016, Orbis S.A.'s assets totalled PLN 2 774.3 million and rose by 9.9% comparing to December 31, 2015.

The major component of the Group's assets are non-current assets, accounting for 84.6% of assets. Significant changes in individual items of fixed assets have been reported in the third quarter of this year as a result of the merger with subsidiary Hekon-Hotele Ekonomiczne S.A. As a result of this merger:

- Investments in subsidiaries and affiliates decreased by PLN 559.7 million as a result of elimination of shares of PLN 571.8 million in Hekon S.A. and recognition of shares held by the acquired subsidiary in UAB Hekon and Orbis Kontrakty (PLN 12.1 million in aggregate).
- The goodwill of PLN 107.3 million has been recognized in intangible assets (as from the moment of takeover of the subsidiary, i.e. as of the date of purchase of shares in Hekon S.A.).
- Investment properties of PLN 289.0 million, including hotel buildings rented to the acquired subsidiary have been reclassified to non-current assets.
- Property, plant and equipment increased by PLN 609.0 million, of which PLN 320.1 million are the assets of Hekon S.A.
- Other financial assets include long-term part of loan granted in January 2016 by Hekon S.A. to another Group company, i.e. Accor Pannonia Hotels Zrt.

As regards current assets, the most important item are cash and cash equivalents of PLN 333.5 million, accounting for 12.0% of total assets. The major growth of this item both in the third quarter as well as in comparison to 2015 has been influenced by cash received from current operating activity and from bond issue (PLN 200 million).

Orbis S.A. finances its assets predominantly from equity which as at September 30, 2016, accounted for 70.9% of the balance sheet total. The external capital equalled PLN 806.1 million, of which 79.1% were long-term liabilities and provisions.

As at September 30, 2016, Orbis S.A. had the following non-current liabilities bearing interest:

- liabilities under the bond issue of PLN 501.9 million (18.1% of liabilities),
- borrowings of PLN 105.2 million (3.8% of the balance sheet total),

and current liabilities (borrowings) of PLN 35.3 million.

At the end of the third quarter, the Group's net debt stood at PLN 308.9 million, i.e. accounted for 15.7% of equity.

The biggest item of current liabilities of the Company as at September 30, 2016, was trade payables (29.2%) and other current liabilities (26.2%), including predominantly liabilities under taxes and social insurance and accrued expenses of employee benefits (incl. bonuses and unused employee leaves). Differences in the level of these liabilities as compared to September 30, 2015, result primarily from merger with subsidiary. A major decrease of other liabilities in the third quarter of 2016 is the result of payment of liability in the form of dividend which was paid out to Orbis S.A. shareholders in August 2016.

7.4 Statement of changes in equity

On September 30, 2016, equity amounted to PLN 1 968.2 million against PLN 1 924.9 million at the end of 2015. Their increase resulted above all from posting the net profit for 9 months of 2016 in the amount of PLN 118.9 million to retained earnings. Moreover, in the current year, the payment received from Accor S.A. in the amount of EUR 4 million (equivalent to PLN 17.3 million) resulting from the agreement signed on January 15, 2016, (described in section 8.11) was posted directly to retained earnings. Also the income tax resulting from this transaction has been posted to equity.

The dividend paid out in the total amount of PLN 69.1 million contributed to the decrease in retained earnings for 9 months of 2016 and in the corresponding period of the past year.

In the third quarter of 2016, retained earnings have been further reduced by the sum of PLN 20.8 million as a result of accounting for the merger between Orbis S.A. and its subsidiary Hekon-Hotele Ekonomiczne S.A. (described in section 8.4).

Changes in other Orbis S.A. capitals in the reporting period result from the valuation of derivative used as a hedging instrument against interest rate risk.

7.5 Statement of cash flows

In 9 months ended on September 30, 2016, the net cash flows of Orbis S.A. amounted to PLN 272.5 million (-PLN 78.3 million in 9 months of 2015). Change in the balance of cash flows during 3 months ended September 30, 2016, totalled PLN 229.0 million (-PLN 18.0 million in the corresponding period of 2015). The following factors had influenced on the positive cash flows in the third quarter of 2016:

- **Operating activities**
  Thanks to good operating performance and profits generated in the third quarter of 2016, the Company reported positive cash flows from operating activities in the amount of PLN 74.4 million. The increase in these cash flows as compared to the corresponding period of the past year has also been caused by the increase in the scale of operations through merger with a subsidiary.

- **Investing activities**
  In the third quarter of 2016, the Company generated positive cash flows from investing activities in the amount of PLN 25.3 million. As a result of merger with Hekon S.A. the cash of this subsidiary in the amount of PLN 46.8 million was posted as income from investing activities. Additional source of income in the third quarter of 2016 was the cash obtained as a result of increasing the selling price of the real properties at ul. Bitwy Warszawskiej 1920 r. and the repayment of loan by Katerinska Hotel s.r.o. (this loan was granted by Hekon S.A. in 2015). Expenses in the amount of PLN 35.1 million were incurred for construction and modernisation works in hotels, mainly Mercure Kraków Stare Miasto, Novotel Wrocław Centrum and ibis Gdańsk Stare Miasto.

- **Financing activities**
  In the third quarter of 2016 the Company generated positive cash flows from financing activities in the amount of PLN 129.2 million as a result of bond issue for PLN 200 million, expenditure on payment of dividend (PLN 69.1 million) and expenses related to external financing in the total amount of PLN 1.7 million.

8 NOTES TO THE FINANCIAL STATEMENTS

8.1 General information

8.1.1 Basic information about the Issuer

The attached financial statements present the financial figures of Orbis Spółka Akcyjna with its corporate seat in Warsaw, ul. Bracka 16 street, 00-028 Warsaw, entered into the Register of Business Operators maintained by the District Court in Warsaw, XII Commercial Division of the National Court Register under the number KRS 0000022622.

8.1.2 Business operations

According to the Polish Classification of Business Activity [PKD], Orbis S.A.'s business operations are classified under section I, item 5510Z.

Orbis S.A. is Poland's largest hotel company that employs 2.5 thousand persons (average full-time equivalent employment). As at September 30, 2016, the Company operated a network of 54 hotels (10 246 rooms) in 19 cities, towns and resorts in Poland. The hotels owned by Orbis S.A. operate under the following Accor brands: Sofitel, Novotel, Mercure, ibis, ibis budget and ibis Styles.

Orbis is the sole licensor of Accor brands in 16 countries of Eastern and Central Europe. As at the balance sheet date, 26 hotels offering a total of 2 796 rooms operated under franchise agreements and 10 hotels with a total of 1 571 rooms operated under management agreements..

Orbis S.A. is the parent company of the Orbis Group. The structure of the Group is presented in Section 5.7 of the Consolidated Financial Statements of the Orbis Group.

8.2 The Issuer's shareholders

Orbis S.A. shareholding structure as at the day of publication is presented in Section 5.3 of the Consolidated Financial Statements of the Orbis Group.

8.3 The holding of Orbis S.A. shares by members of the Supervisory Board and the Management Board

Information on the holding of Orbis S.A. shares by members of the Company's statutory bodies is provided in Section 5.5 of the Consolidated Financial Statements of the Orbis Group.

(figures quoted in PLN thousand, unless otherwise stated)

8.4 Investments in subsidiaries

The table below presents basic information about subsidiaries.

Name of subsidiary	% share of share capital	% share of voting rights at the GM	Country of registration	Business operations	Method of investment recognition	Share / interest value at cost	Revaluation adjustment	Carrying amount of shares / interests
Orbis Corporate Sp. z o.o.*	directly 100.00%	directly 100.00%	Poland	tourism, transport, hotel and F&B services	cost	45	(45)	0
Orbis Kontrakty Sp. z o.o.	directly 100.00%	directly 100.00%	Poland	organisation of purchasing	cost	100	0	100
UAB Hekon	directly 100.00%	directly 100.00%	Lithuania	hotel and F&B services	cost	13 688	(1 608)	12 080
Katerinska Hotel s.r.o.	directly 100.00%	directly 100.00%	Czech Republic	hotel and F&B services	cost	279 260	0	279 260
Accor Pannonia Hotels Zrt.	directly 99.92%	directly 99.92%	Hungary	hotel and F&B services	cost	82 677	0	82 677
Accor Hotels Romania S.R.L.	directly 100.00%	directly 100.00%	Romania	hotel and F&B services	cost	91 804	0	91 804
Total								**465 921**

** During the period of 9 months of 2016 the Company made additional payments to Orbis Corporate Sp. z o.o. in the amount of PLN 10 thousand to cover the costs of operation of that entity. At the same time, an impairment reserve was created.*

The table below presents information on the companies in which Orbis S.A. holds interests indirectly.

Subsidiary's name	% share of equity	% share of votes at the GM	Country of registration	Business operations
Nový Smíchov Gate a.s.	indirectly 100.00%	indirectly 100.00%	Czech Republic	real property rental
H-DEVELOPMENT CZ a.s.	indirectly 100.00%	indirectly 100.00%	Czech Republic	real property services
Business Estate Entity a.s.	indirectly 100.00%	indirectly 100.00%	Czech Republic	real property rental
Blaha Hotel Szállodaüzemeltető Kft.	indirectly 44.42%	indirectly 44.42%	Hungary	hotel and F&B services
Accor-Pannonia Slovakia s.r.o.	indirectly 99.92%	indirectly 99.92%	Slovakia	hotel and F&B services

During the period of 9 months of 2016 the subsidiary World Trade Center Budapest Management Szolgáltató Kft. with its registered address in Budapest was deleted from the register of entrepreneurs.

Accounting for the transaction of merger of Orbis S.A. with Hekon – Hotele Ekonomiczne S.A.

In the third quarter of 2016 the merger between Orbis S.A. (merging company) with its subsidiary – Hekon – Hotele Ekonomiczne S.A. (merged company) took place. The merger was registered in the Register of Business Operators of the National Court Register on September 1, 2016.

The merger took place pursuant to Article 492 § 1 point 1) of the Code of Commercial Companies and Partnerships, that is, by way of transferring all the assets of the merged company to the merging company.

Given that the merging company held all interests in the share capital of the merged company, the merger pursuant to Article 515 § 1 of the Code of Commercial Companies and Partnerships took place without amending the Statutes of Orbis S.A. and without increasing its share capital. Moreover, on the basis of Article 516 § 6 of the Code of Commercial Companies and Partnerships, the merger was effected according to the so-called simplified procedure, whereupon the Merger Plan was not audited by an auditor.

The objective of the merger was to simplify the organisational structure of the Orbis Group and reduce the costs of operations of companies forming the Group. The Merger will also allow optimizing and centralizing tasks and functions, and in consequence improving the management process over the Group's operations.

In view of the fact that on the date of the merger Orbis S.A. held 100% of Hekon – Hotele Ekonomiczne S.A. interests, the merger is a transaction of business combination under common control.

Business combinations under common control are excluded from the scope of the International Financial Reporting Standards. In the absence of any specific guidance, following the recommendation included in IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", Orbis S.A. has adopted an accounting policy that recognises those transactions using book value. Orbis S.A. recognised the assets and liabilities of the acquired entity at their current book value as reported in the consolidated financial statements of the Orbis Group. The assets also include the goodwill as at the date of takeover of the acquired entity, which so far was recognized in the consolidated financial statements of the Orbis Group . The difference between the book value of acquired net assets and the value of interests held in the acquired entity was recognised in the equity of the Company. In applying this book value method, the comparative figures for the historical periods presented are not restated.

	Book value in PLN '000
Net assets	**550 948**
Non-current assets acquired, of which:	510 922
property, plant and equipment	*320 095*
goodwill	*107 252*
Current assets aquired	73 729
of which: cash and cash equivalents	*46 825*
Non-current liabilities assumed	2 349
Current liabilities assumed	31 354
Value of interests in acquired company	**571 748**
Difference between net assets acquired and value of interests in acquired company, posted to retained earnings of Orbis S.A.	**(20 800)**

8.5 Borrowings

Information on borrowings is presented in Section 5.10.of the Consolidated Financial Statements of the Orbis Group.

8.6 Issue, redemption and repayment of debt and equity securities

Information on the issue, redemption and repayment of debt and equity securities is presented in Section 5.11. of the Consolidated Financial Statements of the Orbis Group.

8.7 Financial instruments

8.7.1 Fair value of financial instruments

As at September 30, 2016 and December 31, 2015, the only assets and liabilities that were measured at fair value following their initial recognition and were recognised at fair value in the statement of financial position were derivative instruments, i.e. interest rate swap.

(figures quoted in PLN thousand, unless otherwise stated)

The table below presents fair values and carrying amounts of financial assets and liabilities (including items that are not measured at fair value, but in respect of which fair value disclosures are required):

	As at September 30, 2016		As at December 31, 2015	
	Carrying amount	Fair value	Carrying amount	Carrying amount
Financial assets				
Cash and cash equivalents	333 526	333 526	61 941	61 941
Other financial assets	68 256	68 256	7 888	7 888
Short-term financial assets (loans granted)	8 870	8 870	0	0
Trade receivables and other short-term receivables	34 083	34 083	30 618	30 618
Investment in subsidiaries (excluded from the scope of IAS 39)	465 921	-	1 025 569	-
Financial liabilities				
Borrowings	140 514	142 759	157 755	160 551
Debt securities - bonds issued	501 896	504 681	299 229	303 000
Derivative instruments (liabilities)	534	534	795	795
Trade payables and other current and non-current liabilities	59 664	59 664	62 000	62 000

According to the Management Board the carrying amount of financial instruments of the Company, with the exception of liabilities arising from credit facilities and issued bonds, was close to their fair value.

The Company does not disclose the fair value in respect of interests and shares in subsidiaries. Interests and shares in subsidiaries and affiliates (joint ventures) – financial assets excluded from the scope of IAS 39, are measured at purchase cost less impairment losses according to the Company's accounting policy.

The fair value of liabilities arising from credit facilities was determined as the present value of future cash flows, discounted at a current interest rate.

The fair value of bonds issued in 2015 was determined based on their price on the Catalyst bond market as at the end of the reporting period (or a date close to that day). The fair value of bonds issued in July 2016 (which as at the end of the reporting period were not quoted on an active market) was determined as the present value of future cash flows, discounted at a current interest rate.

The fair value of a derivative instrument was determined as the present value of estimated future cash flows on the basis of monitoring of yield curves.

In terms of applied measurement procedures, issued bonds introduced into BondSpot alternative trading system on Catalyst are classified to Level 1 of fair value hierarchy (fair value determined on the basis of prices quoted on an active market). Liabilities under credit facilities, unquoted bonds and derivative instruments are classified to Level 2 of fair value hierarchy (fair value determined on the basis of observable market data, other than direct market quotations).

The Company did not perform any reclassifications between fair value levels in the current period.

8.7.2 Hedge accounting

To reduce the risk of changing interest rates and hedge future cash flows, on September 15, 2015 Orbis S.A. entered into a pay-floating receive-fixed Interest Rate Swap with the bank Société Générale S.A. The amount of the hedging instrument is PLN 150 million, which accounts for 50% of the value of the first tranche of bonds issued in the amount of PLN 300 million. The swap matures on June 26, 2018.
Interest payment dates fall every six months, starting from June 27, 2016, and have been correlated with dates of payment of interest on bonds. In the reporting period the Company paid PLN 105 thousand of Interest Rate Swap interest payment. At the end of the presented reporting periods, the swap's valuation at fair value was disclosed in the Company's equity through other comprehensive income. In 2016, no ineffectiveness arising from cash flow hedges occurred that would require to be disclosed in the financial result of the Company.

(figures quoted in PLN thousand, unless otherwise stated)

8.8 Changes in estimates of amounts

8.8.1 Impairment of assets

Movements in impairment in 9 months of 2016	Impairment on:				
	tangible assets	investment property	assets held for sale	shares	receivables
as at January 1, 2016	**(58 096)**	**(10 867)**	**(12 060)**	**(37)**	**(2 495)**
increase due to merger	(7 112)	(596)	0	(1 608)	(313)
recognised impairment loss	0	0	0	(10)	(612)
utilised impairment loss	0	354	0	0	235
reversed impairment loss	0	0	0	0	370
impairment loss not subject to reversal*	1 137	232	0	0	0
reclassification to assets held for sale	9 046	0	(9 046)	0	0
reclassification to fixed assets	(10 282)	10 282	0	0	0
as at September 30, 2016	**(65 307)**	**(595)**	**(21 106)**	**(1 655)**	**(2 815)**

Movements in impairment in 3rd quarter of 2016	Impairment on:				
	tangible assets	investment property	assets held for sale	shares	receivables
as at June 1, 2016	**(57 362)**	**(10 334)**	**(12 060)**	**(47)**	**(2 754)**
increase due to merger	(7 112)	(596)	0	(1 608)	(313)
recognised impairment loss	0	0	0	0	(76)
utilised impairment loss	0	0	0	0	208
reversed impairment loss	0	0	0	0	120
impairment loss not subject to reversal*	403	53	0	0	0
reclassification to assets held for sale	9 046	0	(9 046)	0	0
reclassification to fixed assets	(10 282)	10 282	0	0	0
as at September 30, 2016	**(65 307)**	**(595)**	**(21 106)**	**(1 655)**	**(2 815)**

** The value of impairment recognised in the previous periods, which cannot be reversed (due to IAS 36, according to which the net book value of property, plant and equipment and investment property arising from the reversal of impairment should not exceed the amount that would have been determined if no impairment had been recognised). This value of impairment is recognised as accumulated depreciation. As a result, the balance of impairment as at the end of the period equals the amount reversible in the event of expiry of circumstances underlying the recognition of impairment.*

During 9 months of 2016 and in 2015, no circumstances occurred in Orbis S.A. that would indicate a need to recognise impairment losses on inventories.

(figures quoted in PLN thousand, unless otherwise stated)

8.8.2 Provisions for liabilities

Movements in provisions in 9 months of 2016	Provision for:			
	Jubilee awards	Retirement & disability benefits	litigations	restructuring
As at January 1, 2016	**15 901**	**6 284**	**777**	**73**
Increase due to business combination under common control	2 598	141	0	0
Provision recognised in the period	675	219	0	0
Provision utilised in the period	(733)	(138)	0	(73)
Provision released in the period	(610)	(200)	0	0
As at September 30, 2016, of which:	**17 831**	**6 306**	**777**	**0**
Short-term provisions	2 043	625	777	0
Long-term provisions	15 788	5 681	0	0

The release of provisions for jubilee awards and retirement and disability benefits results from the sale, on February 29, 2016, of an organized part of the enterprise of the Mercure Mrągowo Resort & SPA hotel.

Movements in provisions in 3rd quarter of 2016	Provision for:			
	Jubilee awards	Retirement & disability benefits	litigations	restructuring
As at July 1, 2016	**15 233**	**6 165**	**777**	**0**
Increase due to business combination under common control	2 598	141	0	0
As at September 30, 2016, of which:	**17 831**	**6 306**	**777**	**0**
Short-term provisions	2 043	625	777	0
Long-term provisions	15 788	5 681	0	0

8.9 Deferred tax assets and liabilities

Deferred tax	As at:		Merged company's deferred tax:	Impact on statement of comprehensive income
	Sep. 30, 2016	Dec. 31, 2015		
Deferred tax assets	(18 840)	(13 373)	(6 730)	(1 263)
Deferred tax liabilities	10 995	16 823	271	6 099
Change in deferred tax assets and liabilities, of which:				**4 836**
impact on profit or loss				4 898
impact on other comprehensive income				(62)

8.10 Legal claims

Description of major litigations pending before courts, arbitration or public administration bodies is provided in Section 5.16 of the Consolidated Financial Statements of the Orbis Group.

(figures quoted in PLN thousand, unless otherwise stated)

8.11 Related party transactions

Within the meaning of IAS 24, parties related to the Company include members of the managing and supervising staff and close members of their families, subsidiaries and associates, as well as Accor S.A. (significant shareholder) and its related parties.

Revenue from the sale of services to the Accor Group companies comprise primarily revenues for sales support, promotion of the Accor network and development of the Le Club Accorhotels program in Poland and in the Baltic States.

Costs of purchase of services from the Accor Group companies comprise mainly:
- franchise fees,
- reservation fees,
- fees for the use of IT applications,
- costs connected with the Le Club Accorhotels loyalty program.

Revenue from the sale of services to subsidiaries comprise mainly management fees (Hekon-Hotele Ekonomiczne S.A., Orbis Kontrakty Sp. z o.o.) and revenue from lease of hotel properties (Hekon Hotele Ekonomiczne S.A.).

Purchases from subsidiary companies comprise predominantly mutually provided services.

Finance income comprises dividend received from subsidiaries (Hekon-Hotele Ekonomiczne S.A., Orbis Kontrakty Sp. z o.o. and Accor Hotels Romania s.r.l.).

Within the framework of the agreement signed by Accor S.A. and Orbis S.A. on January 15, 2016, Orbis S.A. received a sum of EUR 4 million (equivalent to PLN 17.3 million). The payment of this sum concerned directly the release of Accor S.A. from the guarantee it granted to Orbis S.A. as part of the agreement to purchase shares in subsidiaries and was connected with the operations of specified assets (the ibis Budapest Heroes Square hotel and the Mercure Budapest City Center hotel) in Hungary, which assets were purchased in 2016 by a subsidiary Accor-Pannonia Hotels Zrt. The transaction with the shareholder and, consequently, the sum received does not constitute income of Orbis S.A. according to the International Financial Reporting Standards, because it is no way connected with the operations of the Company or the Group, which is why it was recognized directly in Orbis S.A. equity (in "retained earnings" item).

Related parties transactions – revenues	3 months ended Sep. 30, 2016	3 months ended Sep. 30, 2015	9 months ended Sep. 30, 2016	9 months ended Sep. 30, 2015
Net sales of services				
- from the parent company	69	481	1 130	1 419
- from other Accor Group companies	417	118	425	360
- from subsidiaries	7 991	12 026	31 003	34 148
Total sales	**8 477**	**12 625**	**32 558**	**35 927**
Finance income				
- from subsidiaries	90	0	55 448	37 506
Total revenue	**8 567**	**12 625**	**88 006**	**73 433**

Related parties transactions - expenses	3 months ended Sep. 30, 2016	3 months ended Sep. 30, 2015	9 months ended Sep. 30, 2016	9 months ended Sep. 30, 2015
Purchases of services				
- from the parent company	7 113	6 601	17 793	14 557
- from other Accor Group companies	3 261	1 253	6 190	3 853
- from subsidiaries	1	24	3	123
Total purchases	**10 375**	**7 878**	**23 986**	**18 533**

(figures quoted in PLN thousand, unless otherwise stated)

Receivables and payables	As at:			
	Sep. 30, 2016	Jun. 30, 2016	Dec. 31, 2015	Sep. 30, 2015
Trade receivables				
- from the parent company	345	794	72	575
- from other Accor Group companies	337	503	177	276
- from subsidiaries	95	17 431	14 294	15 252
Receivables under loans granted				
- from subsidiaries	69 238	0	0	0
Receivables from the Tax Group companies	0	539	0	908
Total receivables	**70 015**	**19 267**	**14 543**	**17 011**
Trade payables				
- to the parent company	8 643	9 046	5 055	8 542
- to other Accor Group companies	1 352	566	394	692
- to subsidiaries	0	93	113	43
Dividend payables :				
- to the parent company	0	32 959	0	0
- to other Accor Group companies	0	3 456	0	0
Payables towards the Tax Group companies	0	0	1 329	0
Total payables	**9 995**	**46 120**	**6 891**	**9 277**

The significant drop in revenue and receivables from subsidiaries reported in the 3rd quarter of 2016 was caused by the merger of Orbis S.A. and Hekon – Hotele Ekonomiczne S.A.

Based on the agreement executed on September 31, 2015, Orbis S.A. and Hekon – Hotele Ekonomiczne S.A. formed a Tax Group. The agreement was signed for a term of three tax years, i.e. from January 1, 2016 till December 31, 2018. Due to the merger of both companies, the Tax Group lost its tax status as of September 1, 2016.

Receivables under granted loans include a loan granted by Hekon – Hotele Ekonomiczne S.A. to Accor-Pannonia Hotels Zrt. As a result of merger, Orbis S.A. became the successor of Hekon - Hotele Ekonomiczne S.A. in all agreements to which that company was a party.

No impairment loss was recognised on the presented receivables in the period under analysis.

Balances arising from related party transaction will be settled by way of payments.

Transactions with related companies are executed at arms' length.

Benefits (including wages and salaries, awards, post-employment benefits and retirement benefits) paid in accordance with contractual obligations to the Members of the Management Board and the Supervisory Board of Orbis S.A. in 9-month periods ended September 30, 2016 and September 30, 2015, amounted to PLN 3 650 thousand and PLN 3 202 thousand, respectively. In 2016, the number of seats in the Orbis S.A. Management Board has been expanded to include one more Board Member (see item 5.4 of the Consolidated Financial Statements of the Orbis Group).

No transactions involving transfer of rights and obligations, either free of charge or against consideration, were executed between Orbis S.A. and related parties:

- members of the Management Board and the Supervisory Board of Orbis S.A.,
- spouses, next-of-kin or relatives of the first and second degree of members of the Management Board and the Supervisory Board of Orbis S.A., Orbis S.A. subsidiaries,
- persons linked by a relation of guardianship, adoption or custody with members of the Management Board and the Supervisory Board of Orbis S.A., Orbis S.A. subsidiaries.

8.12 Important events after the reporting period

In Orbis S.A. there were no important events after the reporting period.

APPENDIX: GLOSSARY OF TERMS

ARR – Average Room Rate, revenue from accommodation services divided by the number of roomnights sold

CAPEX – Capital Expenditure

CSR – Corporate Social Responsibility

EBIT – Earnings Before Interest & Taxes, operating result before interest and taxes

EBITDA - Earnings Before Interest, Taxes, Depreciation and Amortisation, operating result before depreciation/amortisation, result from financing activities and taxes

EBITDAR – Earnings Before Interest, Taxes, Depreciation, Amortisation, and Rent Expense, operating result before rent expense, depreciation/amortisation, effects of one-off events, result from financing activities and taxes

Economy hotels – one of the two reportable operating segments of the Orbis Group that comprises hotels of the ibis, ibis Styles and ibis budget brands.

Le Club Accorhotels (LCAH) – a free loyalty programme of the Accor Group hotels. Points may be earned not only at Accor hotels but also at Group's partners, including over 20 airlines such as Air France or Lufthansa. Le Club Accorhotels is 100% Internet-based, all benefits are available on-line where the Programme Member may manage his preferences, check bookings, select rewards and take advantage of personalised offers at preferential prices

"Like-for-like" results - results of comparable hotel portfolio excluding the results of sold, closed and newly opened hotels.

MICE – Meetings, Incentives, Conventions, and Events, business tourism, a segment of tourism where trips are made in connection with pursued profession

NOVO^2 – combination of a bar and a restaurant in Novotels. NOVO^2 is based on three values: Vitality (health) entails the selection of environmentally-friendly produce and a balanced diet; Connect-ainment (entertainment) to ensure that each guest will feel at ease thanks to international interior design and cuisine; Imagination (inspirations) is reflected in the presentation of the most intriguing culinary trends from all around the world.

Occupancy Rate – rooms occupied by hotel guests as a percentage of all available rooms

RevPAR – Revenue Per Available Room, revenue from accommodation services divided by the number of available rooms (may be calculated as Occupancy Rate multiplied by the Average Room Rate)

Up & Midscale hotels – one of the two reportable operating segments of the Orbis Group that comprises hotels of the following brands: Sofitel, Pullman, MGallery, Novotel and Mercure.

WineStone – a restaurant concept in Mercure hotels based on two elements: a collection of wines selected on the basis of sommeliers'' knowledge and experience, and dishes served on *les planches* – stone plates originating in the trendiest French restaurants