Orbis Group

Report for the First Half of 2017

Condensed Interim Consolidated Financial Statements

July 27, 2017

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(figures quoted in PLN thousand, unless otherwise stated)

CONSOLIDATED INCOME STATEMENT

for the first half of 2017 with comparable figures for the year 2016

	1st half of 2017	1st half of 2016
Net sales	**679 530**	**639 874**
Outsourced services	(147 555)	(136 732)
Employee benefit expense	(173 821)	(167 934)
Raw materials and energy used	(95 421)	(95 337)
Taxes and charges	(20 543)	(20 527)
Other expenses by nature	(6 528)	(6 735)
Net other operating income/(expenses)	1 439	719
EBITDAR	**237 101**	**213 328**
Rental expense	(34 930)	(49 039)
Operating EBITDA	**202 171**	**164 289**
Depreciation and amortisation	(82 186)	(72 852)
Operating profit without the effects of one-off events	**119 985**	**91 437**
Result on sale of real property	3 927	1 577
Revaluation of non-current assets	0	(909)
Restructuring costs	(1 786)	(231)
Result of other one-off events	(1 057)	(351)
Operating profit	**121 069**	**91 523**
Finance income	873	1 113
Finance costs	(17 125)	(7 711)
Share of net losses of associates	0	(61)
Profit before tax	**104 817**	**84 864**
Income tax expense	(22 546)	(13 486)
Net profit for the period	**82 271**	**71 378**
- attributable to owners of the parent	82 254	71 370
- attributable to non-controlling interests	17	8
Earnings per ordinary share		
Basic and diluted earnings per share attributable to owners of the parent for the period (in PLN)	1,79	1,55

(figures quoted in PLN thousand, unless otherwise stated)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the first half of 2017 with comparable figures for the year 2016

	1st half of 2017	1st half of 2016
Net profit for the period	**82 271**	**71 378**
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gains/losses arising from the defined employee benefit plan		62
Income tax relating to items that will not be reclassified subsequently	(22)	(12)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	(20 722)	11 267
The effective portion of the gain or loss on the hedging instrument entered into for cash flow hedges	(12)	(114)
Income tax relating to items that may be reclassified subsequently	2	21
Other comprehensive income/(loss), net of income tax	**(20 754)**	**11 224**
Total comprehensive income for the period	**61 517**	**82 602**
- attributable to owners of the parent	61 507	82 590
- attributable to non-controlling interests	10	12

(figures quoted in PLN thousand, unless otherwise stated)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at June 30, 2017, December 31, 2016 and June 30, 2016

Assets	As at:		
	June 30, 2017	December 31, 2016	June 30, 2016
Non-current assets	**2 425 107**	**2 193 359**	**2 226 467**
Property, plant and equipment	2 261 011	2 037 338	2 057 810
Investment property	8 856	8 720	8 938
Intangible assets, of which:	112 102	112 692	113 201
- goodwill	107 252	107 252	107 252
Investments in associates	0	0	10 385
Other financial assets	24 025	15 510	7 888
Deferred tax assets	18 292	18 206	27 424
Other non-current assets	821	893	821
Current assets	**362 429**	**643 145**	**348 266**
Inventories	6 642	7 167	6 572
Trade receivables	76 174	58 953	72 007
Income tax receivables	1 660	3 079	1 335
Other current receivables	35 334	33 152	31 993
Cash and cash equivalents	242 619	540 794	236 359
Assets classified as held for sale	**189 525**	**23 631**	**24 006**
TOTAL ASSETS	**2 977 061**	**2 860 135**	**2 598 739**

(figures quoted in PLN thousand, unless otherwise stated)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION, continued

as at June 30, 2017, December 31, 2016 and June 30, 2016

Equity and Liabilities	As at:		
	June 30, 2017	December 31, 2016	June 30, 2016
Equity	**1 938 470**	**1 950 676**	**1 810 776**
Equity attributable to owners of the parent	**1 938 298**	**1 950 514**	**1 810 631**
Share capital	517 754	517 754	517 754
Reserves	133 228	133 238	132 596
Retained earnings	1 290 622	1 282 113	1 146 205
Foreign currency translation reserve	(3 306)	17 409	14 076
Non-controlling interests	**172**	**162**	**145**
Non-current liabilities	**619 053**	**624 954**	**438 812**
Borrowings	70 266	87 656	105 066
Bonds	501 515	501 372	299 331
Deferred tax liabilities	4 820	282	881
Deferred revenue	12 351	4 001	4 150
Other non-current liabilities	5 045	5 114	4 179
Provision for retirement benefits and similar obligations	18 363	19 765	22 190
Provisions for liabilities	6 693	6 764	3 015
Current liabilities	**419 538**	**284 505**	**349 151**
Borrowings	89 559	35 289	35 289
Other financial liabilities	129	118	909
Trade payables	110 293	117 429	109 802
Liabilities associated with tangible assets	9 302	24 945	15 715
Current tax liabilities	6 799	3 143	5 561
Deferred revenue	42 054	21 466	40 610
Other current liabilities	157 715	77 673	137 433
Provision for retirement benefits and similar obligations	2 909	2 983	2 757
Provisions for liabilities	778	1 459	1 075
TOTAL EQUITY AND LIABILITIES	**2 977 061**	**2 860 135**	**2 598 739**

(figures quoted in PLN thousand, unless otherwise stated)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the first half of 2017 with comparable figures for the year 2016

	Equity attributable to owners of the parent				Non-controlling interest	Total
	Share capital	Reserves	Retained earnings	Foreign currency translation reserve		
Twelve months ended December 31, 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	207 125	0	22	**207 147**
- other comprehensive income/(loss)	0	549	203	14 596	7	**15 355**
Total comprehensive income for the period	**0**	**549**	**207 328**	**14 596**	**29**	**222 502**
- transaction with a shareholder	0	0	17 286	0	0	**17 286**
- income tax relating to transaction with a shareholder	0	0	(3 284)	0	0	**(3 284)**
- dividends	0	0	(69 116)	0	0	**(69 116)**
Balance as at December 31, 2016	**517 754**	**133 238**	**1 282 113**	**17 409**	**162**	**1 950 676**
of which: six months ended June 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	71 370	0	8	**71 378**
- other comprehensive income/(loss)	0	(93)	50	11 263	4	**11 224**
Total comprehensive income/(loss) for the period	**0**	**(93)**	**71 420**	**11 263**	**12**	**82 602**
- transaction with a shareholder	0	0	17 286	0	0	**17 286**
- income tax relating to transaction with a shareholder	0	0	(3 284)	0	0	**(3 284)**
- dividends	0	0	(69 116)	0	0	**(69 116)**
Balance as at June 30, 2016	**517 754**	**132 596**	**1 146 205**	**14 076**	**145**	**1 810 776**
Six months ended June 30, 2017						
Balance as at January 1, 2017	**517 754**	**133 238**	**1 282 113**	**17 409**	**162**	**1 950 676**
- net profit for the period	0	0	82 254	0	17	**82 271**
- other comprehensive income/(loss)	0	(10)	(22)	(20 715)	(7)	**(20 754)**
Total comprehensive income/(loss) for the period	**0**	**(10)**	**82 232**	**(20 715)**	**10**	**61 517**
- dividends	0	0	(73 723)	0	0	**(73 723)**
Balance as at June 30, 2017	**517 754**	**133 228**	**1 290 622**	**(3 306)**	**172**	**1 938 470**

(figures quoted in PLN thousand, unless otherwise stated)

CONSOLIDATED STATEMENT OF CASH FLOWS

for the first half of 2017 with comparable figures for the year 2016

	1st half of 2017	1st half of 2016
OPERATING ACTIVITIES		
Profit before tax	**104 817**	**84 864**
Adjustments:	**80 384**	**98 739**
Share in net (profits)/losses of associates	0	61
Depreciation and amortisation	82 186	72 852
Foreign exchange losses	4 696	293
Interest and other borrowing costs	8 451	6 516
Gain from investing activities	(1 544)	(1 455)
Change in receivables	(18 143)	(27 911)
Change in liabilities, excluding borrowings	(13 247)	30 141
Change in deferred revenue	19 509	15 057
Change in provisions	(1 944)	1 142
Change in inventories	414	191
Other adjustments	6	1 852
Cash generated from operations	**185 201**	**183 603**
Income taxes paid	(13 021)	(22 528)
Net cash generated by operating activities	**172 180**	**161 075**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment and intangible assets	31 595	2 484
Interest received	821	698
Other investing cash inflows	10 340	7 199
Leased hotels buyback	(468 056)	(109 342)
Other payments for property, plant and equipment and intangible assets	(59 318)	(89 435)
Increase in share capital of related parties	0	(10)
Other investing cash outflows	(8 764)	0
Net cash used in investing activities	**(493 382)**	**(188 406)**
FINANCING ACTIVITIES		
Proceeds from borrowings	54 452	0
Proceeds from shareholder	0	17 286
Repayment of borrowings	(17 645)	(19 039)
Interest paid and other financing cash outflows resulting from received borrowings	(1 969)	(2 642)
Interest paid and other financing cash outflows resulting from issue of bonds	(7 096)	(4 227)
Net cash generated by/used in financing activities	**27 742**	**(8 622)**
Change in cash and cash equivalents	**(293 460)**	**(35 953)**
Effects of exchange rate changes on the balance of cash held in foreign currencies	(4 715)	629
Cash and cash equivalents at the beginning of the period	**540 794**	**271 683**
Cash and cash equivalents at the end of the period	**242 619**	**236 359**

1. GENERAL INFORMATION

The attached condensed interim consolidated financial statements of the Orbis Group for the first half of 2017 present a statement of financial position as at June 30, 2017, as well as at December 31, 2016 and June 30, 2016, statement of changes in equity for the first half of 2017, as well as for 2016 and the first half of 2016, income statement, statement of comprehensive income and statement of cash flows, covering the data for the first half of 2017 and for the first half of 2016, as well as explanatory notes to the above-mentioned financial statements.

These financial statements comprise the parent company and its subsidiaries (jointly referred to as the "Orbis Group" or the "Group"). The Orbis Group carries out business in the hospitality industry.

The parent company of the Orbis Group is Orbis S.A. with its corporate seat in Warsaw, at Bracka 16, 00-028 Warsaw, Poland, 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 22622. According to the Polish Classification of Business Activity [PKD], the Company's business operations are classified under section I, item 5510Z. On the Warsaw Stock Exchange, the Company's operations are classified as hotels and restaurants.

The full list of companies forming the Orbis Group is presented in Note 2.1 to the financial statements. Changes in the composition of the Orbis Group as well as organisational and business changes since the date of publication of the last financial statements are outlined in Note 2.2 to the financial statements.

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

Items of statement of financial position of foreign subsidiary companies were translated into the Polish currency according to the average exchange rate quoted by the National Bank of Poland as at June 30, 2017. Items of the income statement, statement of comprehensive income and statements of cash flows of foreign subsidiary companies were translated into the Polish currency according to the exchange rates being the arithmetic mean of average exchange rates quoted by the National Bank of Poland on the last day of each month of the first half of 2017 and the first half of 2016. All resulting foreign exchange differences are recognised as a component of equity.

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		
	1st half of 2017	1st half of 2016	June 30, 2017	December 31, 2016	June 30, 2016
EUR/PLN	4.2474	4.3805	4.2265	4.4240	4.4255
HUF/PLN	0.0137	0.0140	0.0137	0.0142	0.0140
CZK/PLN	0.1586	0.1620	0.1611	0.1637	0.1636
RON/PLN	0.9359	0.9741	0.9269	0.9749	0.9795

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

1.1 BASIS OF PREPARATION OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These condensed interim consolidated financial statements have been prepared in accordance with the International Accounting Standard 34 “Interim Financial Statements” (IAS 34) adopted by the European Union, issued and effective as at the date of these financial statements (please refer also to Note 1.3).

Preparing financial statements in accordance with IFRSs requires applying certain key accounting estimates. The Management Board must also take a number of subjective decisions concerning the application of the Group’s accounting policies. The areas which are more complex or require a subjective judgment, as well as areas in which the assumptions and estimates are significant for the financial statements as a whole, are described in the notes to the attached financial statements.

The condensed interim 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 Management Board of the parent company is of the opinion that there exist no circumstances which would indicate a threat to the continuation of the Group's operations.

These consolidated financial statements were approved by the Management Board on July 26, 2017.

1.2 POSITION OF THE MANAGEMENT BOARD OF ORBIS S.A. RELATED TO THE QUALIFICATION RAISED BY THE ENTITY AUTHORIZED TO AUDIT THE FINANCIAL STATEMENTS IN THE REPORT ON THE REVIEW OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The report of the licensed auditor Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. on the audit of the condensed interim consolidated financial statements of the Orbis Group for the first half of 2017 contains a qualification relating to the classification of the perpetual usufruct of land.

The Management Board of Orbis S.A. is of the opinion that the accepted accounting treatment of rights to perpetual usufruct of land contributes to transparent and fair presentation of information on the economic standing of the Group.

As at the date of the first financial statements prepared in accordance with the International Financial Reporting Standards, the Management Board and the Supervisory Board gave due consideration to various available interpretations of IAS 17 and, guided by the above-mentioned principle of fair presentation of the Group’s standing, decided that the rights to perpetual usufruct of land obtained as a result of an administrative decision should be recognized in the statement of financial position. The lands as well as rights to perpetual usufruct of land alike, constitute a component part of hotel properties of the Group (i.e. cash generating units), since they contribute to the profit and cash flows generated by hotels. Therefore, they constitute a part of the fair value of real property.
Some rights to perpetual usufruct of land have been purchased by the Group and recognized in accounting books at purchase price (i.e. market value). The remaining titles have been obtained from the State Treasury as components of hotel properties and recognized in accounting books at values determined as a result of an independent valuation pursuant to IFRS 1.

Despite different interpretations of IAS 17, including treatment of the lease of land as operating lease on account of the fact that land usually has an unlimited period of economic utility, in the assessment of the Management Board the specific nature of the title to perpetual usufruct of land (which is an element of the Polish legal system only) makes it much more similar to ownership title than to any contractual right. Even without a detailed analysis of legal regulations that apply to perpetual usufruct, a number of elements vested in the perpetual usufructuary in a manner virtually identical to real property owner can easily be identified, namely:

- the use of the land to the exclusion of other persons;
- the capacity to freely dispose of the title by, inter alia, its sale, disposal by way of an in kind contribution, donation, or establishing any encumbrance thereon, for example mortgage;
- the holder of this title enjoys full ownership title to buildings and other facilities raised on the land under perpetual usufruct;

- provisions on the protection of the title to property apply accordingly to protection of the title to perpetual usufruct

Doubts can also arise as to the legal nature of the fee paid by the perpetual usufructuary, which can be regarded as a substitute for the real estate (land) tax paid by a real property owner.

At the same time, considering the specific features of the title to perpetual usufruct of land, such as:

- the marketability of the title to perpetual usufruct,
- the right to extend the period of use (during the last five years, prior to the expiry of the term stipulated in the contract, the perpetual usufructuary may request its extension for a further term of forty to ninety- nine years, and in such case the refusal to extend the contract is admissible only for reasons of important public interest),
- the option of a unilateral waiver of the title to perpetual usufruct by the perpetual usufructuary, resulting in forfeiture of such title,

the choice of the period of use to be taken into account for the purpose of calculating lease is problematic (unclear). In the case of Orbis Group, it should furthermore be taken into account that, considering that hotel buildings have been built on the land held under the title to perpetual usufruct, it is highly unlikely that in the future the Group will refrain from exercising the option of extending the term of the title to perpetual usufruct or the land acquisition option.

The above problems and doubts as to whether the title to perpetual usufruct may be qualified as lease are the result of not only a subjective assessment of the Management Board of Orbis S.A., but also have an objective dimension, meaning that no uniform approach has so far been developed amongst both issuers listed on regulated markets as well as the leading audit firms as to how to qualify and recognise perpetual usufruct of land in accordance with IFRS 17.

Considering the specific features of the titles to perpetual usufruct of land, the Management Board and the Supervisory Board are of an opinion that these titles should be reported in accordance with the IAS 16 Property, Plant and Equipment.

The value of purchased perpetual usufruct of land as at June 30, 2017, amounted to PLN 59 716 thousand (which accounted for 2.0% of total assets), as at December 31, 2016, amounted to PLN 61 382 thousand (which accounted for 2.1% of total assets), and as at June 30, 2016, amounted to PLN 65 017 thousand (i.e. to 2.5% of total assets).

Were the purchased rights to perpetual usufruct of land classified as operating leases, the value of these rights should be recognised in non-current prepayments.

The value of the perpetual usufruct of land obtained free of charge, as recognized in the statement on financial position, amounted to PLN 255 570 thousand (8.6% of total assets) as at June 30, 2017, PLN 260 044 thousand (9.1% of total assets) as at December 31, 2016 and PLN 268 120 thousand (10.3% of total assets) as at June 30, 2016. The value of the related deferred tax liabilities amounted to PLN 48 558 thousand (1.6% of total equity and liabilities) as at June 30, 2017, PLN 49 408 thousand (1.7% of total equity and liabilities) as at December 31, 2016 and PLN 50 943 thousand (2.0% of total equity and liabilities) as at June 30, 2016.

If the rights to perpetual usufruct of land obtained free of charge had not been recognised in the statement of financial position, the financial result for the period of 6 months ended June 30, 2017, for the period of 12 months ended December 31, 2016, and for the period of 6 months ended June 30, 2016, taking into account deferred tax, would have been higher by, respectively, PLN 3 624 thousand (corresponding to 4.4% of net profit), PLN 8 110 thousand (corresponding to 3.9% of net profit) and PLN 1 456 thousand (2.0% of net profit) and the previous years' profit/loss as at June 30, 2017, as at December 31, 2016 and as at June 30, 2016 would have been lower by, respectively, PLN 210 636 thousand (7.1% of total equity and liabilities), PLN 218 745 thousand (7.6% of total equity and liabilities) and PLN 218 633 thousand (8.4% of total equity and liabilities).

In the opinion of the Management Board and the Supervisory Board of Orbis S.A., treatment of the rights to perpetual usufruct of land as a form of an operating lease and their recognition off the statement of financial position does not reflect the economic nature of these rights and would lead to a distortion of the information on the actual value of assets held by the Company, i.e. its significant undervaluation.

In connection with the foregoing, the Management Board intends to consistently pursue its approach to the presentation of perpetual usufruct of land and until the entry into force of new provisions on leases and development of consistent interpretation of these regulations on the Polish market. The Board has no plans to revise the separate financial statements (more information about the influence of IFRS 16 can be found in Note 1.3 of this financial report).

When evaluating the financial statements of Orbis Group for the period from January 1, 2017, to June 30, 2017, alike in the past years, the Supervisory Board has given due consideration to the arguments of the Management Board as well as to the auditor's position on the relevant issues. The Supervisory Board of Orbis S.A. agrees with and gives its positive opinion on the position of the Management Board of Orbis S.A. that the accepted accounting treatment of rights to perpetual usufruct of land contributes to transparent and fair presentation of information on the economic standing of the Group.

1.3 CHANGES IN ACCOUNTING POLICIES AND CHANGES IN PRESENTATION OF DATA AND CORRECTION OF PRIOR PERIOD ERRORS

The basic accounting policies and calculation methods applied in the preparation of these condensed interim consolidated financial statements are presented in Note 2.4 to the annual consolidated financial statements for 2016. These policies have been consistently applied to all the years presented in the financial statements and have not undergone any significant changes since the last annual financial statements, except those resulting from amendments to the provisions in force.

Till the date of authorisation of these financial statements no amendments to the existing standards issued by the International Accounting Standards Board (IASB) and effective for the current reporting period were adopted by the European Union.

As at July 26, 2017, the following new standards issued by IASB and adopted by the EU are not yet effective:

- **IFRS 9 “Financial Instruments”** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),

- **IFRS 15 “Revenue from Contracts with Customers” and amendments to IFRS 15 “Effective date of IFRS 15”** - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

Moreover, the following new standards and amendments to the existing standards have been adopted by the International Accounting Standards Board (IASB) but not yet approved by the European Union as at July 26, 2017:

- **IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016)** - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,

- **IFRS 16 “Leases”** (effective for annual periods beginning on or after 1 January 2019),

- **IFRS 17 “Insurance Contracts”** (effective for annual periods beginning on or after 1 January 2021),

- **Amendments to IFRS 2 “Share-based Payment”** - classification and measurement of share-based payment transactions (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IFRS 4 “Insurance Contracts” -** applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 “Financial Instruments” is applied first time),

- **Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”** - sale or contribution of assets between an investor and its associate or joint venture and further amendments (effective date deferred until the research project on the equity method has been concluded),

- **Amendments to IFRS 15 “Revenue from Contracts with Customers”** - clarifications to IFRS 15 “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IAS 7 “Statement of Cash Flows”** - disclosure initiative (effective for annual periods beginning on or after 1 January 2017),

- **Amendments to IAS 12 “Income Taxes”** - recognition of deferred tax assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),

- **Amendments to IAS 40 “Investment Property”** - transfers of investment property (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to various standards “Improvements to IFRSs (cycle 2014-2016)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

- **IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** (effective for annual periods beginning on or after 1 January 2018),

- **IFRIC 23 “Uncertainty over Income Tax Treatments”** (effective for annual periods beginning on or after 1 January 2019).

According to the Group's estimates, the above listed standards, interpretations and amendments to the standards, with the exception of IFRS 16 "Leases", would not exert any substantial impact on the financial statements if applied by the Group as at the end of the reporting period.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

According to the Group’s estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39 “Financial Instruments: Recognition and Measurement” would not significantly impact the financial statements if applied as at the end of the reporting period.

Influence of IFRS 16 "Leases" on the financial statements of Orbis Group

The application of the new standard concerning leases will influence the Group's financial statements.

IFRS 16 introduces significant changes in the lessee's settlements, including elimination of the differentiation between financial leases (shown in the statement of financial position) and operating leases (shown off the statement of financial position). With respect to all lease agreements (except for short-term agreements and leases of low value assets) the lessor recognises the right to use an asset and the lease liability. The right to use an asset is depreciated and tested for impairment, just like the acquired non-current assets. The lease liability is initially measured at the present value of lease payments discounted at the interest rate specified in the lease agreement (in case it is impossible to determine this rate, the marginal lending rate should be determined). Lease payments include the fixed fees, the guaranteed residual value, some conditional fees and fees paid in periods after termination of the agreement if its extension for subsequent periods is reasonably certain. As at the end of the subsequent reporting periods, the liability is measured similarly to financial liabilities using an effective interest rate.

Currently, the costs resulting from lease agreements are presented, in case of operating leases, as costs of outsourced services or costs of renting property, after the changes they will be presented as depreciation costs and interest costs.

In the statement of cash flows, lease payments concerning agreements previously classified as operating leases will not be recognised in full in the cash flows from operating activities. Part of the lease payments reflecting the repayment of the principal amount of the lease liability will be recognised in financial activities. Cash payments connected with interest on the lease liability will be presented in the same way as other interest payments (in operating or financing activities).

As at June 30, 2017, the Group was a party to an operating lease agreement concerning 10 hotels and lease agreements of 136 motorcars. Disclosures currently required by IAS 17, including information about the future minimum lease payments under those agreements, are presented in Note 9.

The Group ran an initial analysis of the impact of the new terms of lease on Group statements with regard to the identified lease contracts. For the purpose of this analysis, the method described in paragraph C5 (b) IFRS 16 was adopted, i.e. with retrospective effect without restating comparative data. According to the method described in paragraph C8 (a), liabilities were established at the value of the remaining lease payments discounted at the incremental borrowing rate as at the balance closing date, and the right to use assets in the amount of payables adjusted for any prepaid or accrued expenses in the balance sheet (paragraph C8 (b) (ii)). The incremental borrowing rate was determined separately for contracts executed in individual currencies (PLN, EUR, HUF, CZK). For contracts executed in PLN the current cost of debt incurred by Orbis S.A. was adopted. For contracts executed in currencies other than PLN, the financing rate in individual currencies was based on Cross Currency Basis Swap quotations from the Bloomberg system as at June 30, 2017, converting the variable PLN interest rate into variable interest rate in individual currencies (EUR, HUF, CZK), plus a premium for the credit risk of the parent company.

If the Group was to apply IFRS 16 for the first time as at June 30, 2017, then the rights to use assets and liabilities under the lease of PLN 298 107 thousand would have been reported in the consolidated statement of financial position. Applying a discount rate higher/lower by 0.5% would have affected the decrease/increase of this value by PLN 7 104 thousand. Applying a discount rate higher/lower by 1.0% would have affected the decrease/increase of this value by PLN 13 933 thousand.

It should be noted that the value of assets/liabilities under the lease as at the date of first application of IFRS 16 would be affected by both the discount rate applicable on that date as well as the current foreign exchange rates. In addition, significant changes in the portfolio of lease contracts may take place until the date of adoption of IFRS 16 as a result of actions aimed at reducing the costs carried out by the Group associated with hotel lease.

At the same time, the Management Board of Orbis S.A. informs that still the Group is working to analyse its existing/executed agreements to use assets in terms of whether they meet the definition of lease under IFRS 16. In particular, the Group is taking steps to determine the direction and estimate the potential impact (the scale of impact) on the future financial statements of IFRS 16 with respect to the right of perpetual usufruct of land, which right is after all the basis for the use of many properties where the Orbis Group operates hotels.

According to the parent company's Management Board, based on the literal wording of IFRS 16.9 according to which a lease means every contract that conveys to the client the right to control the use of the identified asset for a period of time in exchange for consideration, the title to perpetual usufruct of land could purely theoretically be regarded a lease. However, considering the specific nature of this title (described in Note 1.2 of these statements), its clear-cut classification as lease is difficult.

In addition, the issue that raises additional doubts in with regard to titles to perpetual usufruct of land is the reliable appraisal of the value of liability under lease, related to the difficulty in defining the duration of the term of lease and defining the respective discount to be applied for the calculation of these liabilities.

In connection with the foregoing, the Management Board of Orbis S.A. emphasises that the Group continues to take action aimed at determining the impact of IFRS 16 upon its future financial statements. However, due to objective reasons (such as the specific legal nature of the title to perpetual usufruct and absence of precise guidelines in the market), at present the Group does not have the opportunity to make a reliable and credible assessment of the potential effects of the new lease standard with respect to all the titles of perpetual usufruct of land.

No errors of prior periods were corrected in the current period.

(figures quoted in PLN thousand, unless otherwise stated)

2. COMPANIES FORMING THE GROUP

2.1 COMPANIES FORMING THE GROUP

The table below presents all direct and indirect subsidiaries of the issuer as at June 30, 2017.

SUBSIDIARY - name and corporate seat	% share of equity	% share of votes at the GM	core business
Katerinska Hotel s.r.o., Prague	directly 100%	directly 100%	hotel, F&B services
Accor Hotels Romania S.R.L., Bucharest	directly 100%	directly 100%	hotel, F&B services
UAB Hekon, Vilnius	directly 100%	directly 100%	hotel, F&B services
Orbis Kontrakty Sp. z o.o., Warsaw	directly 100%	directly 100%	organisation of purchasing
Orbis Corporate Sp. z o.o., Warsaw*	directly 100%	directly 100%	tourism, transport, hotel, F&B services
Accor Pannonia Hotels Zrt., Budapest	directly 99.92%	directly 99.92%	hotel, F&B services
H-DEVELOPMENT CZ a.s., Prague	indirectly 100%	indirectly 100%	real property services
Business Estate Entity a.s., Pilsen	indirectly 100%	indirectly 100%	real property rental
5 Hotel Kft., Budapest	indirectly 99.92%	indirectly 99.92%	real property rental
HVB Leasing Maestoso Kft., Budapest	indirectly 99.92%	indirectly 99.92%	real property rental
Accor-Pannonia Slovakia s.r.o., Bratislava	indirectly 99.92%	indirectly 99.92%	hotel, F&B services

** Company excluded from consolidation due to the immaterial share it contributes to the total assets/equity liabilities and net revenues of the Orbis Group.*

2.2 CHANGES IN THE STRUCTURE OF THE ORBIS GROUP

- on January 1, 2017, the subsidiary Katerinska Hotel s.r.o. (the merging company) merged with the subsidiary Novy Smichov Gate a.s. (the merged company), a wholly owned subsidiary of the merging company.
- on January 2, 2017, the subsidiary Accor Pannonia Hotels Zrt. acquired from Erste Group Immorent Holding GmbH with its registered address in Vienna and Subholding Immorent GmbH with its registered address in Vienna (the sellers) a share representing 100% of the share capital in 5 Hotel Kft. with its registered address in Budapest. As a result of this transaction, as of January 2, 2017, Orbis S.A. indirectly holds 99.92% in the share capital of 5 Hotel Kft.
- On May 29, 2017, the subsidiary Accor Pannonia Hotels Zrt. executed with Universale International Realitäten GmbH with its registered address in Vienna (the seller) an agreement for the purchase of 100% stake in HVB Leasing Maestoso Kft. with its registered address in Budapest. As a result of this transaction, as of June 1, 2017, Orbis S.A. indirectly holds 99.92% in the share capital of HVB Leasing Maestoso Kft.

3. EFFECTS OF NON-RECURRING AND ONE-OFF EVENTS

The most important events of the first quarter of 2017 which affected the financial results of Orbis Group include:

Mercure Jelenia Góra Hotel and Mercure Karpacz Resort Hotel sale transactions

On **March 31, 2017**, executing the preliminary sale agreement dated February 9, 2017, Orbis S.A. executed the final sale agreement of organized parts of the enterprise, namely the "**Mercure Jelenia Góra**" hotel and the "**Mercure Karpacz Resort**" hotel for the total net price of PLN 26 500 thousand.

Starting from April 1, 2017, the Mercure Jelenia Góra hotel and the Mercure Karpacz Resort hotel continue their operations under the "Mercure" brand basis on the long-term franchise agreements executed by Orbis S.A. and the buyer.

Buyback agreement of 5 leased hotels by subsidiary Accor Pannonia Hotels Zrt.

On December 23, 2016 Orbis' subsidiary, Accor Pannonia Hotels Zrt. with its registered address in Budapest, executed with Erste Group Immorent Holding GmbH with its registered address in Vienna and Subholding Immorent GmbH with its registered address in Vienna (the sellers) a buyback agreement of the following five hotels (real properties): **Mercure Budapest Korona, ibis Styles Budapest Center, ibis Budapest City, ibis Budapest Centrum and Mercure Budapest Buda,** operated under Accor brands by the Hungarian subsidiary company on the basis of lease agreements**.**

The buback transaction was executed by way of acquisition by Accor Pannonia Hotels Zrt. from the sellers of interest representing 100% of the share capital in **5 Hotel Kft.** with its registered address in Budapest (the owner of the above hotels). The final 5 Hotel Kft. net acquisition price totalled EUR 65.9 million. This price is adjusted (by EUR 1.8 million) pursuant to the buyback agreement on the basis of the financial data of 5 Hotel Kft. audited as at December 31, 2016.

Closing of the transaction (payment of the initially agreed purchase price and application for registration of the new owner in 5 Hotel Kft.) took place on January 2, 2017. The liability resulting from the price adjustment was paid on April 3, 2017.

The acquisition transaction of 5 Hotel Kft. was recognized in the Group's consolidated financial statements in accordance with IAS 16. Considering that as at the transaction date the company had no employees and its key assets included hotel buildings leased to Accor Pannonia Hotels Zrt. which derived financial gains from these assets by running a hotel business in these buildings, the acquired assets and the assumed liabilities are not recognised as a business within the meaning of IFRS 3. In connection with the foregoing, the acquisition price of the company (including transaction costs) was allocated to each of the assets acquired and liabilities assumed in proportion to their fair values as at the date of acquisition. No goodwill or negative goodwill arose as a result of this transaction. As a result of this transaction, the sum of PLN 300.9 million was recognized as assets (incl. PLN 291.9 million of property, plant and equipment) and PLN 1.7 million as liabilities.

Buyback agreement and potential disposal of Sofitel Budapest Chain Bridge hotel by subsidiary Accor Pannonia Hotels Zrt.

On May 29, 2016, the subsidiary Accor Pannonia Hotels Zrt. executed with Universale International Realitäten GmbH with its registered address in Vienna (the seller) an agreement for the purchase of 100% stake in HVB Leasing Maestoso Kft. with its corporate seat in Budapest, which is the owner of the Sofitel Budapest Chain Bridge hotel operated by the Hungarian subsidiary on the basis of lease agreement. The company HVB Leasing Maestoso Kft. was purchased by exercise of the hotel call option dated January 30, 2017, by the majority shareholder of Orbis S.A., i.e. Accor S.A. The net price for the purchase of the company totalled PLN 42.3 million and was paid on June 1, 2017. More information on the transaction is provided in the current reports no: 2/2017, 18/2017 and 25/2017.

On April 12, 2017, the subsidiary Accor Pannonia Hotels Zrt. signed a letter of intent with a third-party investor interested in the purchase of the Sofitel Budapest Chain Bridge hotel. After selling the hotel, Accor Pannonia Hotels Zrt. Will manage the hotel on the basis of a long-term management agreement. The sale price of the hotel, declared by the parties, amounts to EUR 76 million, with potential adjustments arising as a result of due diligence carried out by the buyer. The sale of the hotel is subject to satisfactory finalization of the negotiation over the terms and conditions of the transaction and fulfilment of conditions provided in the letter of intent, including positive result of due diligence carried out by the buyer.

The purchase transaction of HVB Leasing Maestoso Kft. was recognized in the Group's consolidated financial statements in accordance with IAS 16 and IFRS 5. Considering that, as at the date of closing the transaction, the company did not have employees and its main asset was a building rented to Accor Pannonia Hotels Zrt., which generated financial benefits by operating a hotel in this building, the acquired assets and liabilities do not constitute an enterprise within the meaning of IFRS 3. As a consequence, the purchase price of the company (including transaction costs) was recognised in proportion to the fair value of the each of the assets and liabilities acquired as at the acquisition date. The transaction did not create goodwill or negative goodwill. As a result of this transaction, PLN 179.9 million was recognised as assets (including PLN 179.6 million of property, plant and equipment classified as held for sale) and PLN 0.4 million was recognized as liabilities.

4. SEGMENT INFORMATION

Pursuant to the requirements of IFRS 8, the Group identifies operating segments on the basis of internal reports which are regularly reviewed by the Management Board of the parent to allocate resources to the individual segments and evaluate their performance.

4.1 OPERATING SEGMENTS

The Orbis Group distinguishes two reportable operating segments:

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

Apart from results of the operating segments, the Management Board of the Parent Company also analyses the results per individual geographic segments presented in the Note 4.2.

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

The tables below present figures pertaining to revenues, results as well as assets of the individual operating segments of the Orbis Group. Presented figures comprise results of owned and leased hotels.

Unallocated operations comprise revenues and expenses of the Head Office (including revenues and expenses of investment property rentals) as well as one-off and non-recurring 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 under unallocated operations (the Group does not calculate income tax for the respective operating segments).

With regard to figures presented in the statement of financial position, the Group allocates all assets with the exception of assets of the Head Office (including predominantly investment property, cash, other financial assets, public imposts and deferred tax assets) to operating segments.

As at June 30, 2017, the individual operating segments included:

- the Up&Midscale segment: 4 Sofitel hotels, 21 Novotel hotels, 15 Mercure hotels and 1 MGallery hotel;
- the Economy segment : 23 ibis hotels, 9 ibis budget hotels and 3 ibis Styles hotels.

As at December 31, 2016, the individual operating segments included:

- the Up&Midscale segment: 4 Sofitel hotels, 21 Novotel hotels, 18 Mercure hotels and 1 MGallery hotel;
- the Economy segment : 24 ibis hotels, 9 ibis budget hotels and 3 ibis Styles hotels.

On the other hand, as at June 30, 2016, the individual operating segments included:

- the Up&Midscale segment: 4 Sofitel hotels, 20 Novotel hotels, 18 Mercure hotels, 1 MGallery hotel and 1 hotel operating under the Orbis Hotels brand;
- the Economy segment: 23 ibis hotels, 9 ibis budget hotels and 3 ibis Styles hotel.

(figures quoted in PLN thousand, unless otherwise stated)

Operating segment revenues and expenses are as follows:

Figures for the first half of 2017:

1ST HALF OF 2017	Operating segments		Unallocated operations and consolidation adjustments	Consolidated value
	Up&Midscale Hotels	Economy Hotels		
Segment revenue, of which:	**516 590**	**147 023**	**15 917**	**679 530**
Sale to external clients	516 590	147 023	15 917	679 530
EBITDAR	**206 538**	**71 280**	**(40 717)**	**237 101**
Operating EBITDA	**176 303**	**66 823**	**(40 955)**	**202 171**
Depreciation and amortisation	(58 021)	(21 857)	(2 308)	(82 186)
Operating profit/(loss) without the effects of one-off events	**118 282**	**44 966**	**(43 263)**	**119 985**
Result of one-off events	0	0	1 084	1 084
Operating profit/(loss) (EBIT)	**118 282**	**44 966**	**(42 179)**	**121 069**
Finance income/(costs)	(662)	(421)	(15 169)	(16 252)
Income tax expense	0	0	(22 546)	(22 546)
Net profit/(loss)	**117 620**	**44 545**	**(79 894)**	**82 271**

Figures for the first half of 2016:

1ST HALF OF 2016	Operating segments		Unallocated operations and consolidation adjustments	Consolidated value
	Up&Midscale Hotels	Economy Hotels		
Segment revenue, of which:	**494 393**	**130 648**	**14 833**	**639 874**
Sale to external clients	494 393	130 648	14 833	639 874
EBITDAR	**188 505**	**63 038**	**(38 215)**	**213 328**
Operating EBITDA	**146 755**	**56 479**	**(38 945)**	**164 289**
Depreciation and amortisation	(51 849)	(19 046)	(1 957)	(72 852)
Operating profit/(loss) without the effects of one-off events	**94 906**	**37 433**	**(40 902)**	**91 437**
Result of one-off events	0	0	86	86
Operating profit/(loss) (EBIT)	**94 906**	**37 433**	**(40 816)**	**91 523**
Finance income/(costs)	(770)	(472)	(5 356)	(6 598)
Share of net losses of associates	0	0	(61)	(61)
Income tax expense	0	0	(13 486)	(13 486)
Net profit/(loss)	**94 136**	**36 961**	**(59 719)**	**71 378**

(figures quoted in PLN thousand, unless otherwise stated)

The tables below presents other selected financial figures of operating segments:

AS AT JUNE 30, 2017	Operating segments		Unallocated operations and consolidation adjustments	Consolidated value
	Up&Midscale Hotels	Economy Hotels		
Non-current assets, of which:	1 640 201	718 089	66 817	2 425 107
- goodwill	37 803	69 449	0	107 252
- financial assets	0	0	24 025	24 025
- deferred tax assets	0	0	18 292	18 292
Current assets, of which:	72 753	14 646	275 030	362 429
- cash and cash equivalents	0	0	242 619	242 619
Assets classified as held for sale	181 941	7 584	0	189 525
Investment expenditure	416 195	101 561	729	518 485

AS AT DECEMBER 31, 2016	Operating segments		Unallocated operations and consolidation adjustments	Consolidated value
	Up&Midscale Hotels	Economy Hotels		
Non-current assets, of which:	1 481 509	651 428	60 422	2 193 359
- goodwill	37 803	69 449	0	107 252
- financial assets	0	0	15 510	15 510
- deferred tax assets	0	0	18 206	18 206
Current assets, of which:	54 060	9 212	579 873	643 145
- cash and cash equivalents	0	0	540 794	540 794
Assets classified as held for sale	23 631	0	0	23 631
Investment expenditure	241 310	52 810	6 823	300 943

AS AT JUNE 30, 2016	Operating segments		Unallocated operations and consolidation adjustments	Consolidated value
	Up&Midscale Hotels	Economy Hotels		
Non-current assets, of which:	1 482 771	671 501	72 195	2 226 467
- goodwill	37 803	69 449	0	107 252
- financial assets	0	0	7 888	7 888
- deferred tax assets	0	0	27 424	27 424
Current assets, of which:	72 232	13 129	262 905	348 266
- cash and cash equivalents	0	0	236 359	236 359
Assets classified as held for sale	20 949	0	3 057	24 006
Investment expenditure	160 271	39 758	789	200 818

(figures quoted in PLN thousand, unless otherwise stated)

4.2 GEOGRAPHICAL INFORMATION

The division into geographical segments is based on the criterion of location of points where services are provided and other assets located, whereby the Group applies the division into operating regions used in internal reporting.

The tables below present revenues, profits and assets of individual geographic segments of the Orbis Group for firdt half of 2017, 2016 and first half of 2016. The data present the results of owned and leased hotels.

As at June 30, 2017, the individual geographic segments included:

- Poland: 3 Sofitel hotels, 13 Novotel hotels, 10 Mercure hotels, 13 ibis hotels, 9 ibis budget hotels and 1 ibis Styles hotel,
- Hungary: 1 Sofitel hotel, 5 Novotel hotels, 3 Mercure hotels, 5 ibis hotels and 2 ibis Styles hotels,
- The Czech Republic: one hotel of each of the Novotel, Mercure and MGallery brands and 4 ibis hotels,
- Other countries (Lithuania, Romania, Slovakia): 2 Novotel hotels, 1 Mercure hotel and 1 ibis hotel.

As at December 31, 2016, the individual geographic segments included:

- Poland: 3 Sofitel hotels, 13 Novotel hotels, 13 Mercure hotels, 14 ibis hotels, 9 ibis budget hotels and 1 ibis Styles hotel,
- Hungary: 1 Sofitel hotel, 5 Novotel hotels, 3 Mercure hotels, 5 ibis hotels and 2 ibis Styles hotels,
- The Czech Republic: one hotel of each of the Novotel, Mercure and MGallery brands and 4 ibis hotels,
- Other countries (Lithuania, Romania, Slovakia): 2 Novotel hotels, 1 Mercure hotel and 1 ibis hotel.

On the other hand, as at June 30, 2016, the individual geographic segments included:

- Poland: 3 Sofitel hotels, 12 Novotel hotels, 13 Mercure hotels, 13 ibis hotels, 9 ibis budget hotels, 1 ibis Styles hotel and 1 hotel operating under the Orbis Hotels brand,
- Hungary: 1 Sofitel hotel, 5 Novotel hotels, 3 Mercure hotels and 5 ibis hotels and 2 ibis Styles hotels,
- The Czech Republic: one hotel of each of the Novotel, Mercure and MGallery brands and 4 ibis hotels,
- Other countries (Lithuania, Romania, Slovakia): 2 Novotel hotels, 1 Mercure hotel and 1 ibis hotel.

Geographical segment revenues and costs/expenses are as follows:

1ST HALF OF 2017	Geographical segments				Mutual eliminations and consolidation adjustments	Total
	Poland	Hungary	Czech Republic	Other countries		
Segment revenue, of which:	**422 081**	**158 512**	**55 213**	**44 147**	**(423)**	**679 530**
Sale to external clients	421 658	158 512	55 213	44 147	0	679 530
Sale to other segments	423	0	0	0	(423)	0
EBITDAR	**138 987**	**56 306**	**24 411**	**17 400**	**(3)**	**237 101**
Operating EBITDA	**135 031**	**40 384**	**17 678**	**9 081**	**(3)**	**202 171**
Depreciation and amortisation	(62 933)	(12 408)	(6 108)	(737)	0	(82 186)
EBIT without the effects of one-off events	**72 098**	**27 976**	**11 570**	**8 344**	**(3)**	**119 985**

(figures quoted in PLN thousand, unless otherwise stated)

1ST HALF OF 2016	Geographical segments				Mutual eliminations and consolidation adjustments	Total
	Poland	Hungary	Czech Republic	Other countries		
Segment revenue, of which:	**405 300**	**140 432**	**51 782**	**42 909**	**(549)**	**639 874**
Sale to external clients	404 751	140 432	51 782	42 909	0	639 874
Sale to other segments	549	0	0	0	(549)	0
EBITDAR	**129 023**	**47 526**	**22 165**	**14 618**	**(4)**	**213 328**
Operating EBITDA	**125 138**	**17 782**	**15 303**	**6 070**	**(4)**	**164 289**
Depreciation and amortisation	(59 988)	(6 470)	(5 344)	(1 050)	0	(72 852)
Operating profit/(loss) without the effects of one-off events	**65 150**	**11 312**	**9 959**	**5 020**	**(4)**	**91 437**

The table below presents other selected financial figures of geographical segments:

AS AT JUNE 30, 2017	Geographical segments				Mutual eliminations and consolidation adjustments	Total
	Poland	Hungary	Czech Republic	Other countries		
Non-current assets, of which:	2 546 082	529 830	154 841	19 059	(824 705)	2 425 107
- goodwill	107 252	0	0	0	0	107 252
- financial assets	344 838	0	0	13 081	(333 894)	24 025
- deferred tax assets	3 962	6 063	8 552	21	(306)	18 292
Current assets, of which:	291 817	62 307	28 277	50 296	(70 268)	362 429
- cash and cash equivalents	161 086	22 527	18 296	40 710	0	242 619
Assets classified as held for sale	8 777	180 748	0	0	0	189 525
Investment expenditure	30 743	480 633	5 963	1 146	0	518 485

(figures quoted in PLN thousand, unless otherwise stated)

AS AT DEC. 31, 2016	Geographical segments				Mutual eliminations and consolidation adjustments	Total
	Poland	Hungary	Czech Republic	Other countries		
Non-current assets, of which:	2 596 450	265 785	157 528	10 444	(836 848)	2 193 359
- goodwill	107 252	0	0	0	0	107 252
- financial assets	356 016	0	0	4 566	(345 072)	15 510
- deferred tax assets	2 782	6 977	8 731	22	(306)	18 206
Current assets, of which:	194 312	392 070	18 212	52 134	(13 583)	643 145
- cash and cash equivalents	129 342	357 320	10 158	43 974	0	540 794
Assets classified as held for sale	23 631	0	0	0	0	23 631
Investment expenditure	139 935	147 137	11 994	1 877	0	300 943

AS AT JUNE 30, 2016	Geographical segments				Mutual eliminations and consolidation adjustments	Total
	Poland	Hungary	Czech Republic	Other countries		
Non-current assets, of which:	2 348 694	269 679	154 183	5 305	(551 394)	2 226 467
- goodwill	107 252	0	0	0	0	107 252
- financial assets	69 845	0	0	0	(61 957)	7 888
- deferred tax assets	7 919	11 600	8 632	31	(758)	27 424
Current assets, of which:	229 953	69 046	13 532	53 242	(17 507)	348 266
- cash and cash equivalents	153 863	36 023	3 482	42 991	0	236 359
Assets classified as held for sale	24 006	0	0	0	0	24 006
Investment expenditure	66 279	131 766	2 650	123	0	200 818

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 fourth quarter is ranked as the third, and the first quarter as the last, in terms of sales.

Net sales	2015		2016		2017	
	PLN '000	% share of annual revenue	PLN '000	% share of annual revenue	PLN '000	% share of annual revenue
1st quarter	229 201	18,2%	247 214	17,9%	265 951	-
2nd quarter	362 425	28,7%	392 660	28,4%	413 579	-
3rd quarter	362 903	28,7%	396 374	28,7%		
4th quarter	308 197	24,4%	346 631	25,0%		
Total	**1 262 726**	**100,0%**	**1 382 879**	**100,0%**	**679 530**	**-**

(figures quoted in PLN thousand, unless otherwise stated)

6. INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

NET SALES	1st half of 2017	1st half of 2016
Room revenue	462 024	430 552
Food & beverage revenue	176 475	169 580
Franchise and management revenue	10 089	8 061
Other revenue	30 942	31 681
Total net sales	**679 530**	**639 874**
of which: revenue from related parties	*2 187*	*2 353*

EXPENSES BY NATURE	1st half of 2017	1st half of 2016
Depreciation and amortisation	(82 186)	(72 852)
Rental expense	(34 930)	(49 039)
Outsourced services	(147 555)	(136 732)
Employee benefit expense	(173 821)	(167 934)
Raw materials and energy used	(95 421)	(95 337)
Taxes and charges	(20 543)	(20 527)
Other costs by nature:	(6 528)	(6 735)
business trips	(2 060)	(2 669)
insurance premiums	(1 795)	(1 763)
royalties	(1 039)	(1 015)
change in impairment of receivables	(30)	94
other	(1 604)	(1 382)
Total expenses by nature	**(560 984)**	**(549 156)**

NET OTHER OPERATING INCOME/EXPENSES	1st half of 2017	1st half of 2016
Commissions received from business partners	1 891	1 994
Reversal of provision for costs of fees for perpetual usufruct of land	774	0
Reversal of provision for onerous contract	497	0
Indemnities received	522	796
Other	1 790	1 587
Total other operating income	**5 474**	**4 377**
Provision for onerous contract	0	(1 380)
Other provisions	(682)	(550)
Receivables redeemed and written off	(402)	(367)
Indemnities, fines and penalties paid	(62)	(273)
Costs of hotel closing and assets liquidation	(2 530)	(267)
Other	(359)	(821)
Total other operating expenses	**(4 035)**	**(3 658)**
Total other operating income/expenses	**1 439**	**719**

(figures quoted in PLN thousand, unless otherwise stated)

RESULT ON SALE OF REAL PROPERTY	1st half of 2017	1st half of 2016
Net proceeds from disposal of real properties	26 500	2 250
Net value of real properties disposed of	(22 432)	(580)
Additional costs related to disposal	(141)	(93)
Total result on sale of real property	**3 927**	**1 577**

In the first half of 2017, the total result on the sale of real property was generated due to the sale of organised parts of enterprise in the form of the Mercure Jelenia Góra hotel and the Mercure Karpacz Resort hotel.

RESTRUCTURING COSTS	1st half of 2017	1st half of 2016
Costs of employment restructuring	(2 467)	(575)
Recognised/released provisions for employment restructuring	681	344
Total restructuring costs	**(1 786)**	**(231)**

RESULTS OF OTHER ONE-OFF EVENTS	1st half of 2017	1st half of 2016
Leased hotels buyback costs	(1 057)	(351)
Total results of other one-off events	**(1 057)**	**(351)**

FINANCE INCOME	1st half of 2017	1st half of 2016
Interest on deposits	831	697
Foreign exchange differences	0	376
Interest income on loans and receivables	11	3
Other	31	37
Total finance income	**873**	**1 113**

FINANCE COSTS	1st half of 2017	1st half of 2016
Interest and debt service costs accrued on credit facilities	(2 226)	(2 693)
Interest and debt service costs accrued on bonds	(7 239)	(4 329)
Interest expense arising from provisions for employee benefits	(352)	(364)
Foreign exchange	(7 119)	0
Other	(189)	(325)
Total finance costs	**(17 125)**	**(7 711)**

INCOME TAX	1st half of 2017	1st half of 2016
Current income tax	(18 485)	(18 914)
Deferred income tax	(4 061)	5 428
Tax charge in the consolidated income statement	**(22 546)**	**(13 486)**

(figures quoted in PLN thousand, unless otherwise stated)

7. STATEMENT OF FINANCIAL POSITION

7.1 NON-CURRENT ASSETS

Property, plant and equipment include tangible assets and assets under construction.

PROPERTY, PLANT AND EQUIPMENT	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Tangible assets	2 216 144	1 993 556	1 965 326
Assets under construction	44 867	43 782	92 484
Total	**2 261 011**	**2 037 338**	**2 057 810**

TANGIBLE ASSETS	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Opening gross book amount	**4 377 513**	**4 293 507**	**4 293 507**
Accumulated depreciation and impairment	(2 383 957)	(2 446 692)	(2 446 692)
Opening net book amount	**1 993 556**	**1 846 815**	**1 846 815**
Increase due to acquisition of subsidiaries	**291 870**	**0**	**0**
Additions	**44 257**	**365 173**	**183 425**
purchase	44 247	272 369	183 425
transfer from investments in progress	0	59 028	0
other	10	33 776	0
Disposals	**(10 420)**	**(87 095)**	**(1 464)**
sale	(28)	(29 579)	(13)
liquidation	(2 532)	(339)	(255)
other	0	(33 633)	(3)
reclassification to assets held for sale	(7 562)	(23 544)	(1 193)
reclassification to investment property	(298)	0	0
Increase in impairment loss	0	(8 627)	(307)
Decrease in impairment loss	0	10 787	0
Depreciation charge for the period	(80 551)	(144 516)	(71 075)
Exchange differences on translation	(22 568)	11 019	7 932
Closing net book amount	**2 216 144**	**1 993 556**	**1 965 326**
Closing gross book amount	**4 607 224**	**4 377 513**	**4 481 035**
Accumulated depreciation and impairment	(2 391 080)	(2 383 957)	(2 515 709)
Closing net book amount	**2 216 144**	**1 993 556**	**1 965 326**

(figures quoted in PLN thousand, unless otherwise stated)

The table below presents assets under construction and impairment losses thereon as at June 30, 2017:

ASSETS UNDER CONSTRUCTION	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Gross value of assets under construction	56 231	55 146	103 848
Impairment loss on assets under construction	(11 364)	(11 364)	(11 364)
Total	**44 867**	**43 782**	**92 484**

As at June 30, 2017, the total assets under construction comprised mainly of investment expenditure on the construction and renovation of hotels in Poland (PLN 24.4 million), in the Czech Republic (PLN 13.5 million) and in Hungary (PLN 5.3 million). The largest projects implemented in Poland include modernisation of the Novotel Poznań Centrum hotel connected with the division of the hotel and its partial rebranding into ibis (PLN 12.8 million), modernisation of the Novotel Kraków City West hotel (PLN 3.5 million), as well as construction of the ibis Styles Warszawa Centrum hotel (PLN 1.7 million) and the ibis Styles Szczecin hotel (PLN 1.6 million). In the Czech Republic, assets under construction amounting to PLN 11.7 million concern the modernisation of the MGallery Praha Old Town hotel and in Hungary the key investment in progress is the modernisation of the Mercure Budapest City Center hotel (PLN 1.9 million).

More information on investment expenditure incurred in the current year is provided under item 4.8 of the Directors' Report on the Operations of the Orbis Group in the First Half of 2017.

Information on collaterals established on property, plant and equipment is provided in Note 10 to the financial statements.

As at June 30, 2017, the Group does not have any tangible assets held under finance lease.

The approach applied to the recognition of rights to perpetual usufruct of land in accordance with IAS 16 Property, Plant and Equipment is explained in Note 1.2 of the financial statements.

INVESTMENT PROPERTY	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Opening gross book amount	**22 847**	**25 806**	**25 806**
Accumulated depreciation and impairment	(14 127)	(15 519)	(15 519)
Opening net book amount	**8 720**	**10 287**	**10 287**
Additions	**298**	**59**	**0**
transfer from tangible assets	298	0	0
other	0	59	0
Disposals	**0**	**(568)**	**(517)**
sale	0	(516)	(515)
other	0	(52)	(2)
Increase in impairment loss	0	(598)	(598)
Depreciation charge for the period	(162)	(460)	(234)
Closing net book amount	**8 856**	**8 720**	**8 938**
Closing gross book amount	**23 675**	**22 847**	**22 849**
Accumulated depreciation and impairment	(14 819)	(14 127)	(13 911)
Closing net book amount	**8 856**	**8 720**	**8 938**

(figures quoted in PLN thousand, unless otherwise stated)

INTANGIBLE ASSETS	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Opening gross book amount	**139 817**	**141 767**	**141 767**
Accumulated depreciation and impairment	(27 125)	(27 578)	(27 578)
Opening net book amount	**112 692**	**114 189**	**114 189**
Additions	**934**	**3 963**	**519**
purchase	934	2 002	519
other	0	1 961	0
Disposals	**(22)**	**(2 267)**	**(4)**
sale	0	(117)	0
liquidation	0	(22)	0
other	0	(2 041)	(4)
reclassification to assets held for sale	(22)	(87)	0
Increase in impairment loss	0	(14)	(4)
Depreciation charge for the period	(1 473)	(3 228)	(1 543)
Exchange differences on translation	(29)	49	44
Closing gross book amount	**112 102**	**112 692**	**113 201**
Closing gross book amount	**138 654**	**139 817**	**140 919**
Accumulated depreciation and impairment	(26 552)	(27 125)	(27 718)
Closing net book amount	**112 102**	**112 692**	**113 201**

The “Intangible assets” item includes goodwill amounting to PLN 107 252 thousand. Goodwill arose as a result of purchase of interests in the subsidiary Hekon–Hotele Ekonomiczne S.A.

Investments in associates

As at June 30, 2016, the Group held an investment in the associate Blaha Hotel Szállodaüzemeltető Kft., the basic financial data of which were as follows:

	As at Jun. 30, 2016
Non-current assets	25 714
Current assets	2 479
Non-current liabilities	2 906
Current liabilities	1 907

	1st half of 2016
Revenue	3 801
Net profit (loss) for the period	(137)

(figures quoted in PLN thousand, unless otherwise stated)

Reconciliation of the above figures to the carrying amount of interests in Blaha Hotel Kft. disclosed in the consolidated financial statements of the Group for the first half of 2016:

	As at Jun. 30, 2016
Net assets of the associate	23 380
Group's percentage share of interests in Blaha Hotel Szállodaüzemeltető Kft.	44,42%
Carrying amount of Group's interests in Blaha Hotel Szállodaüzemeltető Kft.	10 385

On December 14, 2016 the subsidiary Accor Pannonia Hotels Zrt. sold its non-controlling interest (44.46%) in Blaha Hotel Szállodaüzemeltető Kft. for the sum of euro 3.6 million.

OTHER FINANCIAL ASSETS	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Receivables from the sale of real property	10 944	10 944	7 888
Cash on the escrow account	13 081	4 566	0
Total other financial assets	**24 025**	**15 510**	**7 888**

The item Other financial assets includes receivables on account of sale of real properties on which the Mercure Mrągowo Resort & SPA hotel is located. An organised part of the enterprise (OPE) formed by the Mercure Mrągowo Resort & SPA hotel was sold on February 29, 2016, whereas sale of the real property where the organised part of the enterprise is run was finalised on December 16, 2016. Pursuant to the agreement, the real property of the above hotel was sold for PLN 18 600 thousand, of which PLN 7 100 thousand was paid on the day of agreement execution, while PLN 11 500 thousand will be paid in the following instalments:

- PLN 500 thousand will be paid by the buyer by September 30, 2017
- PLN 4 000 thousand will be transferred into Orbis account by December 31, 2017,
- PLN 4 000 thousand will be paid by the buyer by December 31, 2018,
- PLN 3 000 thousand will be paid by December 31, 2019.

The receivable of PLN 7 000 thousand was presented in Other financial assets, meanwhile the remaining part, i.e. PLN 4 500 thousand, was presented in Other current receivables item.
The total amount receivable of PLN 11 500 thousand was secured with a mortgage established on the real property of the Mercure Mrągowo Resort & SPA hotel.

Moreover the other financial assets comprise also receivables on account of disposal of an organised part of the enterprise of the Mercure Kasprowy hotel in Zakopane. In accordance with the concluded sale and purchase agreement, 20% of the price, i.e. an amount of PLN 11 270 thousand will be paid in instalments. This amount receivable has been secured at an escrow account. The following payment dates were set:

- 6% of the sale price, i.e. PLN 3 381 thousand was paid into the bank account of Orbis S.A. on January 4, 2016,
- 7% of the price, i.e. PLN 3 944 thousand will be paid by December 31, 2017; this amount is presented in Other current receivables item,
- 7% of the price, i.e. PLN 3 944 thousand will be transferred into Orbis' account by December 31, 2019; this amount is presented in "Other financial assets" item.

Cash on the escrow account is cash deposited by the subsidiary UAB Hekon and is allocated for the purchase of the ibis hotel in Vilnius (description of the transaction in Note 3 to the consolidated financial statements for 2016).

(figures quoted in PLN thousand, unless otherwise stated)

OTHER NON-CURRENT INVESTMENTS	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Non-current prepayments - insurance costs	363	429	357
Other non-current investments - works of art	458	464	464
Total other non-current investments	**821**	**893**	**821**

7.2 CURRENT ASSETS

INVENTORIES	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Raw materials	6 567	7 084	6 472
Merchandise	75	83	100
Total inventories	**6 642**	**7 167**	**6 572**

CURRENT RECEIVABLES	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Trade receivables	80 185	63 121	75 809
of which: from related parties	*4 991*	*4 847*	*5 684*
Impairment loss on receivables	(4 011)	(4 168)	(3 802)
Net trade receivables	**76 174**	**58 953**	**72 007**

OTHER CURRENT RECEIVABLES	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Current receivables	**16 595**	**24 812**	**10 759**
Taxes, social insurance and other benefits receivable	3 154	5 573	6 593
Disputed receivables	2 331	2 364	2 430
Amounts receivable on account of sale of tangible assets	8 444	14 671	0
Prepayments	2 113	2 212	0
Other receivables	2 884	2 356	4 166
Impairment loss on other receivables	(2 331)	(2 364)	(2 430)
Current prepayments and advances	**18 739**	**8 340**	**21 234**
Prepayments, of which:	18 739	8 340	21 234
taxes and charges	5 909	0	6 234
rent	6 038	5 665	6 486
other	6 792	2 675	8 514
Net other current receivables	**35 334**	**33 152**	**31 993**

OTHER CURRENT FINANCIAL ASSETS	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Loans to other entities	466	1 078	1 060
Impairment loss on loan	(466)	(1 078)	(1 060)
Total other current financial assets	**0**	**0**	**0**

(figures quoted in PLN thousand, unless otherwise stated)

CASH AND CASH EQUIVALENTS	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Cash at bank and in hand	175 696	231 224	202 080
Short-term bank deposits	66 086	25 627	33 478
Cash on the escrow account	0	282 511	0
Other cash and cash equivalents	837	1 432	801
Total cash and cash equivalents	**242 619**	**540 794**	**236 359**

Cash in the escrow account in the amount of PLN 282 511 thousand at the end of 2016 was subject to restricted disposal. It included cash deposited on the escrow account by a subsidiary of Accor Pannonia Hotels Zrt in connection with a buy-back agreement of five leased hotels.

7.3 ASSETS CLASSIFIED AS HELD FOR SALE

As at June 30, 2017, assets classified as held for sale comprised:
- the right to perpetual usufruct of land in Gdańsk at Heweliusza street,
- the components of non-current assets of the ibis Zabrze hotel,
- the components of property, plant and equipment of the Sofitel Budapest Chain Bridge hotel in Hungary.

ASSETS CLASSIFIED AS HELD FOR SALE	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Opening balance	**23 631**	**23 057**	**23 057**
Increase due to acquisition of subsidiaries	**179 626**	**0**	**0**
Additions	**8 706**	**23 634**	**1 196**
transfer from tangible assets	7 562	23 544	1 193
transfer from intangible assets	22	87	0
transfer from other assets	0	3	3
exchange differences on translation	1 122	0	0
Disposals	**(22 438)**	**(23 060)**	**(247)**
sale of real property	(22 432)	(23 060)	(247)
other	(6)	0	0
Closing balance	**189 525**	**23 631**	**24 006**

Decrease of the total assets classified as held for sale is attributable to the signing of a letter of intent concerning the sale of the Sofitel Budapest Chain Bridge hotel (more information is provided in Note 3) and to reclassification of non-current assets of the ibis Zabrze hotel into assets classified as held for sale in connection with the forthcoming sale of this hotel.

Decrease of assets classified as held for sale in the first half of 2017 is related to the sale of an organised part of the enterprise of the Mercure Jelenia Góra hotel and the Mercure Karpacz Resort hotel at the end of March 2017.

As at June 30, 2016, assets classified as held for sale, apart from the right to perpetual usufruct of land at Heweliusza Street in Gdańsk, comprised:
- right to perpetual usufruct of land with a building at Łopuszańska street in Warsaw,
- right to perpetual usufruct of land with a building and other components of property, plant and equipment of the Mercure Mrągowo Resort & SPA hotel in Mrągowo.

(figures quoted in PLN thousand, unless otherwise stated)

7.4 CURRENT AND NON-CURRENT LIABILITIES

Borrowings

On December 19, 2014, Orbis S.A. 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 the Central & 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 June 30, 2017, Orbis S.A. had liabilities under a credit facility of PLN 105 555 thousand.

As at June 30, 2017, a subsidiary Accor Pannonia Hotels Zrt. had liabilities under an overdraft facility of PLN 54 270 thousand (EUR 12 831 thousand).

During 6 months of 2017, Orbis S.A. repaid a principal instalment under the credit facility in the amount of PLN 17 645 thousand, as well as PLN 1 836 thousand as interest on credit facilities and PLN 133 thousand as other borrowing costs resulting from credit facilities.

BORROWINGS	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Liabilities arising from credit facilities (outstanding principal)	105 867	123 512	141 156
Valuation of credit facilities at amortised cost	(312)	(567)	(801)
Overdrafts	54 270	0	0
Total borrowings	**159 825**	**122 945**	**140 355**

The amount of undrawn credit lines under overdrafts of the Orbis Group as at June 30, 2017, was PLN 53.4 million, of which the credit lines undrawn by Orbis S.A. amounted to PLN 20.0 million, those of Accor Pannonia Hotels Zrt.: PLN 9.2 million (i.e. EUR 2.2 million) and those of Katerinska Hotel s.r.o.: PLN 24.2 million (i.e. CZK 150.0 million). The remaining Group companies did not have undrawn credit lines under overdrafts.

Information on securities established in connection with the credit facility taken is provided in Note 10.1 to the financial statements.

Bonds

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 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.

(figures quoted in PLN thousand, unless otherwise stated)

On September 17, 2015, Orbis bonds of the ORB A 260620 series were launched in the BondSpot alternative trading system operating on the Catalyst market.

Moreover, on **July 29, 2016**, Orbis S.A. issued another **200 thousand** ordinary bearer **bonds** of the **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 monthly (six) interest periods.

The bonds shall be redeemed on July 29, 2021 at their nominal value. Orbis has 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 earlier 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 the earlier redemption of bonds.

On October 20, 2016, the bonds of the ORB B 290721 series, were introduced to trading in the debt securities alternative trading system BondSpot S.A. operating on the Catalyst market.

Cash obtained from the bond issue has been allocated for projects implemented by the Company, connected with the optimization of the Company’s hotel portfolio, in particular through the buyout of hotels leased by the companies of the Orbis Group in order to reduce the burdens of lease payments and to refinance the Company’s debt.

In the first half of 2017, Orbis paid PLN 7 022 thousand as interest on issued bonds. Moreover, in June, 2017, the Company paid PLN 74 thousand as interest payments under the IRS transaction (please refer to Note 11.3 of these financial statements).

BONDS	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Proceeds from the bond issue (outstanding principal)	500 000	500 000	300 000
Valuation of bonds at amortised cost	1 515	1 372	(669)
Total bonds	**501 515**	**501 372**	**299 331**

Information on hedges established in connection with the issue of bonds is provided in Note 10.1 to the financial statements.

(figures quoted in PLN thousand, unless otherwise stated)

Deferred revenue

NON-CURRENT DEFERRED REVENUE	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Advance payments received	12 351	4 001	4 150
Total deferred revenue	**12 351**	**4 001**	**4 150**

Advance payments received in the amount of PLN 11 928 thousand are a result of a preliminary sale and purchase agreement for the sale of the Giewont hotel in Zakopane and the accompanying contract of lease, concluded on April 3, 2012. Pursuant to the executed preliminary sale and purchase agreement, Orbis S.A. received an advance payment towards the selling price amounting to PLN 5 428 thousand in 2012 and PLN 9 500 thousand in April 2017. Also, rent for the first three years of the hotel lease was paid in advance on the date of execution of the contract of lease. Pursuant to the executed contract, starting from the fourth year, i.e. from April 2015, the rent of PLN 1 000 thousand per year will be covered from the received advance payment towards the sale price.

The final hotel sale and purchase agreement will be concluded after the legal title to real properties possessed by Orbis S.A. is entered in land and mortgage registers.

Moreover, non-current deferred revenue comprises the non-current portion of rent paid in advance on account of lease of land for a petrol station in Wrocław. The balance of the received advance payment as at June 30, 2017 is PLN 722 thousand, of which the short-term portion of PLN 299 thousand is presented under the current deferred revenue.

CURRENT DEFERRED REVENUE	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Advance payments towards the sale of real property	2 105	2 074	5 818
Other prepayments and advances	36 081	15 484	30 909
Prepaid rent	3 868	3 908	3 883
Total deferred revenue	**42 054**	**21 466**	**40 610**

As at June 30, 2017 and as at December 31, 2016, the balance of deferred revenue arising from the sale of real property comprises earnest money towards the sale of the right of perpetual usufruct of land in at Heweliusza street in Gdańsk. As at the end of June 2016, under this item the Group disclosed an advance payment towards the sale of real property in Łopuszańska street in Warsaw (PLN 2 000 thousand), earnest money against the selling price of the real property of the Mercure Mrągowo Resort & SPA hotel(PLN 3 600 thousand) and earnest money against the selling price of the right to perpetual usufruct of land with a building at Heweliusza street in Gdańsk (PLN 218 thousand).

Other prepayments and advances comprise predominantly prepayments received for rooms.

OTHER NON-CURRENT LIABILITIES	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Liabilities concerning tangible assets	4 463	4 522	3 611
Deposits received	582	592	568
Total other non-current liabilities	**5 045**	**5 114**	**4 179**

The balance of non-current liabilities associated with tangible assets comprises deposits received by the Company by way of security for any claims resulting from faulty performance of agreements for repair and construction services. Other non-current liabilities also include non-current deposits received on account of rental of real properties.

(figures quoted in PLN thousand, unless otherwise stated)

TRADE PAYABLES	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Trade payables	110 293	117 429	109 802
of which: liabilities towards related parties	*11 784*	*17 674*	*20 380*
Total trade payables	**110 293**	**117 429**	**109 802**

LIABILITIES ASSOCIATED WITH TANGIBLE ASSETS	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Liabilities associated with tangible assets	9 302	24 945	15 715
Total liabilities associated with tangible assets	**9 302**	**24 945**	**15 715**

The decrease in the balance of liabilities associated with tangible assets in the first half of 2017 results in particular from recognition of capital expenditure incurred for the modernisation of the following hotels: the Novotel Poznań Centrum, the Sofitel Warszawa Victoria, the Novotel Szczecin, the Novotel Kraków Centrum and the Novotel Wrocław Centrum.

OTHER CURRENT LIABILITIES	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Current liabilities	**110 125**	**22 643**	**90 648**
Dividends payable	73 774	53	69 168
Taxes, social insurance and other benefits payable	27 821	14 409	13 255
Settlements with employees	5 123	4 838	4 553
Deposits received	2 063	2 903	2 782
Other liabilities	1 344	440	890
Accrued expenses	**47 590**	**55 030**	**46 785**
Obligations towards employees	36 364	44 242	33 971
Public imposts	7 711	8 486	9 969
Property and life insurance	906	134	527
Other	2 609	2 168	2 318
Total other current liabilities	**157 715**	**77 673**	**137 433**

Accrued expenses relating to obligations towards employees comprise provisions for bonuses and awards as well as for unused holidays.

As at June 30, 2017, the Orbis Group was bound by future capital commitments under executed contracts amounting in total to PLN 86 177 thousand. A significant value of the future capital commitments is connected with the process of division of the Novotel Poznań Centrum hotel into hotels of two different brands, Novotel i ibis, operating in the same building. Moreover, major amounts have been committed for the construction of a new ibis Vilnius hotel in Lithuania, as well as two new hotels in Poland ibis Styles Warszawa, ibis Styles Szczecin and ibis budget Gdańsk Posejdon, as well as result from modernisation works conducted, amongst others, in the Novotel Kraków City West, Novotel Warszawa Centrum, Novotel Warszawa Airport and Novotel Warszawa Centrum hotels.

(figures quoted in PLN thousand, unless otherwise stated)

8. CHANGES IN ESTIMATES OF AMOUNTS

8.1 IMPAIRMENT OF ASSETS

IMPAIRMENT LOSS ON TANGIBLE ASSETS AND ASSETS UNDER CONSTRUCTION	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Opening balance	**(87 987)**	**(122 645)**	**(122 645)**
recognised impairment loss on tangible assets	0	(8 627)	(307)
reversed impairment loss on tangible assets	0	10 787	0
decrease in impairment losses in connection with sale/liquidation	0	9 590	29
impairment loss on tangible assets not subject to reversal *	2 720	6 952	3 388
reclassification to assets held for sale	3 711	17 882	0
exchange differences on translation	1 504	(1 926)	(1 560)
Closing balance	**(80 052)**	**(87 987)**	**(121 095)**

IMPAIRMENT LOSS ON INVESTMENT PROPERTY	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Opening balance	**(592)**	**(375)**	**(375)**
recognised impairment loss	0	(598)	(598)
decrease in impairment losses in connection with sale/liquidation	0	354	354
impairment loss on investment property not subject to reversal *	7	27	21
Closing balance	**(585)**	**(592)**	**(598)**

IMPAIRMENT LOSS ON INTANGIBLE ASSETS	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Opening balance	**(576)**	**(627)**	**(627)**
recognised impairment loss	0	(14)	(4)
utilised impairment loss	0	1	0
impairment loss on investment property not subject to reversal *	3	88	66
exchange differences on translation	26	(24)	(23)
Closing balance	**(547)**	**(576)**	**(588)**

** 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 an 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 impairment closing balance as at the end of the period equals the amount reversible in the event of expiry of circumstances underlying the impairment.*

IMPAIRMENT LOSS ON ASSETS HELD FOR SALE	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Opening balance	**(17 882)**	**(9 055)**	**(9 055)**
decrease in impairment losses in connection with sale/liquidation	17 882	9 055	0
reclassification from tangible assets	(3 711)	(17 882)	0
Closing balance	**(3 711)**	**(17 882)**	**(9 055)**

(figures quoted in PLN thousand, unless otherwise stated)

IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES AND OTHER COMPANIES	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Opening balance	**(47)**	**(37)**	**(37)**
recognised impairment loss	0	(10)	(10)
Closing balance	**(47)**	**(47)**	**(47)**

IMPAIRMENT ON RECEIVABLES	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Opening balance	**(6 532)**	**(6 245)**	**(6 245)**
recognised impairment loss	(428)	(2 592)	(1 057)
reversed impairment loss	398	2 085	1 151
utilised impairment loss	61	352	27
exchange differences on translation	159	(132)	(108)
Closing balance	**(6 342)**	**(6 532)**	**(6 232)**

IMPAIRMENT ON FINANCIAL ASSETS	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Opening balance	**(1 078)**	**(1 031)**	**(1 031)**
utilised impairment loss	594	0	0
exchange differences on translation	18	(47)	(29)
Closing balance	**(466)**	**(1 078)**	**(1 060)**

In the first half of 2017 and in 2016, no circumstances occurred that would indicate a need to recognise impairment losses on inventories.

8.2 PROVISIONS FOR EMPLOYEE BENEFITS

PROVISIONS FOR EMPLOYEE BENEFITS	Jubilee awards	Retirement & disability benefits	Total liabilities
Present value of obligation - as at January 1, 2017	**15 446**	**7 302**	**22 748**
Current service cost	499	162	661
Past service cost and (gain)/loss from settlements	(1 134)	(457)	(1 591)
Interest cost	251	101	352
Benefits paid	(810)	(60)	(870)
Exchange differences on translation	0	(28)	(28)
Present value of obligation - as at June 30, 2017	**14 252**	**7 020**	**21 272**
Short-term provisions	1 777	1 132	2 909
Long-term provisions	12 475	5 888	18 363
Total present value of obligation - as at June 30, 2017	**14 252**	**7 020**	**21 272**

The release of provisions for jubilee awards and retirement and disability benefits results from the sale, on March 31, 2017, of an organized part of the enterprise in the form of Mercure Jelenia Góra and Mercure Karpacz Resort, as well as from the sale of the Mercure Częstochowa Centrum hotel and the ibis Częstochowa hotel .

(figures quoted in PLN thousand, unless otherwise stated)

PROVISIONS FOR EMPLOYEE BENEFITS	Jubilee awards	Retirement & disability benefits	Total liabilities
Present value of obligation - as at January 1, 2016	**18 367**	**7 149**	**25 516**
Current service cost	1 182	319	1 501
Past service cost and (gain)/loss from settlements	(592)	42	(550)
Interest cost	546	206	752
Remeasurement (gains)/losses:			
actuarial gains and losses arising from changes in demographic assumptions	(3 448)	556	(2 892)
actuarial gains and losses arising from changes in financial assumptions	(713)	(283)	(996)
actuarial gains and losses arising from experience adjustments	2 202	(360)	1 842
Benefits paid	(2 098)	(360)	(2 458)
Exchange differences on translation	0	33	33
Present value of obligation - as at December 31, 2016	**15 446**	**7 302**	**22 748**
Short-term provisions	1 926	1 057	2 983
Long-term provisions	13 520	6 245	19 765
Total present value of obligation - as at December 31, 2016	**15 446**	**7 302**	**22 748**

PROVISIONS FOR EMPLOYEE BENEFITS	Jubilee awards	Retirement & disability benefits	Total liabilities
Present value of obligation - as at January 1, 2016	**18 367**	**7 149**	**25 516**
Current service cost	598	185	783
Past service cost and (gain)/loss from settlements	(610)	(200)	(810)
Interest cost	261	103	364
Benefits paid	(785)	(141)	(926)
Exchange differences on translation	0	20	20
Present value of obligation - as at June 30, 2016	**17 831**	**7 116**	**24 947**
Short-term provisions	2 043	714	2 757
Long-term provisions	15 788	6 402	22 190
Total present value of obligation - as at June 30, 2016	**17 831**	**7 116**	**24 947**

Net interest relating to the valuation of provisions for employee benefits as well as actuarial gains/losses arising from the valuation of provisions for jubilee awards are presented in the income statement, as finance costs.

Actuarial gains/losses arising from the valuation of provisions for retirement & disability benefits are disclosed under other comprehensive income.

Other changes in provisions for employee benefits are presented in the income statement, as employee benefit expense.

(figures quoted in PLN thousand, unless otherwise stated)

8.3 PROVISIONS FOR LIABILITIES

PROVISIONS FOR LIABILITIES	Provision for litigations	Provision for restructuring costs	Other provisions for liabilities	Total provisions for liabilities
As at January 1, 2017	**777**	**681**	**6 765**	**8 223**
Provision recognised in the period	0	324	682	1 006
Provision utilised in the period	0	(957)	0	(957)
Provision released in the period	0	(48)	(497)	(545)
Exchange differences on translation	0	0	(256)	(256)
As at June 30, 2017	**777**	**0**	**6 694**	**7 471**
Short-term provisions	777	0	1	778
Long-term provisions	0	0	6 693	6 693
Total provisions as at June 30, 2017	**777**	**0**	**6 694**	**7 471**

PROVISIONS FOR LIABILITIES	Provision for litigations	Provision for restructuring costs	Other provisions for liabilities	Total provisions for liabilities
As at January 1, 2016	**777**	**336**	**1 328**	**2 441**
Provision recognised in the period	0	681	6 682	7 363
Provision utilised in the period	0	(344)	0	(344)
Provision released in the period	0	0	(1 378)	(1 378)
Exchange differences on translation	0	8	133	141
As at December 31, 2016	**777**	**681**	**6 765**	**8 223**
Short-term provisions	777	681	1	1 459
Long-term provisions	0	0	6 764	6 764
Total provisions as at December 31, 2016	**777**	**681**	**6 765**	**8 223**

PROVISIONS FOR LIABILITIES	Provision for litigations	Provision for restructuring costs	Other provisions for liabilities	Total provisions for liabilities
As at January 1, 2016	**777**	**336**	**1 328**	**2 441**
Provision recognised in the period	0	0	1 930	1 930
Provision utilised in the period	0	(343)	0	(343)
Exchange differences on translation	0	7	55	62
As at June 30, 2016	**777**	**0**	**3 313**	**4 090**
Short-term provisions	777	0	298	1 075
Long-term provisions	0	0	3 015	3 015
Total provisions as at June 30, 2016	**777**	**0**	**3 313**	**4 090**

(figures quoted in PLN thousand, unless otherwise stated)

8.4 DEFERRED TAX ASSETS AND LIABILITIES

DEFERRED TAX *)	As at:		Impact on statement of comprehensive income
	Jun. 30, 2017	Dec. 31, 2016	
Deferred tax assets	18 292	18 206	86
Deferred tax liabilities	4 820	282	(4 538)
Change in deferred tax assets and liabilities, of which:			**(4 452)**
impact on profit or loss			(4 061)
impact on other comprehensive income (incl. exchange differences on translation)			(391)

**) The deferred tax assets and liabilities are presented as per account balance in each company of the Group.*

9. OPERATING LEASE AGREEMENTS

The Group's operating lease commitments apply to agreements that concern predominantly buildings. As at June 30, 2017 the Group pursued business in 10 hotels used under operating lease agreements. The majority of these agreements is denominated in foreign currencies. Expiry dates of concluded agreements range from 2 to 14 years.

Operating lease agreements of hotel buildings per type of contract:

Type of contract	Number of hotels	Half year rent	Minimum lease payment during half year rent	Expiry date
Fixed rent with buyout option	1	(3 166)	(3 421)	2027
Fixed rent without buyout option	5	(12 321)	(12 017)	2021-2031
Fixed rent with variable interest	1	(4 059)	(4 059)	2022
Variable lease with minimum lease payment	1	(2 336)	(2 336)	2019
Variable rent without minimum lease payment	2	(4 751)	0	2025-2030
Total	**10**	**(26 633)**	**(21 833)**	

Operating lease agreements of hotel buildings per country:

	Number of hotels	Half year rent	Minimum lease payment during half year rent	Expiry date
Poland	1	(3 820)	(3 820)	2021
Czech Republic	2	(6 082)	(6 034)	2027-2031
Lithuania	1	(2 336)	(2 336)	2019
Romania	1	(3 876)	0	2030
Slovakia	2	(2 107)	(1 232)	2023-2025
Hungary	3	(8 412)	(8 411)	2022-2026
Total	**10**	**(26 633)**	**(21 833)**	

(figures quoted in PLN thousand, unless otherwise stated)

In the first half of 2017, the Group bought out 6 leased hotels (more information in Note 3).

In addition, as at June 30, 2017, the Group had 136 passenger vehicles in operating lease. The dates of termination of passenger vehicles lease contracts are from 1 to 3 years.

In the first half of 2017 lease payments amounting to PLN 35 858 thousand were recognised in profit or loss, in which PLN 30 028 thousand minimum lease payment. In the first half of 2016, lease payments amounting to PLN 50 035 thousand were recognised in profit or loss, in which PLN 40 246 thousand of minimum lease payments.

The costs of lease of hotel buildings (PLN 33 899 thousand in the first half of 2017 and PLN 47 092 thousand in the first half of 2016) are presented in the income statement under the Costs of properties rental item. This item also includes costs of rental of non-hotel properties.
The costs of lease of passenger vehicles (PLN 928 thousand in the first half of 2017 and PLN 996 thousand in the first half of 2016) are presented in the income statement under the Outsourced services item.

Future minimum operating lease payments are as follows:

Future minimum operating lease payments	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Future minimum operating lease payments, due in:			
one year	45 628	54 684	73 558
from 1 to 5 years	155 594	167 823	206 578
more than 5 years	120 669	139 697	122 980
Total future minimum operating lease payments *	**321 891**	**362 204**	**403 116**

** The amounts of future minimum lease fees expressed in foreign currencies are translated at the exchange rate applicable at the end of the reporting period.*

10. CONTINGENT ASSETS AND LIABILITIES

10.1 LIABILITIES ARISING FROM CREDIT FACILITY AGREEMENTS, LEASE AGREEMENTS AND BOND ISSUE

On December 19, 2014, Orbis S.A. 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 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 (registers No. WA4M/00193711/1 and No. WA4M/00193710/4);
- assignment as a collateral security of Orbis S.A.'s rights under the insurance policies of the above-mentioned 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 the Sofitel Warsaw Victoria hotel, encumbered by mortgage under a credit facility, determined by independent property valuers as at December 1, 2016, amounted to PLN 227 866 thousand. The book value of the real properties is PLN 115 815 thousand as at June 30, 2017.

The issued bonds have been secured by a joint contractual mortgage established on the Mercure Warszawa Grand hotel (KW No. WA4M/00159685/9), the Novotel Warszawa Centrum hotel (KW No. WA4M/00072550/0) and the 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 above mentioned hotels encumbered by mortgage, determined by independent property valuers as at May 19, 2017, by the valuation survey dated June 1, 2017, was PLN 773 176 thousand. The book value of these real properties as at June 30, 2017, is PLN 236 931 thousand.

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

10.2 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 imposts after the lapse of 5 full financial years.

(figures quoted in PLN thousand, unless otherwise stated)

11. FINANCIAL INSTRUMENTS

11.1 CATEGORIES OF FINANCIAL INSTRUMENTS

The following table presents main categories of financial instruments:

	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Financial assets			
Cash and cash equivalents	242 619	540 794	236 359
Loans and receivables (including trade receivables)	113 640	93 702	84 061
Financial liabilities			
Amortised cost (including trade payables)	868 284	780 039	646 775
Derivative instruments in designated hedge accounting relationships	129	118	909

11.2 FAIR VALUE OF FINANCIAL INSTRUMENTS

As at June 30, 2017, December 31, 2016 and June 30, 2016, the financial instruments that were subject to measurement at fair value following their initial recognition and were recognised at fair value in the statement of financial position were included 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 Jun. 30, 2017		as at Dec. 31, 2016		as at Jun. 30, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Cash and cash equivalents	242 619	242 619	540 794	540 794	236 359	236 359
Other financial assets	24 025	24 025	15 510	15 510	7 888	7 888
Trade receivables and other current receivables	89 615	89 615	78 192	78 192	76 173	76 173
Financial liabilities						
Borrowings	159 825	161 364	122 945	124 904	140 355	142 767
Debt securities - bonds issued	501 515	507 200	501 372	507 500	299 331	301 650
Derivative instruments (liabilities)	129	129	118	118	909	909
Trade payables and other current and non-current liabilities	206 944	206 944	155 722	155 722	207 089	207 089

According to the Management Board, as at June 2017, December 31, 2016 and June 30, 2016, the carrying amount of financial instruments of the Group, except for liabilities arising from credit facilities and issued bonds, approximated 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 was determined based on their price quoted on the Catalyst bond market as at the end of the reporting period (or a date close to that day).

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

(figures quoted in PLN thousand, unless otherwise stated)

In terms of applied measurement procedures, issued bonds are classified to Level 1 of fair value hierarchy (the fair value is determined on the basis of prices quoted on an active market). Liabilities under credit facilities and derivative instruments are classified to Level 2 of fair value hierarchy (the fair value is 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.

11.3 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 bond interest payment periods. In the first half of 2017, the Group paid PLN 74 thousand as interest payments under the IRS transaction.
At the end of the presented reporting periods, the SWAP's fair value was disclosed in the Group's equity under other comprehensive income. In 2017, no ineffectiveness arising from cash flow hedges occurred that would require to be disclosed in the financial result of the Group.

12. 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.

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

SALES AND PURCHASES	1st half of 2017	1st half of 2016
Net sales of services	**2 187**	**2 353**
to the parent company	1 586	2 108
to other Accor Group companies	601	183
to associates	0	62
Other sales	**1 001**	**1 250**
to the parent company	1 001	1 232
to associates	0	18
Purchases of goods and services	**30 087**	**28 567**
from the parent company	21 887	21 400
from other Accor Group companies	8 200	7 167

(figures quoted in PLN thousand, unless otherwise stated)

RECEIVABLES AND PAYABLES	As at Jun. 30, 2017	As at Dec. 31, 2016	As at Jun. 30, 2016
Trade receivables	**4 991**	**4 847**	**5 684**
from the parent company	4 553	4 242	4 686
from other Accor Group companies	438	605	654
from associates	0	0	344
Other receivables	**61**	**50**	**87**
from the parent company	0	0	13
from other Accor Group companies	61	50	48
from associates	0	0	26
Trade payables	**11 784**	**17 674**	**20 380**
to the parent company	10 355	15 145	17 268
to other Accor Group companies	1 429	2 529	3 087
to associates	0	0	25
Dividends payable	**39 032**	**0**	**36 415**
to the parent company	35 156	0	32 959
to other Accor Group companies	3 876	0	3 456

No impairment loss was recognised on the presented receivables.

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

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 6-month periods ended June 30, 2017, and June 30, 2016, amounted to PLN 3 376 thousand and PLN 2 635 thousand, respectively. The difference between the value of benefits paid out in the first half of 2017 versus the corresponding period of 2016 mainly results from enlarged number of members of the Management Board as of June 2, 2016.

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.

13. ISSUANCES, REPURCHASES AND REPAYMENTS OF DEBT AND EQUITY SECURITIES

No issuances, repurchases and repayments of debt and equity securities occurred in the period covered by these financial statements. The information concerning bonds issued in the past years was presented in Note 7.4.

14. LEGAL CLAIMS

Litigation pending before courts, arbitration or public administration bodies:

Proceedings for handing over of real property located in Warsaw, in the district of Wilanów, at ul. St.Kostki Potockiego 27

The proceedings were instituted on September 29, 2005, by an action instituted by the of State Treasury, represented by the Municipal Office of the Capital City of Warsaw. 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. Orbis S.A. motioned 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.

Proceedings for declaration of invalidity of an administrative decision of the President of the City of Warsaw dated April 11, 1950 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 land subject to this litigation is the area of a former real property with land and mortgage reg. no. 1651/2 letter C, which partially corresponds 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. The proceedings were initiated by a statement of claim dated March 2, 2000. The parties to this proceedings are: J.Ostrowska-Bazgier – the successor of Abraham Juda vel Adam Kaltman (the claimant), ”Parking-Wspólnota” Sp. z o.o. in liquidation and Orbis S.A. (participants). The value of the litigation is unknown. The case is pending.

Request to reimburse aid received from the Polish Agency for Enterprise Development (PARP)

The proceedings were instituted on July 21, 2014, by the Polish Agency for Enterprise Development (Polska Agencja Rozwoju Przedsiębiorczości - PARP). 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. The value of the litigation is estimated at PLN 616 thousand plus interest.

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

The proceedings were instituted on April 19, 2013 by Hekon-Hotele Ekonomiczne S.A. (after the merger with the subsidiary on September 1, 2016, Orbis S.A. became the legal successor of the pending litigation) against the Municipality of Elbląg. The value of the litigation is PLN 350 thousand.

In 2016 the Appellate Court issued a ruling on this case and statement of reasons. 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 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) appeal, the contractual penalty so imposed would have to be paid indefinitely, however, this issue was not finally determined in the conclusion of the judgement. The Court dismissed the remaining claims of Hekon and ruled on the value of costs. In June 2016 Hekon filed a last-resort (cassation) appeal against the judgment of the Appellate Court in Gdańsk. Moreover, the issue of replacement of Hekon S.A. by Orbis S.A. as the party to the proceedings was raised.

In June 2017 the Supreme Court at a closed session adjudged the claim of Orbis S.A. (the legal successor of Hekon). The Court overturned the ruling of the Appellate Court of 2016 and sent it back for reconsideration. By the date of publication of this report, the Company did not receive the statement of reasons to the overturned judgement determining the scope of instructions for the Regional Court for case reconsideration.

No major changes in the above-described litigations, to which Orbis Group is a party (except the proceedings concerning construction of a hotel in Elbląg) has occurred from the date of publication of the last annual consolidated financial statements of Orbis Group.

Furthermore, as at June 30, 2017, 10 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 - concerning the fees up to the day of sale of the real property);
- Sopot (Sofitel Grand),
- Gdańsk (Novotel Centrum, Mercure Gdańsk Stare Miasto, ibis 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 6 880 thousand and is disclosed in other current liabilities.

In the first half of 2017, Orbis received a favourable ruling concerning revaluation of the fee for perpetual usufruct of land in Poznań on which the Novotel Malta Poznań hotel is located. The Appellate Court in Poznań ruled that the termination of the annual fee for perpetual usufruct of the said land by the President of the City of Poznań in 2010 was unjustified, therefore, the value of annual fees remains at the same unchanged level since 2011. Accordingly, under this final and binding court judgement, Orbis does not need to pay additional fees for the preceding years and for the year 2017, since it paid a proper fee every year, which the Court has now upheld in force. Therefore, the difference between the former fee and the fee unjustifiably updated by the President of the City of Poznań for the period from 2011 till 2016 in respect of the Novotel Malta Poznań hotel recognized in other current liabilities has been posted to other operating revenues in the first half of 2017.

(figures quoted in PLN thousand, unless otherwise stated)

15. STATEMENT OF CASH FLOWS OF THE GROUP

Explanations to adjustments of result in cash flows from operating activities.

	1st half of 2017	1st half of 2016
Change in receivables in the statement of financial position	**(27 918)**	**(18 943)**
change due to acquisition of subsidiaries	8 234	0
change in non-current prepayments and advances	67	63
change in receivables due for tangible asset sales	(5 063)	(3 381)
change in prepayments	8 762	(5 650)
exchange differences on translation	(2 225)	0
Change in the statement of cash flows	**(18 143)**	**(27 911)**
Change in liabilities, except borrowings, in the statement of financial position	**57 194**	**84 993**
change due to acquisition of subsidiaries	(2 012)	0
change in investment liabilities	12 339	14 264
liabilities associated with acquisition of shares	(10 549)	0
dividend from profit payable	(73 723)	(69 116)
exchange differences on translation	3 504	0
Change in the statement of cash flows	**(13 247)**	**30 141**
Change in deferred revenue presented in the statement of financial position	**28 938**	**18 875**
advance payments received towards sale of real property	(9 531)	(3 818)
exchange differences on translation	102	0
Change in the statement of cash flows	**19 509**	**15 057**
Change in provisions in the statement of financial position	**(2 228)**	**1 080**
actuarial gains and losses arising from the defined employee benefit plan recognised in other comprehensive income	0	62
exchange differences on translation	284	0
Change in the statement of cash flows	**(1 944)**	**1 142**
Change in inventories presented in the statement of financial position	**525**	**191**
exchange differences on translation	(111)	0
Change in the statement of cash flows	**414**	**191**
Other adjustments		
revaluation of non-current assets	0	909
revaluation of investments in subsidiaries	0	10
exchange differences on translation	0	933
other	6	0
Change in the statement of cash flows	**6**	**1 852**

16. EVENTS AFTER THE REPORTING PERIOD

No important events occurred in Orbis Group after the end of the reporting period.

(figures quoted in PLN thousand, unless otherwise stated)

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

Date	Name and Surname	Position/Function	Signature
July 26, 2017	Gilles Stephane Clavie	President of the Management Board	
July 26, 2017	Ireneusz Andrzej Węgłowski	Vice-President of the Management Board	
July 26, 2017	Dominik Sołtysik	Member of the Management Board	
July 26, 2017	Marcin Szewczykowski	Member of the Management Board	

SIGNATURES OF THE MEMBER IN CHARGE OF BOOKKEEPING

Date	Name and Surname	Position/Function	Signature
July 26, 2017	Marcin Szewczykowski	Member of the Management Board	