



Orbis S.A.

Report for the First Half of 2017

Condensed Interim Separate

Financial Statements

July 27, 2017

TABLE OF CONTENTS

INCOME STATEMENT	2
STATEMENT OF COMPREHENSIVE INCOME	3
STATEMENT OF FINANCIAL POSITION	4
STATEMENT OF CHANGES IN EQUITY	6
STATEMENT OF CASH FLOWS	7
1. BACKGROUND	8
1.1 BASIS OF PREPARATION OF THE CONDENSED INTERIM FINANCIAL STATEMENTS	9
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 SEPARATE FINANCIAL STATEMENTS OF ORBIS S.A.	9
1.3 CHANGES IN ACCOUNTING POLICIES, CHANGES IN PRESENTATION OF DATA AND CORRECTION OF PRIOR PERIOD ERRORS	11
2. SEGMENT INFORMATION	15
3. SEASONALITY OR CYCLICALITY OF OPERATIONS	17
4. INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME	18
5. STATEMENT OF FINANCIAL POSITION	21
5.1 NON-CURRENT ASSETS	21
5.2 CURRENT ASSETS	27
5.3 ASSETS CLASSIFIED AS HELD FOR SALE	28
5.4 CURRENT AND NON-CURRENT LIABILITIES	29
6. DIVIDENDS RECEIVED, PAID AND APPROVED	32
7. CHANGES IN ESTIMATES OF AMOUNTS	33
7.1 IMPAIRMENT OF ASSETS	33
7.2 PROVISIONS FOR EMPLOYEE BENEFITS	34
7.3 PROVISIONS FOR LIABILITIES	36
7.4 DEFERRED TAX ASSETS AND LIABILITIES	36
8.1 LIABILITIES ARISING FROM CREDIT FACILITY AGREEMENTS AND BOND ISSUE	37
8.2 LIABILITIES ARISING FROM AGREEMENTS FOR THE SALE OF ASSETS	37
9. FINANCIAL INSTRUMENTS	38
9.1 CATEGORIES OF FINANCIAL INSTRUMENTS	38
9.2 FAIR VALUE OF FINANCIAL INSTRUMENTS	38
9.3 HEDGE ACCOUNTING	39
10. RELATED PARTY TRANSACTIONS	40
11. ISSUANCES, REPURCHASES AND REPAYMENTS OF DEBT AND EQUITY SECURITIES	42
12. LEGAL CLAIMS	42
13. STATEMENT OF CASH FLOWS	44
14. EVENTS AFTER THE REPORTING PERIOD	44

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	422 141	306 869
Outsourced services	(93 486)	(68 240)
Employee benefit expense	(112 398)	(85 088)
Raw materials and energy used	(66 211)	(49 140)
Taxes and charges	(14 835)	(13 406)
Other expenses by nature	(3 336)	(3 290)
Net other operating income/(expenses)	302	184
EBITDAR	132 177	87 889
Rental expense	(3 955)	(3 885)
Operating EBITDA	128 222	84 004
Depreciation and amortisation	(62 928)	(47 544)
Operating profit without the effects of one-off events	65 294	36 460
Result on sale of real property	3 927	88
Restructuring costs	(970)	(231)
Operating profit	68 251	36 317
Finance income	18 560	56 311
Finance costs	(26 054)	(7 628)
Profit before tax	60 757	85 000
Income tax expense	(10 086)	(6 305)
Net profit for the period	50 671	78 695
Earnings per ordinary share		
Basic and diluted earnings per share (in PLN)	1,10	1,71

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	50 671	78 695
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:		
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) after tax	(32)	(43)
Total comprehensive income for the period	50 639	78 652

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	2 548 975	2 597 617	2 408 819
Property, plant and equipment	1 610 734	1 650 320	1 071 182
Investment property	10 197	10 061	298 775
Intangible assets, of which:	111 030	111 878	3 682
- goodwill	107 252	107 252	0
Investments in subsidiaries	465 921	465 921	1 025 569
Loans granted	333 894	345 072	0
Other financial assets	10 944	10 944	7 888
Deferred tax assets	5 434	2 528	902
Other non-current assets	821	893	821
Current assets	282 608	176 323	164 304
Inventories	3 783	4 103	2 933
Trade receivables	30 488	22 251	43 024
Income tax receivables	0	1 616	539
Other current receivables	19 899	16 906	11 615
Loans granted	70 096	13 489	0
Cash and cash equivalents	158 342	117 958	106 193
Assets classified as held for sale	8 777	23 631	33 149
TOTAL ASSETS	2 840 360	2 797 571	2 606 272

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	1 981 235	2 004 319	1 948 421
Share capital	517 754	517 754	517 754
Reserves	133 228	133 238	132 596
Retained earnings	1 330 253	1 353 327	1 298 071
Non-current liabilities	606 877	617 251	431 846
Borrowings	70 266	87 656	105 066
Bonds	501 515	501 372	299 331
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	17 700	19 108	19 120
Current liabilities	252 248	176 001	226 005
Borrowings	35 289	35 289	35 289
Other financial liabilities	129	118	909
Trade payables	50 554	52 441	37 009
Liabilities associated with tangible assets	5 768	17 651	11 004
Income tax liabilities	5 407	0	4 930
Deferred revenue	29 064	14 515	26 294
Other current liabilities	122 438	51 637	107 515
Provision for retirement benefits and similar obligations	2 822	2 892	2 278
Provisions for liabilities	777	1 458	777
TOTAL EQUITY AND LIABILITIES	2 840 360	2 797 571	2 606 272

STATEMENT OF CHANGES IN EQUITY
 for the first half of 2017 with comparable figures for the year 2016

	Share capital	Reserves	Retained earnings	Total
Twelve months ended December 31, 2016				
Balance as at January 1, 2016	517 754	132 689	1 274 440	1 924 883
- net profit for the period	0	0	154 744	154 744
- other comprehensive income/(loss)	0	549	57	606
Total comprehensive income for the period	0	549	154 801	155 350
- transaction with a shareholder	0	0	17 286	17 286
- income tax relating to transaction with a shareholder	0	0	(3 284)	(3 284)
- accounting for business combination with a subsidiary	0	0	(20 800)	(20 800)
- dividends	0	0	(69 116)	(69 116)
Balance as at December 31, 2016	517 754	133 238	1 353 327	2 004 319
of which: six months ended June 30, 2016				
Balance as at January 1, 2016	517 754	132 689	1 274 440	1 924 883
- net profit for the period	0	0	78 695	78 695
- other comprehensive income/(loss)	0	(93)	50	(43)
Total comprehensive income/(loss) for the period	0	(93)	78 745	78 652
- transaction with a shareholder	0	0	17 286	17 286
- income tax relating to transaction with a shareholder	0	0	(3 284)	(3 284)
- dividends	0	0	(69 116)	(69 116)
Balance as at June 30, 2016	517 754	132 596	1 298 071	1 948 421
Six months ended June 30, 2017				
Balance as at January 1, 2017	517 754	133 238	1 353 327	2 004 319
- net profit for the period	0	0	50 671	50 671
- other comprehensive income/(loss)	0	(10)	(22)	(32)
Total comprehensive income/(loss) for the period	0	(10)	50 649	50 639
- dividends	0	0	(73 723)	(73 723)
Balance as at June 30, 2017	517 754	133 228	1 330 253	1 981 235

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	60 757	85 000
Adjustments:	54 188	(9 456)
Depreciation and amortisation	62 928	47 544
Foreign exchange (gains)/losses	15 791	(685)
Interest, borrowing costs and dividends	(9 294)	(48 505)
(Gain)/loss from investing activities	(3 547)	38
Change in receivables	(16 226)	(24 700)
Change in liabilities, excluding borrowings	(6 999)	6 754
Change in deferred revenue	13 368	10 560
Change in provisions	(2 159)	(798)
Change in inventories	320	326
Other adjustments	6	10
Cash generated from operations	114 945	75 544
Income taxes paid	(5 990)	(12 607)
Net cash generated by operating activities	108 955	62 937
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment and intangible assets	31 572	633
Dividends and share of profits	13 412	55 272
Interest received	759	363
Other investing cash inflows	9 531	7 199
Payments for property, plant and equipment and intangible assets	(40 500)	(75 685)
Increase in share capital of related parties	0	(10)
Loans granted	(56 665)	0
Net cash used in investing activities	(41 891)	(12 228)
FINANCING ACTIVITIES		
Proceeds from the shareholder	0	17 286
Repayment of borrowings	(17 645)	(17 645)
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 used in financing activities	(26 710)	(7 228)
Change in cash and cash equivalents	40 354	43 481
Effects of exchange rate changes on the balance of cash held in foreign currencies	30	771
Cash and cash equivalents at the beginning of the period	117 958	61 941
Cash and cash equivalents at the end of the period	158 342	106 193

1. BACKGROUND

The attached condensed interim financial statements of Orbis S.A. (the "Company") 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 figures for the first half of 2017 and for the first half of 2016, as well as explanatory notes to the above-mentioned financial statements.

Orbis S.A. with its corporate seat in Warsaw, at ul. Bracka 16, 00-028 Warsaw, Poland, is 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.

Orbis S.A. is Poland's largest hotel company that employs 2.6 thousand persons (average full-time equivalent employment). As at June 30, 2017, the Company operated a network of 49 hotels (9 590 rooms) in 15 cities, towns and resorts in Poland. The hotels owned by Orbis S.A. operate under the following Accor brands: Sofitel, Novotel, Mercure, ibis, ibis budget and ibis Styles.

Orbis S.A. is the sole licensor of Accor brands in 16 countries in the Central & Eastern Europe. As at the balance sheet date, 31 hotels (offering a total of 3 508 rooms) operated under franchise agreements and 10 hotels (with a total of 1 571 rooms) operated under management agreements.

Orbis S.A. is the parent company of the Orbis Group and prepares consolidated financial statements. The attached condensed interim financial statements of Orbis S.A. should be read in conjunction with the condensed interim consolidated financial statements of the Orbis Group as at June 30, 2017 and for 6 months ended June 30, 2017 as well as with the audited separate and consolidated financial statements for the annual period from January 1, 2016 till December 31, 2016, including notes, and prepared in compliance with the International Financial Reporting Standards (IFRSs).

The financial statements are presented in the Polish zloty (PLN) which is the presentation and functional currency of the Company.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions and applying the following methodology:

- sale of foreign currency and payment of receivables – at the foreign currency buy rate applicable by the bank which provides services to the Company;
- purchase of foreign currency and payment of liabilities – at the foreign currency sell rate applicable by the bank which provides services to the Company;
- other transactions – at the average foreign currency exchange rate published by the National Bank of Poland.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities according to exchange rates as at the end of June 2017 are recognised in the income statement. The exchange rate PLN 4.2265 (the average exchange rates table of the National Bank of Poland as at June 30, 2017) was used to translate the figures from euro (EUR).

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

1.1 BASIS OF PREPARATION OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

These condensed interim 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 Company's accounting policies. The areas which are more complex or require a subjective judgement, 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 financial statements have been prepared on the assumption that Orbis S.A. will continue as a going concern in the foreseeable future.

These 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 SEPARATE FINANCIAL STATEMENTS OF ORBIS S.A.

The report of the licensed auditor Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. on the review of the condensed interim separate financial statements of Orbis S.A. for the period from January 1, 2017, to June 30, 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 Company.

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 Company'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 Company (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 Company 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, 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 Company 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 IAS 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 accounts for 2.1% of total assets), PLN 61 382 thousand (which accounts for 2.2% of total assets) as at December 31, 2016, and PLN 28 033 thousand (which accounts for 1.1% of total assets) as at June 30, 2016.

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 of financial position, amounted to PLN 255 570 thousand (9.0% of total assets) as at June 30, 2017, PLN 260 044 thousand (9.3% of total assets) as at December 31, 2016 and PLN 278 584 thousand (10.7% of total assets) as at June 30, 2016. The value of the related deferred tax liabilities amounted to PLN 48 558 thousand (1.7% of total equity and liabilities) as at June 30, 2017, PLN 49 408 thousand (1.8% of total equity and liabilities) as at December 31, 2016 and PLN 52 931 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 (7.2% of net profit), PLN 16 586 thousand (10.7% of net profit) and PLN 1 456 thousand (1.9% 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 (7.4% of total equity and liabilities), PLN 227 222 thousand (8.1% of total equity and liabilities) and PLN 227 109 thousand (8.7% of total equity and liabilities).

In the opinion of the Management Board and the Supervisory Board, 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 the 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 these financial statements).

When evaluating the financial statements of Orbis S.A. 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 Company.

1.3 CHANGES IN ACCOUNTING POLICIES, 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 financial statements were presented in Note 2.4 to the separate financial statements of Orbis S.A. for the annual period from January 1, 2016 till December 31, 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, amendments to the existing standards and new interpretations have been issued by IASB but not yet approved by the EU 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 entity’s estimates, the above listed standards, interpretations and amendments to standards, with the exception of IFRS 16 “Leases”, would not exert any substantial impact on the financial statements if applied by the Company 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 entity’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 S.A.

The application of the new standard concerning leases will influence the Company'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 Company was a party to an operating lease agreement concerning the Sofitel hotel in Wrocław and lease agreements of 87 motorcars. Disclosures currently required by IAS 17, including information about the future minimum lease payments under those agreements, are presented in Note 5.1.

The Company ran an initial analysis of the impact of the new terms of lease on Orbis S.A. 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). For car lease contracts executed in PLN the current cost of debt incurred by Orbis S.A. was adopted. For hotel lease contract executed in EUR, the financing rate 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 EUR, plus a premium for the credit risk of the Company.

If the Company 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 33 080 thousand would have been reported in the separate statement of financial position. Applying a discount rate higher/lower by 0.5% would have affected the decrease/increase of this value by PLN 409 thousand. Applying a discount rate higher/lower by 1.0% would have affected the decrease/increase of this value by PLN 810 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.

At the same time, the Management Board of Orbis S.A. informs that still the Company is working to analyse its executed agreements to use assets in terms of whether they meet the definition of lease under IFRS 16. In particular, the Company 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 Orbis S.A. using many properties where the Company operates hotels.

According to the 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 Company 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 Company 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.

2. SEGMENT INFORMATION

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

Orbis S.A. pursues hotel business in Poland. Beginning from the date of its merger with its subsidiary Hekon-Hotele Ekonomiczne S.A., i.e. from September 1, 2016, the Company distinguishes two reportable operating segments:

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

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

- the Up&Midscale segment: 3 Sofitel hotels, 13 Novotel hotels and 10 Mercure hotels,
- the Economy segment: 13 ibis hotels, 9 ibis budget hotels and 1 ibis Styles hotel.

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

- the Up&Midscale segment: 3 Sofitel hotels, 13 Novotel hotels and 13 Mercure hotels,
- the Economy segment: 14 ibis hotels, 9 ibis budget hotels and 1 ibis Styles hotel.

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 operating segments of the Orbis Company. 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 Company does not calculate income tax for the respective operating segments).

Exclusions contain reconciliations of data pertaining to segment data relating to income statement items for the first half of 2017.

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

In the first half of 2016 the Company Orbis pursued hotel business predominantly under hotel brands of the Up&Midscale segment. Hotels of the ibis and ibis budget brands were leased to a subsidiary company Hekon-Hotele Ekonomiczne S.A. and were classified as investment property. Because revenue from rental of this property and the value of assets did not exceed 10% of total revenue and assets in the previous year, the Company does not disclose segment information for the first half of 2016.

Operating segment revenues and results in the first half of 2017 are as follows:

Figures for the first half of 2017	Operating segments		Unallocated operations and exclusions	TOTAL
	Up&Midscale Hotels	Economy Hotels		
Segment revenue, of which:	324 278	89 027	8 836	422 141
Sale to external clients	324 278	89 027	8 836	422 141
EBITDAR	126 216	41 684	(35 723)	132 177
Operating EBITDA	122 321	41 624	(35 723)	128 222
Depreciation and amortisation	(45 649)	(15 423)	(1 856)	(62 928)
Operating profit/(loss) without the effects of one-off events	76 672	26 201	(37 579)	65 294
Result of one-off events	0	0	2 957	2 957
Operating profit/(loss) (EBIT)	76 672	26 201	(34 622)	68 251
Finance income/(costs)	(296)	(39)	(7 159)	(7 494)
Income tax expense	0	0	(10 086)	(10 086)
Net profit/(loss)	76 376	26 162	(51 867)	50 671

The tables below present other selected financial figures of operating segments for the first half of 2017 and for the year 2016:

Figures as at June 30, 2017	Operating segments		Unallocated operations	TOTAL
	Up&Midscale Hotels	Economy Hotels		
Non-current assets, of which:	1 196 722	507 304	844 949	2 548 975
- goodwill	37 803	69 449	0	107 252
- investments in subsidiaries	0	0	465 921	465 921
- financial assets	0	0	344 838	344 838
- deferred tax assets	0	0	5 434	5 434
Current assets, of which:	32 473	6 814	243 321	282 608
- cash and cash equivalents	0	0	158 342	158 342
Assets classified as held for sale	1 193	7 584	0	8 777
Investment expenditure	20 272	9 828	638	30 738

Figures as at December 31, 2016	Operating segments		Unallocated operations	TOTAL
	Up&Midscale Hotels	Economy Hotels		
Non-current assets, of which:	1 223 654	520 051	853 912	2 597 617
- goodwill	37 803	69 449	0	107 252
- investments in subsidiaries	0	0	465 921	465 921
- financial assets	0	0	356 016	356 016
- deferred tax assets	0	0	2 528	2 528
Current assets, of which:	20 642	3 968	151 713	176 323
- cash and cash equivalents	0	0	117 958	117 958
Assets classified as held for sale	23 631	0	0	23 631
Investment expenditure	107 227	26 265	2 338	135 830

3. SEASONALITY OR CYCLICALITY OF OPERATIONS

Orbis S.A. sales throughout the year are marked by seasonality. Owing to weather conditions and the holiday period in Poland falling in the months of July - September, the majority 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 the sales volume, while the fourth quarter is ranked as the third, and the first quarter as the last in terms of sales.

4. INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

NET SALES	1st half of 2017	1st half of 2016
Room revenue	285 815	179 353
Food & beverage revenue	111 469	84 516
Franchise and management revenue	4 831	6 676
Other revenue	20 026	36 324
<i>including revenue from rental of real properties</i>	7 423	23 781
Total net sales	422 141	306 869
<i>of which: revenue from related parties</i>	1 603	24 081

EXPENSES BY NATURE	1st half of 2017	1st half of 2016
Depreciation and amortisation	(62 928)	(47 544)
Rental expense	(3 955)	(3 885)
Outsourced services	(93 486)	(68 240)
Employee benefit expense	(112 398)	(85 088)
Raw materials and energy used	(66 211)	(49 140)
Taxes and charges	(14 835)	(13 406)
Other expenses by nature, of which:	(3 336)	(3 290)
business trips	(1 242)	(1 303)
insurance premiums	(964)	(672)
royalties	(726)	(462)
change in impairment of receivables	(35)	(286)
other	(369)	(567)
Total expenses by nature	(357 149)	(270 593)

OTHER OPERATING INCOME / EXPENSES, NET	1st half of 2017	1st half of 2016
Reversal of provision for costs of fees for perpetual usufruct of land	774	0
Compensation received	415	258
Gain on disposal of non-financial non-current assets	10	51
Costs refund	32	33
Other	180	1 014
Total other operating income	1 411	1 356
Receivables redeemed and written off	(402)	(309)
Indemnities, fines and penalties paid	(51)	(209)
Costs of hotel closing and assets liquidation	(532)	(242)
Losses arising from fortuitous events	(4)	(44)
Other	(120)	(368)
Total other operating expenses	(1 109)	(1 172)
Other operating income/expenses, net	302	184

RESULT ON SALE OF REAL PROPERTY	1st half of 2017	1st half of 2016
Net proceeds from disposal of real properties	26 500	400
Net value of real properties disposed of	(22 432)	(247)
Additional costs related to disposal	(141)	(65)
Total result on sale of real property	3 927	88

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. The result on the transaction, with extra costs, was PLN 3 927 thousand.

RESTRUCTURING COSTS	1st half of 2017	1st half of 2016
Incurring costs of employment restructuring	(1 651)	(305)
(Recognised)/released provisions for employment restructuring	681	74
Total restructuring costs	(970)	(231)

FINANCE INCOME	1st half of 2017	1st half of 2016
Dividends and share of profits *	13 412	55 358
Interest income on loans and receivables	4 388	1
Interest on deposits	760	363
Foreign exchange gains	0	589
Total finance income	18 560	56 311

* In the first half of 2017, the Company recognised income from dividends from its subsidiary Orbis Kontrakty Sp. z o.o., in the amount of PLN 13 412 thousand.

In the first half of 2016, the Company recognised income from dividends from its subsidiary Hekon-Hotele Ekonomiczne S.A. in the amount of PLN 39 554 thousand, from Orbis Kontrakty Sp. z o.o. in the amount of PLN 9 580 thousand and from Accor Hotels Romania s.r.l. in the amount of PLN 6 224 thousand (equivalent to RON 6 390 thousand).

FINANCE COSTS	1st half of 2017	1st half of 2016
Interest and debt service costs accrued on credit facilities	(2 090)	(2 692)
Interest and debt service costs accrued on bonds	(7 239)	(4 329)
Interest expense arising from provisions for employee benefits	(345)	(313)
Foreign exchange losses *	(16 220)	0
Other	(160)	(294)
Total finance costs	(26 054)	(7 628)

* Exchange rate losses in the amount of PLN 15 604 thousand disclosed in the finance costs of the Company in the first half of 2017 result from the measurement, as at the date of the statement of financial position, of loans granted in EUR to the Hungarian subsidiary Accor Pannonia Hotels Zrt. and to the Lithuanian subsidiary UAB Hekon.

INCOME TAX	1st half of 2017	1st half of 2016
Current income tax	(13 012)	(10 648)
Deferred income tax	2 926	4 343
Tax charge in the income statement	(10 086)	(6 305)

Reconciliation of income tax recognised in the income statement with profit or loss:

	1st half of 2017	1st half of 2016
Profit before tax	60 757	85 000
Tax calculated at the statutory rate of 19%	(11 544)	(16 150)
Tax effect of dividends received	2 548	10 518
Tax effect of non-taxable revenue and non-deductible expenses	(1 090)	(673)
Tax charge at the effective tax rate	(10 086)	(6 305)
Income tax recognised in the income statement	(10 086)	(6 305)

5. STATEMENT OF FINANCIAL POSITION

5.1 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	1 586 333	1 632 563	986 436
Assets under construction	24 401	17 757	84 746
Total	1 610 734	1 650 320	1 071 182

TANGIBLE ASSETS	as at Jun. 30, 2017	as at Dec. 31, 2016	as at Jun. 30, 2016
Opening gross book amount	3 541 534	2 641 092	2 641 092
Accumulated depreciation and impairment	(1 908 971)	(1 652 648)	(1 652 648)
Opening net book amount	1 632 563	988 444	988 444
Increase due to merger with a subsidiary	0	320 059	0
Additions	23 757	486 562	37 974
purchase	23 751	117 259	37 974
transfer from investments in progress	0	59 028	0
transfer from investment property	0	288 988	0
other	6	21 287	0
Disposals	(8 390)	(74 391)	(1 473)
sale	0	(29 227)	0
liquidation	(530)	(288)	(242)
other	0	(21 332)	(38)
transfer to assets held for sale	(7 562)	(23 544)	(1 193)
transfer to investment property	(298)	0	0
Increase in impairment	0	(6 630)	0
Decrease in impairment	0	10 787	0
Depreciation charge for the period	(61 597)	(92 268)	(38 509)
Closing net book amount	1 586 333	1 632 563	986 436
Closing gross book amount	3 506 791	3 541 534	2 663 666
Accumulated depreciation and impairment	(1 920 458)	(1 908 971)	(1 677 230)
Closing net book amount	1 586 333	1 632 563	986 436

The disposal due to reclassification to assets held for sale in the first half of 2017 relates to the transfer of components of property, plant and equipment of the ibis Zabrze hotel with the forthcoming sale of this hotel.

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	35 765	29 121	96 110
Impairment loss on assets under construction	(11 364)	(11 364)	(11 364)
Total	24 401	17 757	84 746

Change in the value of assets under construction during the period from December 31, 2016 to June 30, 2017 is the result of capital expenditure incurred in the amount of PLN 30 738 thousand and disposals of PLN 24 094 thousand.

Capital expenditure incurred in the first half of 2017 was allocated primarily for modernisation of the Novotel Poznań Centrum hotel related to the division of the hotel and its partial rebranding into ibis. Other expenditure was allocated for the renovation of hotels, primarily the Novotel Kraków City West hotel, the Novotel Kraków Centrum hotel, the Mercure Wrocław Centrum hotel and the Mercure Poznań Centrum hotel. In the first half of 2017, works also commenced on the construction of new hotels: the ibis Styles Warszawa hotel, the ibis Styles Szczecin hotel and the ibis budget Gdańsk Posejdon hotel. More information about capital expenditure is provided in Section 4.8 of the Directors' Report on the Operations of the Orbis Group in the First Half of 2017.

Detailed information on collaterals established on property, plant and equipment is provided in Note 8 to the financial statements.

The Company does not have any tangible assets held under finance leases as at June 30, 2017.

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.

As at June 30, 2017, the Company had operating lease liabilities resulting from the operating lease of the Sofitel Wrocław Old Town hotel. The monthly fee for the lease of the hotel amounts to EUR 148.7 thousand. The agreement term is expected to expire at the end of September, 2021. Moreover, as at June 30, 2017, the Company held 87 motorcars under operating leases (agreements with ALD Automotive Polska Sp. z o.o.). The concluded car lease agreements expire in 1 to 3 years.

Future minimum operating lease payments of the Company 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	8 717	9 206	8 971
from 1 to 5 years	25 417	30 932	33 548
above 5 years	0	0	1 975
Total future minimum operating lease payments	34 134	40 138	44 494

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.

In the current period, lease payments disclosed in the income statement amounted to PLN 4 364 thousand, of which PLN 3 955 thousand was presented under real property rent costs, while PLN 409 thousand in respect of car leases was presented under outsourced services. In the first half of 2016 the Company incurred a cost of PLN 3 885 thousand in respect of lease of the Sofitel Wrocław Old Town hotel and PLN 334 thousand in respect of car leases.

INVESTMENT PROPERTY	as at Jun. 30, 2017	as at Dec. 31, 2016	as at Jun. 30, 2016
Opening gross book amount	24 221	483 873	483 873
Accumulated depreciation and impairment	(14 160)	(177 165)	(177 165)
Opening net book amount	10 061	306 708	306 708
Increase due to merger with a subsidiary	0	2 874	0
Additions	298	1 400	425
purchase	0	504	391
transfer from tangible assets	298	0	0
other	0	896	34
Disposals	0	(290 025)	(182)
sale	0	(182)	(182)
other	0	(855)	0
transfer to tangible assets	0	(288 988)	0
Depreciation charge for the period	(162)	(10 896)	(8 176)
Closing net book amount	10 197	10 061	298 775
Closing gross book amount	25 050	24 221	481 944
Accumulated depreciation and impairment	(14 853)	(14 160)	(183 169)
Closing net book amount	10 197	10 061	298 775
INTANGIBLE ASSETS	as at Jun. 30, 2017	as at Dec. 31, 2016	as at Jun. 30, 2016
Opening gross book amount	122 867	13 995	13 995
Accumulated depreciation and impairment	(10 989)	(9 687)	(9 687)
Opening net book amount	111 878	4 308	4 308
Increase due to merger with a subsidiary	0	108 416	0
Additions	343	2 661	233
purchase	343	1 213	233
other	0	1 448	0
Disposals	(22)	(1 630)	0
sale	0	(117)	0
other	0	(1 426)	0
transfer to assets held for sale	(22)	(87)	0
Depreciation charge for the period	(1 169)	(1 877)	(859)
Closing net book amount	111 030	111 878	3 682
Closing gross book amount	121 776	122 867	12 673
Accumulated depreciation and impairment	(10 746)	(10 989)	(8 991)
Closing net book amount	111 030	111 878	3 682

INVESTMENTS IN SUBSIDIARIES

The table below presents basic information about subsidiaries.

Name of subsidiary	% share of share capital	% share of voting rights at the GM	Country of registration	Business operations	Share / interest value at cost	Revaluation adjustments	Carrying amount of shares / interests
Orbis Kontrakty Sp. z o.o.	directly 100%	directly 100%	Poland	organisation of purchasing	100	0	100
Orbis Corporate Sp. z o.o.	directly 100%	directly 100%	Poland	tourism, transport, hotel and F&B services	45	(45)	0
UAB Hekon	directly 100%	directly 100%	Lithuania	hotel and F&B services	13 688	(1 608)	12 080
Katerinska Hotel s.r.o.	directly 100%	directly 100%	Czech Republic	hotel and F&B services	279 260	0	279 260
Accor Pannonia Hotels Zrt.	directly 99.92%	directly 99.92%	Hungary	hotel and F&B services	82 677	0	82 677
Accor Hotels Romania s.r.l.	directly 100%	directly 100%	Romania	hotel and F&B services	91 804	0	91 804
Total					467 574	(1 653)	465 921

All investments in subsidiaries are recognised at cost.

The below-presented data concerns share of equity, share of voting rights at the General Meeting and the core business operations of subsidiaries in which Orbis S.A. indirectly holds interests.

Name of subsidiary	% share of equity	% share of votes at the GM	Country of registration	Business operations
H-DEVELOPMENT CZ a.s.	indirectly 100%	indirectly 100%	Czech Republic	real property services
Business Estate Entity a.s.	indirectly 100%	indirectly 100%	Czech Republic	real property rental
Accor-Pannonia Slovakia s.r.o.	indirectly 99.92%	indirectly 99.92%	Slovakia	hotel and F&B services
5 Hotel Kft.	indirectly 99.92%	indirectly 99.92%	Hungary	real property rental
HVB Leasing Maestoso Kft.	indirectly 99.92%	indirectly 99.92%	Hungary	real property rental

The following changes took place in the first half of 2017 as regards subsidiary companies of Orbis S.A.:

- 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, which owns 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 on the basis of lease agreements. 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, which owns the Sofitel Budapest Chain Bridge hotel operated by the Hungarian subsidiary on the basis of lease agreement. On June 13, 2017, the Hungarian Competition Authority issued a merger clearance which allowed Accor Pannonia Hotels Zrt. to take control over the HVB Leasing Maestoso Kft. 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.

INVESTMENTS IN OTHER ENTITIES

As at June 30, 2017 Orbis S.A. also held minority shares and interest in the company Polskie Hotele Sp. z o.o. in liquidation, which were fully written off.

LOANS GRANTED

As at June 30, 2017, receivables under granted loans included loans granted to the following subsidiaries:

A loan granted in 2016 to the Hungarian company **Accor Pannonia Hotels Zrt.** with its corporate seat in Budapest for a total of **EUR 81.0 million** was divided, by virtue of an annex to the agreement dated **June 30, 2017**, into two loans with a value of EUR 35.0 million and EUR 46.0 million.

Pursuant to the agreement, both these loans should be repaid no later than by December 31, 2019. However, in the case of the first loan (EUR 35.0 million), the repayment should not be less than EUR 3.0 million by the end of 2017 and EUR 1.5 million by the end of 2018; and in the case of the second loan (EUR 46.0 million), the Hungarian company should repay no less than EUR 1.5 million until the end of 2018.

Interest on loans remains the same as in the 2016 agreement, i.e. it was determined as a variable rate equal to EURIBOR 6M, plus interest rate margin of 2.5%. Pursuant to the agreement if EURIBOR 6M is lower than zero, the loan interest rate equals the interest rate margin, i.e. 2.5%. Interest is payable for 6-month periods, at the end of June and December of each year.

The loan was granted to the Hungarian subsidiary Accor Pannonia Hotels Zrt. to finance the buyback of seven leased hotels:

- The first transaction finalised at the beginning of 2016 concerned two hotels located in Budapest: the ibis Budapest Heroes Square hotel and the Mercure Budapest City Center hotel.
- The second transaction finalised at the beginning of January 2017 concerned the following five hotels: the Mercure Budapest Korona hotel, the ibis Styles Budapest Center hotel, the ibis Budapest City hotel, the ibis Budapest Centrum hotel and the Mercure Budapest Buda hotel. The buyback transaction was executed by way of acquisition of interest representing 100% of the share capital in 5 Hotel Kft. with its registered address in Budapest (the owner of the above hotels).

On **May 25, 2017**, Orbis S.A. granted to **Accor Pannonia Hotels Zrt.** with its corporate seat in Budapest a loan in the amount of **EUR 12.5 million** in order to finance the agreement of buy-back of the Sofitel Budapest Chain Bridge hotel, operated by the Hungarian company under lease agreements. The transaction of buy-back of the hotel was completed by acquisition of 100% of the share capital of company HVB Leasing Maestoso Kft. with its corporate seat in Budapest, which owns this hotel. More information on the transaction is provided in the current report no. 18/2017 and in Section 4.1 of the Directors' Report on the Operations of the Orbis Group in the First Half of 2017.

The interest rate on the loan was determined as a variable rate equal to EURIBOR 6M, plus interest rate margin of 2.5%. Pursuant to the agreement if EURIBOR 6M is lower than zero, the loan interest rate equals the interest rate margin, i.e. 2.5%. According to the agreement, the final date of repayment of the loan with the accrued interest is December 31, 2017.

On the other hand, on **June 1, 2017** Orbis S.A. and **UAB Hekon** with its registered address in Vilnius signed a loan agreement whereupon Orbis granted a loan to the Lithuanian company in the amount of **EUR 1.0 million** to finance the acquisition of a hotel building located in Vilnius, including the ownership title to the land and parking places.

According to the loan agreement, the final date of loan repayment is December 31, 2018. The interest rate on the loan was determined as a variable rate equal to EURIBOR 6M, plus interest rate margin of 2.5%. Pursuant to the agreement if EURIBOR 6M is lower than zero, the loan interest rate equals the interest rate margin, i.e. 2.5%. Interest is payable for 6-month periods, at the end of June and December of each year.

As at June 30, 2017, the balance of loans was as follows:

LOANS GRANTED	as at Jun. 30, 2017	as at Dec. 31, 2016	as at Jun. 30, 2016
Long-term loans	333 894	345 072	0
Short-term loans	70 096	13 489	0
Total loans granted	403 990	358 561	0

As at June 30, 2016, the Company had no loans granted.

OTHER FINANCIAL ASSETS

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 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" item 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. Individual instalments are due on follows:

- 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.

OTHER NON-CURRENT ASSETS	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 assets	821	893	821

5.2 CURRENT ASSETS

INVENTORIES	as at Jun. 30, 2017	as at Dec. 31, 2016	as at Jun. 30, 2016
Raw materials	3 740	4 051	2 875
Merchandise	43	52	58
Total inventories	3 783	4 103	2 933

TRADE RECEIVABLES	as at Jun. 30, 2017	as at Dec. 31, 2016	as at Jun. 30, 2016
Trade receivables	31 040	22 797	43 652
<i>of which: receivables from related parties</i>	<i>1 158</i>	<i>1 323</i>	<i>18 728</i>
Impairment loss on receivables	(552)	(546)	(628)
Net trade receivables	30 488	22 251	43 024

OTHER CURRENT RECEIVABLES	as at Jun. 30, 2017	as at Dec. 31, 2016	as at Jun. 30, 2016
Current receivables	8 881	15 147	2 053
Taxes, social insurances and other benefits receivables	39	34	1 913
Disputed receivables	2 268	2 300	2 126
Amount receivable on account of sale of tangible assets	8 444	14 671	0
Other receivables	398	442	140
Impairment of receivables	(2 268)	(2 300)	(2 126)
Current prepayments	11 018	1 759	9 562
Current prepayments, of which:	11 018	1 759	9 562
taxes and charges	5 909	37	5 581
prepaid insurance	435	209	737
prepaid employee benefit expense	1 767	26	1 217
prepaid TV fees and other	1 204	6	685
prepaid IT services	430	463	162
other	1 273	1 018	1 180
Net other current receivables	19 899	16 906	11 615

The item of "Amount receivable on account of sale of tangible assets" includes the current part of the amount receivable on account of sale of the Mercure Mrągowo Resort & SPA hotel (PLN 4 500 thousand) and the current receivable on account of sale of an organised part of the enterprise of the Mercure Kasprowy Zakopane hotel (PLN 3 944 thousand).

INCOME TAX RECEIVABLES	as at Jun. 30, 2017	as at Dec. 31, 2016	as at Jun. 30, 2016
Income tax receivable from the tax office	0	1 616	0
Income tax receivable from tax group companies *	0	0	539
Income tax receivables total	0	1 616	539

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

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	91 598	91 135	95 788
Short-term bank deposits	66 086	25 627	10 135
Other cash and cash equivalents	658	1 196	270
Total cash and cash equivalents	158 342	117 958	106 193

5.3 ASSETS CLASSIFIED AS HELD FOR SALE

As at June 30, 2017, assets classified as held for sale comprise:

- the right to perpetual usufruct of land in Heweliusza street in Gdańsk and
- the components of non-current assets of the ibis Zabrze.

The table below presents changes in assets classified as held for sale:

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	32 200	32 200
Additions	7 584	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
Disposals	(22 438)	(32 203)	(247)
sale of real property	(22 432)	(32 203)	(247)
other	(6)	0	0
Closing balance	8 777	23 631	33 149

Increase in the first half of 2017 results from 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. On the other hand, decrease of assets classified as held for sale 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.

5.4 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 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.

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
Credit facilities valued at amortised cost	(312)	(567)	(801)
Total borrowings	105 555	122 945	140 355

As at June 30, 2017, the Company had unused credit lines amounting to PLN 20 000 thousand under an overdraft facility available at Bank Handlowy w Warszawie S.A.

Information on collaterals established in connection with the credit facility taken is provided in Note 8.1 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.

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.

The bonds bear interest per annum at a variable interest rate at WIBOR for six-month deposits (WIBOR 6M) plus interest rate margin of 1.05%. Interest will be payable in 6-month interest periods.

The bonds will be redeemed on July 29, 2021, at their nominal value. Prior to the redemption date, on July 29, 2019, 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.

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 9.3 of these financial statements).

BONDS	as at Jun. 30, 2017	as at Dec. 31, 2016	as at Jun. 30, 2016
Liability resulting 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 securities established in connection with the issue of bonds is provided in Note 8.1 to the financial statements.

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 non-current 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 concerning the Giewont hotel in Zakopane concluded on April 3, 2012 and the accompanying rental contract. Pursuant to the executed preliminary sale and purchase agreement, Orbis received an advance payment towards the selling price amounting to PLN 5 428 thousand in 2012 as well as 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 current 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	26 959	12 441	20 476
Total current deferred revenue	29 064	14 515	26 294

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 at Heweliusza street in Gdańsk. As at the end of June 2016, under this item the Company 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 result predominantly from prepayments received for rooms.

OTHER NON-CURRENT LIABILITIES	as at Jun. 30, 2017	as at Dec. 31, 2016	as at Jun. 30, 2016
Liabilities associated with 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.

TRADE PAYABLES	as at Jun. 30, 2017	as at Dec. 31, 2016	as at Jun. 30, 2016
Trade payables	50 554	52 441	37 009
<i>of which: liabilities towards subsidiaries</i>	<i>8 470</i>	<i>11 758</i>	<i>9 705</i>
Total trade payables	50 554	52 441	37 009

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	5 768	17 651	11 004
Total liabilities associated with tangible assets	5 768	17 651	11 004

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.

As at June 30, 2017, Orbis S.A. was bound by future capital commitments under executed contracts amounting in total to PLN 60.7 million. 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 the new hotels i.e. 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.

INCOME TAX PAYABLES	as at Jun. 30, 2017	as at Dec. 31, 2016	as at Jun. 30, 2016
Income tax payable to the tax office	5 407	0	4 930
Income tax payables total	5 407	0	4 930

OTHER CURRENT LIABILITIES	as at Jun. 30, 2017	as at Dec. 31, 2016	as at Jun. 30, 2016
Current liabilities	83 840	9 007	75 133
Dividends payable	73 723	0	69 116
Taxes, social insurance and other benefits payable	9 233	8 124	5 057
Settlements with employees	103	88	66
Deposits received	456	795	635
Other liabilities	325	0	259
Accrued expenses	38 598	42 630	32 382
Obligations towards employees	28 263	33 694	21 513
Public imposts	6 972	6 947	8 948
Property insurance	906	134	500
Other	2 457	1 855	1 421
Total other current liabilities	122 438	51 637	107 515

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

As at June 30, 2017, December 31, 2016 and June 30, 2016, the Company does not have any finance lease liabilities. Future minimum operating lease payments are described in Note 5.1 to the financial statements.

6. DIVIDENDS RECEIVED, PAID AND APPROVED

By virtue of resolution of the General Meeting of Shareholders dated June 8, 2017, net profit generated by Orbis S.A. in 2016, was appropriated for the dividend totalling PLN 73 723 thousand, i.e. PLN 1.60 per share. The dividend payment date was set for August 3, 2017. A decision was also made to keep the remaining part of profit, amounting to PLN 81 021 thousand, in the Company as retained earnings.

On the other hand, by virtue of the resolution of the IV Annual Meeting of Shareholders of **Orbis Kontrakty Sp. z o.o.** dated May 15, 2017, it was decided that the total net profit generated by this subsidiary in 2016 amounting to PLN 13 412 thousand would be appropriated for the payment of dividend to Orbis S.A. The payment was credited to the bank account of Orbis S.A. on May 19, 2017.

7. CHANGES IN ESTIMATES OF AMOUNTS

7.1 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	(42 359)	(58 096)	(58 096)
increase due to merger with subsidiary	0	(7 112)	0
recognised impairment loss on tangible assets	0	(6 630)	0
reversed impairment loss on tangible assets	0	10 787	0
decrease in impairment losses in connection with sale/liquidation	0	9 561	0
impairment loss on tangible assets not subject to reversal *	425	1 531	734
reclassification to assets held for sale	3 711	17 882	0
reclassification from investment property	0	(10 282)	0
Closing balance	(38 223)	(42 359)	(57 362)

IMPAIRMENT OF INVESTMENT PROPERTY	as at Jun. 30, 2017	as at Dec. 31, 2016	as at Jun. 30, 2016
Opening balance	(592)	(10 867)	(10 867)
increase due to merger with subsidiary	0	(596)	0
decrease in impairment losses in connection with sale/liquidation	0	354	354
impairment loss on investment property not subject to reversal *	7	235	179
transfer to tangible assets	0	10 282	0
Closing balance	(585)	(592)	(10 334)

* 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 equals the amount reversible in the event of expiry of circumstances underlying the impairment.

IMPAIRMENT ON ASSETS CLASSIFIED AS HELD FOR SALE	as at Jun. 30, 2017	as at Dec. 31, 2016	as at Jun. 30, 2016
Opening balance	(17 882)	(12 060)	(12 060)
decrease in impairment losses in connection with sale/liquidation	17 882	12 060	0
transfer from tangible assets	(3 711)	(17 882)	0
Closing balance	(3 711)	(17 882)	(12 060)

IMPAIRMENT OF INTERESTS IN SUBSIDIARIES AND OTHER COMPANIES	as at Jun. 30, 2017	as at Dec. 31, 2016	as at Jun. 30, 2016
Opening balance	(1 655)	(37)	(37)
increase due to merger with subsidiary	0	(1 608)	0
recognised impairment loss	0	(10)	(10)
Closing balance	(1 655)	(1 655)	(47)

IMPAIRMENT LOSS ON RECEIVABLES	as at Jun. 30, 2017	as at Dec. 31, 2016	as at Jun. 30, 2016
Opening balance	(2 846)	(2 495)	(2 495)
increase due to merger with subsidiary	0	(313)	0
recognised impairment loss	(367)	(778)	(536)
reversed impairment loss	332	452	250
utilised impairment loss	61	288	27
Closing balance	(2 820)	(2 846)	(2 754)

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

7.2 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	6 554	22 000
Current service cost	499	139	638
Past service cost and (gain)/loss from settlements	(1 134)	(457)	(1 591)
Interest cost	251	94	345
Benefits paid	(810)	(60)	(870)
Present value of obligation - as at June 30, 2017	14 252	6 270	20 522
Short-term provisions	1 777	1 045	2 822
Long-term provisions	12 475	5 225	17 700
Total present value of obligation - as at June 30, 2017	14 252	6 270	20 522

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 the Mercure Jelenia Góra hotel and the Mercure Karpacz Resort hotel, as well as from the sale of the Mercure Częstochowa Centrum hotel and the ibis Częstochowa hotel.

PROVISIONS FOR EMPLOYEE BENEFITS	Jubilee awards	Retirement & disability benefits	Total liabilities
Present value of obligation - as at January 1, 2016	15 901	6 284	22 185
Increase due to merger with a subsidiary	2 598	141	2 739
Current service cost	1 035	266	1 301
Past service cost and (gain)/loss from settlements	(592)	42	(550)
Interest cost	509	189	698
Remeasurement (gains)/losses:			
actuarial gains and losses arising from changes in demographic assumptions	(3 448)	641	(2 807)
actuarial gains and losses arising from changes in financial assumptions	(713)	(301)	(1 014)
actuarial gains and losses arising from experience adjustments	2 202	(430)	1 772
Benefits paid	(2 046)	(278)	(2 324)
Present value of obligation - as at December 31, 2016	15 446	6 554	22 000
Short-term provisions	1 926	966	2 892
Long-term provisions	13 520	5 588	19 108
Total present value of obligation - as at December 31, 2016	15 446	6 554	22 000

PROVISIONS FOR EMPLOYEE BENEFITS	Jubilee awards	Retirement & disability benefits	Total liabilities
Present value of obligation - as at January 1, 2016	15 901	6 284	22 185
Current service cost	451	130	581
Past service cost and (gain)/loss from settlements	(610)	(200)	(810)
Interest cost	224	89	313
Benefits paid	(733)	(138)	(871)
Present value of obligation - as at June 30, 2016	15 233	6 165	21 398
Short-term provisions	1 671	607	2 278
Long-term provisions	13 562	5 558	19 120
Total present value of obligation - as at June 30, 2016	15 233	6 165	21 398

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.

7.3 PROVISIONS FOR LIABILITIES

PROVISIONS FOR LIABILITIES	Provision for litigations	Provision for restructuring costs	Total provisions for liabilities
As at January 1, 2017	777	681	1 458
Provision recognised in the period	0	324	324
Provision utilised in the period	0	(957)	(957)
Provision reversed in the period	0	(48)	(48)
As at June 30, 2017	777	0	777
Short-term provisions	777	0	777
Long-term provisions	0	0	0
Total provisions as at June 30, 2017	777	0	777

PROVISIONS FOR LIABILITIES	Provision for litigations	Provision for restructuring costs	Total provisions for liabilities
As at January 1, 2016	777	73	850
Provision recognised in the period	0	681	681
Provision utilised in the period	0	(73)	(73)
As at December 31, 2016	777	681	1 458
Short-term provisions	777	681	1 458
Long-term provisions	0	0	0
Total provisions as at December 31, 2016	777	681	1 458

PROVISIONS FOR LIABILITIES	Provision for litigations	Provision for restructuring costs	Total provisions for liabilities
As at January 1, 2016	777	73	850
Provision utilised in the period	0	(73)	(73)
As at June 30, 2016	777	0	777
Short-term provisions	777	0	777
Long-term provisions	0	0	0
Total provisions as at June 30, 2016	777	0	777

7.4 DEFERRED TAX ASSETS AND LIABILITIES

DEFERRED TAX *)	As at:		Impact on statement of comprehensive income
	June 30, 2017	December 31, 2016	
Deferred tax assets	20 316	19 354	962
Deferred tax liabilities	(14 882)	(16 826)	1 944
Change in deferred tax assets and liabilities, of which:			2 906
impact on profit or loss			2 926
impact on other comprehensive income			(20)

*) The deferred tax assets and liabilities are presented as per account balance.

8. CONTINGENT ASSETS AND LIABILITIES

8.1 LIABILITIES ARISING FROM CREDIT FACILITY 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 the sum of PLN 480 000 thousand, used in the amount of PLN 476 445 thousand.

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

- aggregate contractual mortgage of up to PLN 720 000 thousand, established for the benefit of Bank Polska Kasa Opieki S.A. (Mortgage Administrator) on the right to perpetual usufruct and ownership title of the building situated in it, in which building Orbis S.A. runs the Sofitel Warsaw Victoria hotel (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.

8.2 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 executed 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.

9. FINANCIAL INSTRUMENTS

9.1 CATEGORIES OF FINANCIAL INSTRUMENTS

The following table presents the 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	158 342	117 958	106 193
Loans and receivables (including trade receivables)	454 264	406 869	51 052
Financial assets excluded from the scope of IAS 39 (including investments in equity instruments not quoted on an active market)	465 921	465 921	1 025 569
Financial liabilities			
Amortised cost (including trade payables)	743 044	700 406	561 954
Derivative instruments in designated hedge accounting relationships	129	118	909

9.2 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 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	
	The carrying amount	The fair value	The carrying amount	The fair value	The carrying amount	The fair value
Financial assets						
Cash and cash equivalents	158 342	158 342	117 958	117 958	106 193	106 193
Loans granted	403 990	403 990	358 561	358 561	0	0
Other financial assets	10 944	10 944	10 944	10 944	7 888	7 888
Trade receivables and others current receivables	39 330	39 330	37 364	37 364	43 164	43 164
Investment in subsidiaries (excluded from the scope of IAS 39)	465 921	-	465 921	-	1 025 569	-
Financial liabilities						
Borrowings	105 555	107 094	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 long-term and current payables	135 974	135 974	76 089	76 089	122 268	122 268

According to the Management Board, as at June 30, 2017, December 31, 2016 and June 30, 2016 the carrying amount of financial instruments of the Company, with the exception of liabilities arising from credit facilities and issued bonds, was close to their fair value.

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

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 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 monitoring of yield curves.

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

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

9.3 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 dates of payment of interest on bonds. In the first half of 2017, the Company paid PLN 74 thousand in settlement of the Interest Rate Swap interest payment. At the end of the presented reporting periods, the swap's valuation at fair value was disclosed in the Company's equity through other comprehensive income. In 2017, no ineffectiveness arising from cash flow hedges occurred that would require to be disclosed in the financial result of the Company.

10. RELATED PARTY TRANSACTIONS

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

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

Costs of purchase of services from the Accor Group companies comprise mainly:

- franchise fees,
- reservation fees,
- fees for the use of IT applications,
- costs connected with the Le Club Accorhotels loyalty program.

Revenue from the sale of services to subsidiaries comprise mainly management fees (Orbis Kontrakty Sp. z o.o.). In 2016, till the date of merger with Hekon-Hotele Ekonomiczne S.A., Orbis additionally recognised revenues from the sale of services comprising management fees and revenues from lease of hotel properties to the subsidiary.

Purchases from subsidiary companies comprise predominantly mutually provided services.

Finance income comprises dividends from related parties as well as interest on loans granted to subsidiary Accor Pannonia Hotels Zrt. and to Lithuanian subsidiary UAB Hekon.

REVENUES AND EXPENSES	1st half of 2017	1st half of 2016
Net sales of services:	1 603	24 081
- from the parent company	753	1 061
- from other Accor Group companies	367	8
- from subsidiaries	483	23 012
Finance income:	17 788	55 358
- from subsidiaries	17 788	55 358
Total sales	19 391	79 439
Purchases of services:	18 416	13 611
- from the parent company	13 442	10 680
- from other Accor Group companies	4 974	2 929
- from subsidiaries	0	2
Total purchases	18 416	13 611

RECEIVABLES	as at Jun. 30, 2017	as at Dec. 31, 2016	as at Jun. 30, 2016
Trade receivables:	1 158	1 323	18 728
- from the parent company	731	767	794
- from other Accor Group companies	327	471	503
- from subsidiaries	100	85	17 431
Receivables under loans granted:	403 990	358 561	0
- from subsidiaries	403 990	358 561	0
Receivables from the Tax Group companies	0	0	539
Total receivables	405 148	359 884	19 267

PAYABLES	as at Jun. 30, 2017	as at Dec. 31, 2016	as at Jun. 30, 2016
Trade payables:	8 470	11 758	9 705
- to the parent company	7 339	11 314	9 046
- to other Accor Group companies	1 131	438	566
- to subsidiaries	0	6	93
Dividends payables:	38 842	0	36 415
- to the parent company	35 156	0	32 959
- to other Accor Group companies	3 686	0	3 456
Total payables	47 312	11 758	46 120

The significant drop in revenue in the first half of 2017 and receivables from subsidiaries as at June 30, 2017, and December 31, 2016, as compared to June 30, 2016 was caused by the merger of Orbis S.A. and Hekon – Hotele Ekonomiczne S.A.

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

Finance income from subsidiaries in the first half of 2017 and receivables under granted loans as at June 30, 2017 comprises a loan granted to Accor Pannonia Hotels Zrt. and to UAB Hekon. More information on the loan granted is provided in Note 5.1.

Furthermore, finance income during the period from January 1, 2017 till June 30, 2017, includes the dividend received from Orbis Kontrakty Sp. z o.o. During the corresponding period of the past year, Orbis S.A. received dividend from Orbis Kontrakty Sp. z o.o., Hekon-Hotele Ekonomiczne S.A. and Accor Hotels Romania s.r.l.

As at June 30, 2017, December 31, 2016 and June 30, 2016, the Company did not receive any loans from related parties.

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

Transactions with related companies are executed at arms' length.

Benefits (including wages and salaries, awards, post-employment benefits and retirement benefits) paid in accordance with contractual obligations to the Members of the Management Board and the Supervisory Board of Orbis S.A. in 6-month periods ended June 30, 2017, and 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 results from enlarged number of members of Orbis S.A. Management Board as of June 2, 2016.

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

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

11. 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 5.4.

12. 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 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 S.A. is a party, (except the proceedings concerning construction of a hotel in Elbląg), have occurred from the date of publication of the last financial separate annual financial statements of Orbis S.A.

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 Company'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 Company totals PLN 6 880 thousand and is disclosed in other current liabilities.

In the first half of 2017, Orbis S.A. 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.

13. STATEMENT OF CASH FLOWS

Explanations to adjustments of result in cash flows from operating activities

Change in inventories presented in the statement of cash flows is equal to the change in the balance of this item.

	1st half of 2017	1st half of 2016
Change in receivables in the statement of financial position	(11 230)	(21 382)
change in other non-current receivables and prepayments	67	63
change in receivables on account of sale of tangible assets	(5 063)	(3 381)
Change in the statement of cash flows	(16 226)	(24 700)
Change in liabilities, except borrowings, in the statement of financial position	56 962	63 569
change in investment liabilities	9 762	12 301
dividend from profit payable	(73 723)	(69 116)
Change in the statement of cash flows	(6 999)	6 754
Change in deferred revenue presented in the statement of financial position	22 899	14 378
advance payments received towards the sale of real property	(9 531)	(3 818)
Change in the statement of cash flows	13 368	10 560
Change in provisions in the statement of financial position	(2 159)	(860)
actuarial gains and losses arising from the defined employee benefit plan recognised in other comprehensive income	0	62
Change in the statement of cash flows	(2 159)	(798)
Other adjustments	6	10
revaluation of investments in subsidiaries	0	10
other	6	0
Change in the statement of cash flows	6	10

14. EVENTS AFTER THE REPORTING PERIOD

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

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

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

SIGNATURE OF THE MEMBER IN CHARGE OF BOOKKEEPING

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