Orbis S.A.

Annual Report for 2016

Separate Financial Statements

February 21, 2017

TABLE OF CONTENTS

(all amounts are quoted in PLN thousand, unless otherwise stated)

INCOME STATEMENT
for the year 2016

	Note	2016	2015
Net sales	5.1	**729 339**	**603 758**
Outsourced services	5.2	(163 757)	(130 009)
Employee benefit expense	5.3	(187 229)	(160 971)
Raw materials and energy used	5.2	(115 438)	(102 425)
Taxes and charges	5.2	(28 917)	(29 381)
Other expenses by nature	5.2	(6 552)	(4 866)
Net other operating income/(expenses)	5.4	1 654	(332)
EBITDAR		**229 100**	**175 774**
Rental expense	5.2	(7 820)	(7 469)
Operating EBITDA		**221 280**	**168 305**
Depreciation and amortisation	5.2	(105 041)	(93 434)
Operating profit without the effects of one-off events		**116 239**	**74 871**
Result on sale of real property	5.5	16 616	25 334
Revaluation of non-current assets	5.6	4 157	3 700
Restructuring costs	5.7	(1 782)	(1 791)
Result of other one-off events		0	67
Operating profit		**135 230**	**102 181**
Finance income	5.8	62 727	43 606
Finance costs	5.9	(17 337)	(16 362)
Profit before tax		**180 620**	**129 425**
Income tax expense	6	(25 876)	(20 222)
Net profit for the period		**154 744**	**109 203**
Total profit for the period relates to continuing operations			

Earnings per ordinary share			
Basic and diluted earnings per share for the period (in PLN)	7	3,36	2,37

(all amounts are quoted in PLN thousand, unless otherwise stated)

STATEMENT OF COMPREHENSIVE INCOME

for the year 2016

	Note	2016	2015
Net profit for the period		**154 744**	**109 203**
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/losses arising from the defined benefit plan	27	90	(1 095)
Income tax relating to items that will not be reclassified subsequently		(33)	208
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	30.3	677	(795)
Income tax relating to items that may be reclassified subsequently		(128)	151
Other comprehensive income/(loss) after tax		**606**	**(1 531)**
Total comprehensive income for the period		**155 350**	**107 672**

(all amounts are quoted in PLN thousand, unless otherwise stated)

STATEMENT OF FINANCIAL POSITION
as at December 31, 2016

Assets	Note	As at:	
		December 31, 2016	December 31, 2015
Non-current assets		**2 597 617**	**2 393 760**
Property, plant and equipment	9	1 650 320	1 048 402
Investment property	10	10 061	306 708
Intangible assets	11	111 878	4 308
- goodwill	11	107 252	0
Investments in subsidiaries	12	465 921	1 025 569
Loans granted	13	345 072	0
Other financial assets	14	10 944	7 888
Deferred tax assets	6	2 528	0
Other long-term assets	15	893	885
Current assets		**176 323**	**98 457**
Inventories	16	4 103	3 259
Trade receivables	17	22 251	27 155
Income tax receivables	6	1 616	0
Other short-term receivables	17	16 906	6 102
Loans granted	13	13 489	0
Cash and cash equivalents	18	117 958	61 941
Assets classified as held for sale	19	**23 631**	**32 200**
TOTAL ASSETS		**2 797 571**	**2 524 417**

(all amounts are quoted in PLN thousand, unless otherwise stated)

STATEMENT OF FINANCIAL POSITION, continued
as at December 31, 2016

Equity and liabilities	Note	As at:	
		December 31, 2016	December 31, 2015
Equity		**2 004 319**	**1 924 883**
Share capital	20.1	517 754	517 754
Reserves	20.2	133 238	132 689
Retained earnings	20.3	1 353 327	1 274 440
Non-current liabilities		**617 251**	**453 349**
Borrowings	21	87 656	122 466
Bonds	22	501 372	299 229
Deferred tax liabilities	6	0	3 450
Deferred revenue	23	4 001	5 300
Other non-current liabilities	24	5 114	3 072
Provision for retirement benefits and similar obligations	27	19 108	19 832
Current liabilities		**176 001**	**146 185**
Borrowings	21	35 289	35 289
Other financial liabilities	30.3	118	795
Trade payables	26	52 441	30 484
Liabilities associated with tangible assets	26	17 651	27 877
Current tax liabilities	6	0	3 066
Deferred revenue	23	14 515	10 766
Other current liabilities	26	51 637	34 705
Provision for retirement benefits and similar obligations	27	2 892	2 353
Provisions for liabilities	25	1 458	850
TOTAL EQUITY AND LIABILITIES		**2 797 571**	**2 524 417**

(all amounts are quoted in PLN thousand, unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY
for the year 2016

	Note	Share capital	Reserves	Retained earnings	Total
Twelve months ended December 31, 2015					
Balance as at January 1, 2015		**517 754**	**133 333**	**1 253 499**	**1 904 586**
- net profit for the period		0	0	109 203	**109 203**
- other comprehensive income/(loss)		0	(644)	(887)	**(1 531)**
Total comprehensive income/(loss) for the period		**0**	**(644)**	**108 316**	**107 672**
- settlement of the merger with a subsidiary		0	0	(18 259)	**(18 259)**
- dividends		0	0	(69 116)	**(69 116)**
Balance as at December 31, 2015	20	**517 754**	**132 689**	**1 274 440**	**1 924 883**
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	31.2	0	0	17 286	**17 286**
- income tax relating to transaction with a shareholder		0	0	(3 284)	**(3 284)**
- accounting for business combination under common control	12	0	0	(20 800)	**(20 800)**
- dividends	8	0	0	(69 116)	**(69 116)**
Balance as at December 31, 2016	20	**517 754**	**133 238**	**1 353 327**	**2 004 319**

(all amounts are quoted in PLN thousand, unless otherwise stated)

STATEMENT OF CASH FLOWS

for the year 2016

	Note	2016	2015
OPERATING ACTIVITIES			
Profit before tax		**180 620**	**129 425**
Adjustments:		**63 013**	**44 349**
Depreciation and amortisation	5.2	105 041	93 434
Foreign exchange gains		(1 338)	(10 573)
Valuation of financial assets		0	5 488
Interest, borrowing costs and dividends		(41 288)	(22 869)
Gain from investing activities		(16 960)	(26 268)
Change in receivables	32	13 452	4 046
Change in current liabilities, excluding borrowings	32	12 300	1 666
Change in deferred revenue	32	(1 662)	2 214
Change in provisions	32	(2 227)	576
Change in inventories	32	(158)	335
Other adjustments	32	(4 147)	(3 700)
Cash generated from operations		**243 633**	**173 774**
Income taxes paid		(35 052)	(22 154)
Net cash generated by operating activities		**208 581**	**151 620**
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment, intangible assets and investment property		60 457	47 817
Dividends and share of profits		55 272	37 506
Repayment of loans granted		7 656	0
Interest received		2 469	770
Cash acquired due to business combination with a subsidiary		46 825	3 660
Other investing cash inflows		5 454	2 000
Payments for property, plant and equipment, intangible assets and investment property		(142 819)	(87 375)
Net cash outflow to acquire interest in related parties		0	(596 581)
Increase in share capital of related parties		(10)	0
Loans granted		(286 832)	0
Net cash used in investing activities		**(251 528)**	**(592 203)**
FINANCING ACTIVITIES			
Proceeds from borrowings	21	0	476 445
Issue of bonds	22	200 000	300 000
Proceeds from shareholder	31.2	17 286	0
Repayment of borrowings	21	(35 289)	(317 645)
Interest paid and other financing cash outflows resulting from received borrowings	21	(4 841)	(10 863)
Interest paid and other financing cash outflows resulting from issue of bonds	22	(9 076)	(5 251)
Dividends and other payments to owners	8	(69 116)	(69 116)
Net cash generated by financing activities		**98 964**	**373 570**
Change in cash and cash equivalents		**56 017**	**(67 013)**
Effects of exchange rate changes on the balance of cash held in foreign currencies		0	(2 887)
Cash and cash equivalents at the beginning of the period		**61 941**	**131 841**
Cash and cash equivalents at the end of the period	18	**117 958**	**61 941**

1. BACKGROUND

1.1 GENERAL INFORMATION

The attached financial statements of Orbis S.A. present a statement of financial position as at December 31, 2016 and as at December 31, 2015, statement of changes in equity, income statement, statement of comprehensive income and statement of cash flows, covering data for 2016 and 2015, as well as explanatory notes to the abovementioned financial statements.

In Orbis S.A., a financial year corresponds to a calendar year. The term of the Company is unlimited.

Items included in the financial statements of the Company are presented in the currency of the primary economic environment in which the Company operates (in the “functional currency”). The financial statements are presented in Polish zloty (PLN) which is the presentation and functional currency of the Company.

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

These financial statements were approved by the Management Board on February 21, 2017.

1.2 ORBIS S.A.

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 2.5 thousand persons (average full-time equivalent employment). As at December 31, 2016, the Company operated a network of 53 hotels (10,148 rooms) in 18 cities, towns and resorts in Poland. The hotels operate under the following Accor brands: Sofitel, Novotel, Mercure, ibis, ibis budget and ibis Styles.

Orbis is the sole licensor of Accor brands in 16 countries of Eastern and Central Europe. As at the balance sheet date, 26 hotels offering a total of 2 858 rooms operated under franchise agreements and 10 hotels with a total of 1 571 rooms operated under management agreements.

The shareholding structure is presented in Note 20.1 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with International Financial Reporting Standards which were adopted by the European Union, issued and binding as of the date of the financial statements.

2.2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The basic accounting policies applied in the preparation of separate financial statements are presented in Note 2.4 to the financial statements. These policies were consistently applied in all the years covered by the financial statements and did not undergo any significant changes during the financial year, except for modifications resulting from amended regulations described in Note 2.6. The International Financial Reporting Standards applied for the first time by the Company are described in Note 2.6 to these statements.

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 judgment, as well as areas in which the assumptions and estimates are significant for the financial statements as a whole, are described in Note 2.7 to these statements.

The separate financial statements have been prepared on the assumption that Orbis S.A. will continue as a going concern in the foreseeable future. The Management Board of the Company is of the opinion that presently there exist no circumstances which would indicate a threat to the continuation of the Company's operations.

2.3 STANDPOINT OF ORBIS S.A. MANAGEMENT BOARD CONCERNING THE QUALIFIED OPINION ISSUED BY THE ENTITY AUTHORISED TO AUDIT FINANCIAL STATEMENTS

The report of the licensed auditor Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. on the audit of the separate financial statements of Orbis S.A. for 2016 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 option of transferring 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 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 December 31, 2016, amounted to PLN 61,382 thousand (which accounts for 2.2% of total assets), compared to PLN 28,214 thousand (equal to 1.1% of total assets) as at December 31, 2015.

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

The value of the perpetual usufruct of land obtained free of charge, as recognized in the statement of financial position, amounted to PLN 260,044 thousand (9.3% of total assets) as at December 31, 2016 and PLN 280,521 thousand (11.1% of total assets) as at December 31, 2015. The value of the related deferred tax liabilities amounted to PLN 49,408 thousand (1.8% of total equity and liabilities) as at December 31, 2016 and PLN 53,299 thousand (2.1% of total equity and liabilities) as at December 31, 2015.

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 12 months ended December 31, 2016, and for the period of 12 months ended December 31, 2015, taking into account deferred tax, would have been higher by, respectively, PLN 16,586 thousand (10.7% of net profit) and PLN 10,667 thousand (9.8% of net profit) and the previous years' profit/loss as at December 31, 2016 and 2015 would be lower by, respectively, PLN 227,222 thousand (8.1% of total equity and liabilities) and PLN 237,889 thousand (9.4% 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 as 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 2.6 of these financial statements).

When evaluating the financial statements of Orbis S.A. for the year 2016, 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.

2.4 ACCOUNTING POLICIES OF ORBIS S.A.

2.4.1 Income statement

The Company prepares income statement in a format presenting costs broken down by their nature, separating the following levels of result, which are regularly analysed by the Company Management Board, i.e.:

- EBITDAR – operating result before rental expense, depreciation/amortisation, effects of one-off events, result from financing activities and tax,
- Operating EBITDA – operating result before depreciation/amortisation, effects of one-off events, result from financing activities and tax,
- Operating result (EBIT) without the effects of one-off events.

Income and expenses arising from non-recurring and one-off events, such as sale of real property and restructuring, are presented separately from operating income/expenses.

2.4.2 Revenue recognition

Sales are recognised when the products, services or goods have been supplied and the significant risks and rewards of their ownership have been transferred onto the buyer. Sales are recognised at the fair value of consideration received or receivable, less tax on goods and services, rebates, discounts and other sales taxes.

The structure of sales revenue as broken down by kinds is as follows:

- sales of hotel services – this is revenue from renting out rooms in hotels owned or leased by the Company. Revenue from sales of hotel services is recognised when the service is provided, i.e. when the room is rented by the customer.
- sales of food&beverage services – they include revenue from sales of food and beverages in hotels owned or leased by the Company. The revenue is recognised when the products/goods are handed over to the customer. This group of revenues also includes revenues from the organization of conferences, banquets and events.
- other revenue – includes income from auxiliary services provided by hotels (among others, rental of parking places, sports and leisure services), as well as revenue from renting out non-hotel properties.
- revenue from franchise agreements – the Company receives franchise fees in connection with the licenses it grants for using brands owned by the Company, usually under long-term agreements with the hotel owners. The Company charges fixed fees for joining the network from franchisees and flexible charges for use of the trademark, the know-how, marketing support, hotel affiliation with the global distribution and reservation systems and participation in loyalty programs. Flexible charges are calculated as a percentage of revenue from provision of hotel room accommodation service by franchised hotels specified in the contract.

- management fees – these fees are paid by hotels managed by the Company, usually on the basis of long-term management agreements executed with hotel owners. The revenue comprises the basic fee, usually calculated as a percentage of hotel revenue, and an additional management fee defined as a specific percentage of the hotel's operating profit before tax. In addition, under management contracts, the Company charges flexible charges (for use of the trademark, a marketing fee, a distribution fee) calculated as a percentage of revenue from provision of hotel room accomodation service by managed hotels specified in the contract.

The revenue from franchise and management fees includes also contractual penalties received or receivable for early termination of the agreement.

Interest income is recognised on a time-proportion basis using the effective interest rate if the receipt of income is not doubtful.

Dividend income is recognised at the time of acquisition of the right to receive payment.

2.4.3 Finance costs and borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.
All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

The above capitalisation rules do not apply to:
- assets measured at fair value; and
- inventories that are manufactured in large quantities, on a continuous basis, and are fast moving.

Interest related to finance leases is recognised in profit or loss, using the internal rate of return method.

The finance costs also include the net interest expense resulting from the valuation of provisions for employee benefits and actuarial gains/losses arising from changes in financial assumptions as to valuation of reserves for jubilee awards (see also Note 2.4.17).

2.4.4 Property, plant and equipment

Property, plant and equipment are initially recognised at cost (cost of purchase or manufacture).

As at the end of the reporting period, property, plant and equipment are measured at cost, less accumulated depreciation charges and impairment.

Rights to perpetual usufruct of land purchased from third parties are presented at cost less depreciation charges calculated based on the term of the agreement for perpetual usufruct.

Rights to perpetual usufruct of land acquired from the local administrative authorities as a result of administrative decisions were initially recognised in the financial statements at fair value, on the basis of an expert's valuation. These rights are depreciated over the term of the agreement, i.e. for a maximum period of 99 years.

The approach applied in case of recognizing rights to perpetual usufruct of land in accordance with IAS 16 Property, Plant and Equipment is justified in Note 2.3 of the Introduction to the financial statements.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they were incurred.

Assets under construction are measured at cost. In the event that an asset under construction is impaired, an impairment loss is recognised to equalize its value with the recoverable amount.

In case a part of PP&E is replaced, the cost of the replacement part of the asset is included in the asset's carrying amount; at the same time the carrying amount of the replaced part is derecognised in the statement of financial position, irrespective of whether it was separately depreciated, and is recognised in profit or loss.

Depreciation commences at the date an asset becomes available for use. Depreciation is completed when an asset is designated for sale in accordance with IFRS 5, or derecognised in the statement of financial position.

Depreciation on currently used non-current assets is calculated using the straight-line method over the estimated useful life of a given newly-received PP&E asset, as follows:
Rights to perpetual usufruct of land – up to 99 years,
Buildings and structures and their components – from 5 up to 50 years,
Plant, machinery and equipment – from 3 up to 25 years,
Vehicles – up to 5 years;
Land is not depreciated.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

2.4.5 Leases

Leases are classified as finance leases where terms and conditions of an agreement transfer substantially all the risks and rewards of ownership of an asset to the lessee. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor (the financing party) are classified as operating leases.

2.4.5.1 Finance lease

Assets used under a finance lease are treated as assets of the Company and measured at their fair value at the date of the inception of the lease, which is not higher however than the present value of the minimum lease payments.

Each lease payment is allocated between finance costs and decreases in the balance of lease liabilities so as to achieve a constant effective interest rate on the outstanding balance. Finance costs are recognised directly in profit or loss.

Property, plant and equipment used under finance leases are depreciated in accordance with principles of depreciation of the non-current assets owned by the Company over the shorter of the useful life of the asset or the lease term.

In the event assets are transferred to be held under finance lease, the present value of lease payments is recognised in receivables.

In the period covered by this report, the Company had no agreements classified as finance leases.

2.4.5.2 Operating lease

Payments made under operating leases are recognised as expenses in profit or loss on a straight-line basis over the term of the lease.

Rewards due and received as an incentive to execute an operating lease are recognised in profit or loss on a straight-line basis over the term resulting from the lease.
Where the specific terms of the lease indicate that lease payments will be calculated progressively over the term of the lease, annual payment instalments are linearised.

The existing operating lease contracts are discussed in Note 9.

2.4.6 Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost, including transaction costs. As at the end of the reporting period, the Company measures investment property at historical cost less depreciation charges and impairment, if any.

Depreciation is calculated on the straight-line basis throughout the estimated useful life of a given asset, i.e.:
Rights to perpetual usufruct of land – up to 99 years;
Buildings and structures and their components – from 5 up to 50 years,
Plant, machinery and equipment – from 3 up to 25 years,
Land is not depreciated.

2.4.7 Intangible assets

2.4.7.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of identifiable assets, liabilities and contingent liabilities of the aquired entity as the date when control was assumed over it.
Goodwill is carried in the statement of financial position at cost less impairment losses.

2.4.7.2 Other intangible assets

Other intangible assets presented in the financial statements were measured at cost, net of accumulated amortisation charges calculated in accordance with rates reflecting their useful lives and net of impairment.

The method of amortisation, as well as the annual rate of amortisation reflecting the anticipated useful life of a given asset, are determined as at the date of acquisition of an intangible asset.

The Company does not carry out any research or development. Costs of creation of WWW pages are recognised in expenses by nature – outsourced services costs.

Amortisation is calculated on the straight-line basis over the estimated useful life of a given asset, i.e.:
Permits, patents, licenses and similar – up to 7 years;
Copyright and related proprietary rights – up to 10 years.

2.4.8 Interests in subsidiaries, affiliates and associates

Interests and shares in subsidiaries and associates of Orbis S.A. are measured at cost, less impairment.

Changes in the value of presented interests due to impairment are posted directly to profit or loss.

2.4.9 Other long-term assets

Other long-term assets include other long-term investments and other long-term prepayments.

Other long-term investments include assets acquired by the Company to derive economic benefits. Presently, this item comprises works of art. Long-term investments are measured at their revalued amounts determined on the basis of specialist catalogues. Effects of revaluations are posted to equity, in the reserves item.

2.4.10 Inventories

Inventories are measured at cost comprising the cost of purchase, costs of conversion and other costs incurred in bringing inventories to their present location and condition. The weighted average cost is applied to measure the consumption of materials, raw materials and packaging.

As at the end of the reporting period, inventories are stated at the lower of cost and net selling price. The net selling price is the estimated selling price realizable in the ordinary course of business, less applicable variable distribution costs.

2.4.11 Financial assets

Financial assets are recognised when the company becomes a party to a financial instrument agreement.

The initial value of financial assets is measured at fair value less transaction costs, except for assets classified as financial assets initially measured at fair value through profit or loss. Transaction costs allocated directly to the acquisition of financial assets measured at fair value through profit or loss are recognised directly in profit or loss.

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expired, or when it has transferred the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for the amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset.

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

2.4.11.1 Financial assets at fair value through profit or loss

This group includes financial assets held for trading or ones measured at fair value through profit or loss.

A financial asset is classified as held for trading if:
- it has been acquired principally for the purpose of selling it in the near term; or
- it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which group is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

The Company classifies predominantly investments in securities into this category.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

2.4.11.2 Held-to-maturity investments

Investments and other financial assets, save for derivatives, with fixed or negotiable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

2.4.11.3 Available-for-sale financial assets

Investments in unlisted shares and interests in companies, other than subsidiaries and associates, which shares are traded in an active market are classified as available for sale and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in equity, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses concerning monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss of a given period. Where fair value cannot be determined, investments are measured at cost less impairment losses, and the effects of valuation are recognised in profit or loss.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Company's right to receive the dividends is established. The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The change in the fair value attributable to foreign exchange gains and losses on changes in amortised historical cost of a given asset are recognised in profit or loss, while other foreign exchange gains and losses are recognised in equity.

2.4.11.4 Loans and receivables

Loans and receivables are non-derivative financial instruments with fixed or determinable payments, not quoted in an active market. They include trade receivables, loans granted, bank balances and funds in accounts and other receivables with fixed or negotiable payments.

At the end of the reporting period loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for receivables (in which trade receivables) when the recognition of interest would be immaterial.

2.4.12 Cash and cash equivalents

Cash and cash equivalents are recognised in the statement of financial position at fair value. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, call deposits held with banks, short-term bank deposits with maturities of three months or less and other short-term liquid investments that are readily convertible to a known amount of cash and that are subject to an insignificant risk of changes in value. Overdrafts in the current account for the purposes of the cash flow statement are recognized in the cash flow from financing activities. For the purposes of presentation in the statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

2.4.13 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Classifying an asset as held for sale means that management must be committed to execute the sale transaction within one year from the date of classification change. In case of events or circumstances beyond the entity’s control, and when the criteria of IFRS 5 are met, the period necessary to complete the sale transaction may be extended beyond one year.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their initial carrying amount and fair value less costs to sell.

In the statement of financial position, assets held for sale (or disposal group) are presented separately in assets. If any liabilities associated with the disposal group are to be transferred in the transaction together with the disposal group, these liabilities are presented as a separate item of liabilities.

2.4.14 Impairment of assets

At the end of each reporting period, the Company assesses whether there is any indication that any asset has suffered an impairment loss.

2.4.14.1 Impairment of property, plant and equipment, investment property and intangible assets

Property, plant and equipment, investment property and intangible assets are tested for impairment on an annual basis, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount.

Property, plant and equipment as well as **investment property** are tested for impairment by way of testing individual cash-generating units (the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets). Each and every hotel has been deemed to be a cash-generating unit within the meaning of IAS 36.

For non-hotel investment property, property, plant and equipment not associated with cash-generating units, and intangible assets, other than goodwill, an impairment test is conducted for individual assets. When it is not possible to estimate the recoverable amount of an individual asset, an analysis of the recoverable amount is performed for a group of cash-generating assets to which the individual asset belongs.

As regards measurement of goodwill, the cash-generating unit is an operating segment identified within the company to which goodwill relates. The description of the goodwill impairment testing method is provided in Note 11.

As at the end of each reporting period, the Company determines the value in use of each hotel, measuring it by the DCF (Discounted Cash Flow) method. Next, the net book value of the hotel is compared to the valuation made according to the DCF method, and a relevant adjustment is recognised (an impairment loss is recognised in case the value of the hotel in accounting books exceeds the DCF valuation, while the impairment loss is reversed (where possible) if the value of the hotel in accounting books is lower than the valuation according to the DCF method). In case of special conditions that result in a substantial distortion of DCF valuations, the Company determines the recoverable amount of the hotel by measuring its fair value on the basis of the value appraisals in its possession, up-to-date purchase offers or analyses of average transaction prices at the given market.

The net book value of property, plant and equipment and investment property arising from the reversal of an impairment loss should not exceed the amount that would have been determined if no impairment had been recognised. An impairment loss recognised for goodwill is not reversed.

Impairment and possible reversal of an impairment loss are recognised directly in profit or loss.

2.4.14.2 Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For unlisted shares classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with cases of defaulting on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the income statement, in other expenses by nature item.

With the exception of available for sale equity securities if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of equity securities held for sale, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

2.4.14.3 Impairment of inventories

If an event resulting in impairment of inventories occurs in the financial year, inventories are written down. When the circumstances that previously caused inventories to be written down to below the cost no longer exist, the written-down amount is eliminated so as to bring the new carrying amount to the lower of cost and the revalued net realizable value. Such a reversal of a write-down is reported through profit or loss.

2.4.15 Financial liabilities and equity instruments issued by the Company

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

2.4.15.1 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Own equity instruments repurchased by the Company are recognised in, or directly reported through equity.
In case of sale, purchase, issue or retirement of the Company's own equity instruments no related gains or losses are recognised in the Company's profit or loss.

2.4.15.2 Compound financial instruments

The component parts of compound instruments issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

2.4.15.3 Financial liabilities

Financial liabilities are recognised at the time when the company becomes a party to a financial instrument agreement.

The initial value of financial liabilities is measured at fair value. Transaction costs connected directly with assuming financial liabilities (except for financial liabilities at fair value through profit or loss) are deducted from the fair value of financial liabilities upon their original recognition. Transaction costs allocated directly to acquiring financial liabilities measured at fair value through profit or loss are recognised directly in profit or loss.

The Company derecognises financial liabilities only when the relevant obligations of the Company have been performed, invalidated or if they have expired.

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or as other financial liabilities.

2.4.15.4 Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:
- it has been acquired principally for the purpose of repurchasing it in the near term; or
- it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

2.4.15.5 Other financial liabilities

Other financial liabilities include borrowings, bonds, trade payables and other liabilities.

As at the end of reporting period, other financial liabilities are measured at amortised historical cost using the effective interest method, with interest expense recognised on an effective yield basis, except for liabilities (including trade liabilities), where recognised interest would be negligible.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period.

2.4.15.6 Financial guarantee contract liabilities

A financial guarantee contract is a contract which obligates the Company to make specified payments to compensate the holder for the loss incurred as a result of a given debtor defaulting on the duty to pay resulting from the terms of a given debt instrument.

Financial guarantee contract liabilities are initially measured at their fair values and, subsequently, at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

2.4.16 Derivative instruments

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Company designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

2.4.16.1 Embedded derivative instruments

Derivatives embedded in other financial instruments or in contracts other than financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss. Derivative instruments are not recognised in contracts executed in currencies that are generally accepted for a given type of transaction, e.g. in lease contracts executed in a currency generally accepted for this type of transaction (USD, EUR).

2.4.17 Employee benefits

Short-term employee benefits, including payments to defined contribution plans, are recognised in the period during which the employee rendered service to the Company, and in case of profit sharing and bonuses, when the following conditions are met:

- the entity has a present or constructive obligation to make such payments as a result of past events; and
- a reliable estimate of the obligation can be made.

In case of payments for compensated absences, employee benefits arising from accumulating compensated absences are recognised when the employees render service that increases their entitlement to future compensated absences. In case of non-accumulating compensated absences, benefits are recognised when the absences occur.

Post-employment benefits in the form of defined benefit plans (retirement benefits) and other long-term benefits (jubilee awards, disability benefits, etc.) are valued using the projected credit unit method, with actuarial valuation made at the end of each reporting period.
Remeasurements concerning retirement and disability benefits, comprising actuarial gains and losses, are reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined liability. Defined benefit costs are categorised as follows:

- service costs (including current service cost, past service cost, as well as gains and losses on settlements of plan amendments or curtailments),
- net interest expense, and
- remeasurement.

The Company presents service cost in the income statement as employee benefit expense. The net interest expense is presented in finance costs. Also, in finance income/costs the Company discloses actuarial gains and losses arising from changes in financial assumptions applicable to the measurement of provisions for jubilee awards. Other remeasured amounts relating to jubilee awards are presented in employee benefit expense. Remeasured amounts that relate to provisions for retirement & disability benefits are disclosed in other comprehensive income.

A liability for a termination benefit is recognised at the earlier of when the Company can no longer withdraw the offer of the termination benefit and when the Company recognises all the related restructuring costs.

2.4.18 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event and it is more likely than not that an outflow of resources will occur to settle the obligation, and the amount of the outflow may be reliably estimated.
Provisions are recognised and classified depending on the reason for which they were set up:

- provisions for liabilities, in particular related to onerous contracts, giving rise to liabilities under issued guarantees, sureties and results of pending litigation
- restructuring provisions.

Provisions are recognised on the basis of the Management Board’s decision. Restructuring provisions require an approved and communicated restructuring plan.
No provisions are recognised for future operating losses.

Provisions are recognised in justified and reasonably estimated amounts as at the date of the occurrence of an obligating event, not later however than at the end of the reporting period. As at the end of the reporting period, the balance of provisions is reviewed and appropriate adjustments are made, if necessary, so that the balance of provisions reflects the current, most reliable estimate of their value.

Movements in restructuring provisions are presented as a separate item of the income statement. Movements in other provisions are posted directly to profit or loss of the current period in other operating costs and income.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of expenditures, as estimated in accordance with the best knowledge of the Company's management, required to settle the obligation as at the end of the reporting period. The discount rate used to determine the present value reflects the current market assessments of the time value of money and the risks specific to the obligation.

2.4.19 Contingent assets and liabilities

Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not within the control of the Company.

A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not within the control of Company, or
- a present obligation that arises from past events but is not recognised because:
    - an outflow of benefits to settle that obligation is not likely,
    - the amount of the obligation cannot be measured with sufficient reliability.

2.4.20 Income tax

Income tax on profit or loss for the financial year represents the sum of the tax currently payable and deferred tax. Income tax is recognised in profit or loss, except for amounts directly recognised in equity, when income tax is reported in equity.

2.4.20.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

The liability for current tax is calculated using tax rates applicable in a given financial year.
In accordance with Polish regulations, in 2016 the Company calculated its corporate income tax liability at the rate of 19% of taxable income.

Until September 1, 2016 Orbis company formed, together with a subsidiary Hekon-Hotele Ekonomiczne S.A., a Tax Group. Due to the merger with the subsidiary, the Agreement Establishing the Tax Group lost its tax status. Consequently on September 2, 2016, Orbis company became an autonomous CIT payer. The tax year for Orbis ended on December 31, 2016.

2.4.20.2 Deferred tax

Deferred tax is computed using the carrying amount method, as a tax payable or refundable in future based on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised to the extent that it is probable that taxable profits will be available against which recognised deductible temporary differences, tax losses or tax reliefs can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset is realised or the liability becomes payable. In the statement of financial position, deferred tax assets and liabilities are offset to the extent that they relate to income taxes levied by the same taxation authority.

Deferred tax arising on income and expenses posted directly to equity is also posted to equity. In case of business combinations, recognised deferred tax assets and deferred tax liabilities exert an impact on goodwill or surplus of the acquirer's share in the fair value of net identifiable assets, liabilities and contingent liabilities of the acquiree over the cost of business combination.

2.4.20.3 Current and deferred tax for the period

Current and deferred tax is deducted from the profit with the exception of taxes deducted from comprehensive income or directly from equity. In such case the current and deferred tax is recognized respectively against other comprehensive income or equity.

The current income tax being an expense in profit or loss of the reporting period is established in the amount of tax due resulting from the tax return for the current reporting period adjusted by the amount of tax recognized directly against equity.

Deferred tax, recognised as expense in profit or loss of the reporting period, represents a change in deferred tax assets and liabilities resulting from events posted to profit or loss for the period. Deferred tax posted to equity in the period is recognised as other comprehensive income in the statement of comprehensive income.

2.4.20.4 Tax Group

In accordance with the current tax legislation, companies have the right to form Tax Groups.

The Tax Group allows to curb administrative expenses related to tax settlements and to offset current tax losses incurred by the companies with tax profits of other Tax Group companies, thereby reducing the tax charge of the Tax Group.

Gains arising from the offsetting of tax losses with tax profits are distributed among the companies in accordance with the agreement executed by the members of the Tax Group and reduce their respective tax charges.

Tax losses incurred by the companies belonging to the Tax Group prior to the establishment of the Tax Group can not be utilised by the Tax Group during its existence.

On October 3, 2009 the "Agreement Establishing the Orbis Tax Group" was concluded. The Orbis Tax Group consisted of Orbis S.A. and Hekon-Hotele Ekonomiczne S.A. The Agreement was registered in the competent tax office (decision dated October 28, 2009). The Agreement remained in effect for three tax years, i.e till December 31, 2012.
On August 31, 2012, a subsequent "Agreement Establishing the Orbis Tax Group", effective till December 31, 2015, was concluded. On September 24, 2015, Orbis S.A. and Hekon-Hotele Ekonomiczne S.A. signed another agreement covering the period from January 1, 2016 to December 31, 2018. As a result of the merger of both companies the Tax Group lost its tax status on September 1, 2016.

Orbis S.A. was the tax representative of the Tax Group. The tax was calculated independently by each company and was subsequently consolidated and remitted to the Tax Office by the tax representative. The tax was charged to profit or loss and affected cash flows of both companies in accordance with the calculations. Deferred tax assets and liabilities were offset within the Tax Group.

2.4.21 Payment of dividend

Payment of dividend to shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends were approved by the General Meeting of Shareholders of the company.

2.4.22 Foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, using 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.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Assets and liabilities carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items are measured at historical cost.

Exchange differences are recognised in profit or loss in the period in which they arise, except for exchange differences relating to assets under construction for future productive use, which are included in the cost of those assets and are regarded as an adjustment to interest costs on foreign currency borrowings.

2.4.23 Mergers of companies under common control

A merger of companies under common control is a merger of business entities whereby all merging entities finally remain under the control of the same party (parties) both before and after the merger and this control is not temporary. In particular this concerns transactions such as transfer of companies or ventures between entities from a Group or a merger of a parent company and its subsidiary.

In order to settle the effects of mergers of companies under common control, the Company uses the pooling of interests method, which assumes that:

- assets and liabilities of the merging companies are measured at carrying amounts taken from the Company's consolidated financial statements. This means that the goodwill previously recognised in the consolidated financial statements and all other intangible assets recognised as part of the process of accounting for the merger are transferred to the separate financial statements;
- transaction costs connected with the merger are recognised in the income statement;
- balances of intercompany receivables and liabilities are eliminated;
- the difference between the amount paid or transferred (and in the case of takeover of a subsidiary - between the value of interest held in that company) and net assets acquired (in values taken from consolidated financial statements) is reflected in equity of the merging company;
- income statement presents the profit or loss of the merged companies from the time of merger, while figures for previous periods are not restated.

In case of transformations involving making a non-cash contribution in the form of investment in the subsidiary to another subsidiary or a merger of two subsidiaries of Orbis S.A., only the value of the investment in the merged subsidiary is reclassified as the value of investment in the merging subsidiary. Thus, a transfer of one subsidiary to another does not affect the Company's profit or loss.

2.4.24 Materiality

A given figure is material if its omission or distortion might influence economic decisions made by users on the basis of the financial statements.
For the purpose of disclosing information in the financial statements, the Management Board assumed a threshold of materiality at 5% of operating result (EBIT) without one-off events, rounded down to full hundreds of thousands of zlotys, which in case of these financial statements means the sum of PLN 5,800 thousand.
The Management Board believes that omitting figures in excess of the specified materiality threshold might have a negative impact on the view of economic and financial standing, and the financial result of the Company.

2.5 CHANGES IN ACCOUNTING POLICIES AND CHANGES IN PRESENTATION OF DATA

In 2016, the accounting policies did not change as compared to the financial statements published as at December 31, 2015, save for changes resulting from new provisions of law (please refer to Note 2.6).

2.6 NEW ACCOUNTING STANDARDS AND IFRIC INTERPRETATIONS

The following amendments to the existing standards, issued by the International Accounting Standards Board (IASB) and adopted by the European Union, came into force in 2016:

- **Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures”** - Investment Entities: Applying the Consolidation Exception - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IFRS 11 “Joint Arrangements” –** Accounting for Acquisitions of Interests in Joint Operations - adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 1 “Presentation of Financial Statements”** - Disclosure Initiative - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets”** - Clarification of Acceptable Methods of Depreciation and Amortisation - adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture”** - Bearer Plants - adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 19 “Employee Benefits”** - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),

- **Amendments to IAS 27 “Separate Financial Statements”** - Equity Method in Separate Financial Statements - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to various standards “Improvements to IFRSs (cycle 2010-2012)”** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),

- **Amendments to various standards “Improvements to IFRSs (cycle 2012-2014)”** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The above listed standards, interpretations and amendments to standards have not exerted any substantial impact on the entity's financial statements for the year 2016.

As at February 21, 2017, the following standards and interpretations have been issued and adopted by the European Union but have not become effective yet:

- **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 standards and interpretations have been adopted by the International Accounting Standards Board but not yet approved by the European Union as at February 21, 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 version of IFRS 14,

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

- **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 the 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 indefinitely 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).

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 December 31, 2016 the Company was a party to an operating lease agreement concerning the Sofitel hotel in Wrocław and lease agreements of 88 motorcars. Disclosures currently required by IAS 17, including information about the future minimum lease payments under those agreements, are presented in Note 9.

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 marginal interest 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 Basis Swap Cross Currency quotations from the Bloomberg system as at December 30, 2016, converting the variable PLN interest rate into variable interest rates 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 December 31, 2016, then rights to use assets and liabilities under the lease of PLN 38,667 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 520 thousand. Applying a discount rate higher/lower by 1.0% would have affected the decrease/increase of this value by PLN 1,030 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 currently the Company is working to analyse its existing/executed agreements to use assets in terms of whether they meet the definition of lease under IFRS 16. In particular, the Company is taking steps to determine the direction and estimate the 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 2.3 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.

As at the date of the publication of these financial statements, the Management Board did not make a decision whether it will opt for an earlier application of the IFRS, i.e. from January 1, 2018.

2.7 CRITICAL ESTIMATES AND ASSUMPTIONS

Estimates and judgments are continually reviewed and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. Estimates and related assumptions are based on historical experience and a number of other factors that seem reasonable. The resulting accounting estimates may deviate from actual results. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The basic areas where the Management Board's estimates have a significant impact on the financial statements are as follows:

(a) *Useful lives*
The level of depreciation rates is determined on the basis of current knowledge concerning the anticipated useful life of components of property, plant and equipment, investment property and intangible assets. The anticipated useful life is periodically reviewed.

(b) *Impairment of property, plant and equipment and investment property*
As at the end of each reporting period, the Company assesses whether there are any indications that an asset may have been impaired. The recoverable amount of individual cash generating units is assessed using the methods described in Note 2.4.14.1.

(c) *Impairment of goodwill*
The goodwill impairment test is performed once a year of more frequently, if there are indications to do so, in accordance with the accounting policy stated in Note 11. The recoverable amounts of cash-generating units, i.e. operating segments separated within the Company, to which goodwill relates, is determined on the basis of the value-in-use using the DCF (Discounted Cash Flow) method.

(d) *Provision for employee benefits*
Provisions for jubilee awards as well as retirement and disability benefits are measured using actuarial methods. The growth in the discount rate and a change in the rate of long-term growth of wages and salaries have an impact on the estimated amount. When computing the provisions, an actuary performs a sensitivity analysis of the impact of the discount rate and planned growths in benefit assessment bases. Details of the analysis are presented in Note 27 to the financial statements.

(e) *Deferred tax assets*
The Company recognises deferred tax assets on deductible temporary differences to the extent that it is probable that in foreseeable future taxable profits will be available against which those deductible temporary differences can be utilised. Deterioration of taxable profits in the future might make this assumption unreasonable. The Company Management Board verifies the adopted estimates relating to the probability of recovering deferred income tax assets on the basis of changes in the factors that are taken into consideration when said assumptions are made, new information and past experience. Information on deductible temporary differences that are the basis for recognizing deferred tax assets is presented in Note 6.

3. DESCRIPTION OF MAJOR EVENTS OF 2016 AFFECTING THE COMPANY'S FINANCIAL INFORMATION

The most important events of 2016 which affected the financial information of Orbis S.A. include:

The merger of Orbis S.A. with Hekon-Hotele Ekonomiczne S.A.

On September 1, 2016, the merger of Orbis S.A. (merging company) with a subsidiary Hekon-Hotele Ekonomiczne S.A. (merged company) was entered in the National Court Register. As a result of the merger Orbis acquired 25 hotels of this subsidiary. As at December 31, 2016, Orbis owned or leased 53 hotels compared to 27 hotels at the end of 2015. Increase of the hotel base of Orbis in the last four months of 2016 was a factor that contributed to a considerable improvement of the Company's operating results.

Net sales of the merged company in the period from the day of merger, i.e. September 1, 2016, till the end of the reporting period, recognised in the income statement of Orbis S.A., amounted to PLN 87.9 million, while the operating result (EBIT) of hotels operating in the merging company for this period was PLN 30.5 million.

Moreover, the merger with Hekon-Hotele Ekonomiczne affected in particular the following balance sheet items:
- Investments in subsidiaries and affiliates decreased by PLN 559.7 million as a result of elimination of shares of PLN 571.8 million in Hekon S.A. and recognition of shares held by the acquired subsidiary in UAB Hekon and Orbis Kontrakty Sp. z o.o. (PLN 12.1 million in aggregate).
- Goodwill of PLN 107.3 million has been recognized in intangible assets as from the moment of takeover of the subsidiary, i.e. as of the date of purchase of shares in Hekon S.A.
- Investment properties of PLN 289.0 million, including hotel buildings rented to the acquired subsidiary have been reclassified to non-current assets.
- Property, plant and equipment increased by PLN 320.1 million as a result of takeover of Hekon property.
- Loans granted comprise a loan of EUR 16.0 million (PLN 69.9 million as at the merger day), which Hekon S.A. granted to another Group company, i.e. Accor Pannonia Hotels Zrt. in early 2016.
- Funds acquired in connection with merger with a subsidiary amounted to PLN 46.8 million.
- Retained earnings of Orbis company were reduced by PLN 20.8 million as a result of accounting for the merger.

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

More information about accounting for the merger with Hekon-Hotele Ekonomiczne S.A. and its influence on the financial results of Orbis S.A. for 2016 was presented in Note 12.

Real property sale transactions

In 2016 Orbis S.A. finalised the following real property sale transactions, whose results were posted in the income statement in item " Result on sale of real property" (please refer also to Note 5.5):
- on February 29, 2016, a sale agreement was executed concerning an organised part of the enterprise formed by **the Mercure Mrągowo Resort & SPA hotel**, with the exception of the real properties on which the hotel is located. The sale price of OPE Mrągowo was PLN 400 thousand net. Upon execution of the OPE Mrągowo sale agreement, a real properties lease agreement was executed for an amount of PLN 1,000 thousand, with a term covering the period from the day when the agreement was executed until the end of 2016, not later however than until the date of execution of the final real properties sale agreement. On December 16, 2016, the final hotel real properties sale agreement was executed, including the right of perpetual usufruct of land and building with other property, plant and equipment of the Mercure Mrągowo Resort & SPA hotel in Mrągowo for the price of PLN 18,600 thousand. The total revenue from the transaction was PLN 20,000 thousand.

- in August 2016, in connection with the sale agreement executed on December 21, 2015 concerning the real property **located in Warsaw at ul. Bitwy Warszawskiej 1920 r**., Orbis S.A. was informed by the buyer about the receipt by him of the building permit. In connection with the foregoing, pursuant to the real property sale agreement, the sale price payable to Orbis S.A. was adjusted in such a way so that the buyer paid to the Company an additional net amount of PLN 4,420 thousand, which gives a total real property net purchase price of PLN 26,420 thousand.
- on November 30, 2016, an agreement was executed to sell an organised part of the enterprise formed by **the Mercure Opole hotel**. The net sale price of the OPE was PLN 10,500 thousand.
- on December 23, 2016, **the Mercure Częstochowa Centrum and the ibis Częstochowa hotels** were sold for a total net price of PLN 29,500 thousand. The sale transaction covered the right of perpetual usufruct of land and the right of ownership of the buildings situated on it, with fixtures and fittings, structures and other facilities. Moreover, together with the hotel sale agreement, Orbis S.A. concluded with the buyer a rental agreement with a term until January 31, 2017, and a franchise agreement under which from February 1, 2017, the buyer will operate the above-mentioned hotels under Mercure and ibis brands. In view of the above, as at December 31, 2016, the Mercure Częstochowa Centrum and the ibis Częstochowa hotels were still operated by Orbis company.
- on December 29, 2016, a sale agreement was executed concerning **a non-hotel real property**, including the right of perpetual usufruct of land with a building, located **in Warsaw at Łopuszańska 47 street**. The real property was sold for a net price of PLN 14,362 thousand.

The issue of 200 thousand bonds with a total nominal value of PLN 200,000 thousand

On July 29, 2016, Orbis S.A. issued 200 thousand ordinary bearer bonds of ORB B 290721 series of a nominal value of PLN 1,000 each and of a total nominal value of PLN 200,000 thousand. The issue price of the bonds equals their nominal value. The bonds shall be redeemed on July 29, 2021 at their nominal value. On October 20, 2016, the bonds were introduced to trading in the debt securities alternative trading system BondSpot (on the Catalyst market). More information about bond issue is provided in Note 22.

4. 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 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., the Company distinguishes two reportable operating segments:

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

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.

Tables below present figures pertaining to revenues, results as well as assets of the operating segments of the Orbis Company. The results are presented as if the merger took place on January 1, 2016.

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 2016.

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 on bank deposits, other financial assets, public law receivables and deferred tax assets) to operating segments.

In 2015 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 2015.

(all amounts are quoted in PLN thousand, unless otherwise stated)

Operating segment revenues and results in 2016 are as follows:

Figures for 2016	Operating segments		Unallocated operations and exclusions	TOTAL
	Up&Midscale Hotels	Economy Hotels		
Segment revenue, of which:	**668 402**	**177 045**	**(116 108)**	**729 339**
Sale to external clients	668 402	177 045	(116 108)	729 339
EBITDAR	**265 236**	**85 807**	**(121 943)**	**229 100**
Operating EBITDA	**257 431**	**85 791**	**(121 942)**	**221 280**
Depreciation and amortisation	(88 182)	(30 518)	13 659	(105 041)
Operating profit/(loss) without the effects of one-off events	**169 249**	**55 273**	**(108 283)**	**116 239**
Result of one-off events	0	0	18 991	18 991
Operating profit/(loss) (EBIT)	**169 249**	**55 273**	**(89 292)**	**135 230**
Finance income/(costs)	1 428	(305)	44 267	45 390
Income tax expense	0	0	(25 876)	(25 876)
Net profit/(loss)	**170 677**	**54 968**	**(70 901)**	**154 744**

The table below present other financial figures of operating segments:

Figures for 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
- inwestments 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

In 2016 and 2015, the Orbis company did not identify any leading external customers with turnover exceeding 10% of total sales.

Revenue from major products and services is presented in Note 5.1.

(all amounts are quoted in PLN thousand, unless otherwise stated)

5. INCOME AND EXPENSE

5.1 NET SALES

NET SALES	2016	2015
Room revenue	458 960	350 161
Food & beverage revenue	195 120	169 972
Franchise and management revenue	11 711	11 258
Other revenue	63 548	72 367
including revenue from rental of real properties	*37 119*	*47 751*
Total net sales	**729 339**	**603 758**
of which: revenue from related parties	*33 369*	*47 194*

5.2 EXPENSES BY NATURE

EXPENSES BY NATURE	2016	2015
Depreciation and amortisation	(105 041)	(93 434)
Rental expense	(7 820)	(7 469)
Outsourced services	(163 757)	(130 009)
Employee benefit expense	(187 229)	(160 971)
Raw materials and energy used	(115 438)	(102 425)
Taxes and charges	(28 917)	(29 381)
Other expenses by nature, of which:	(6 552)	(4 866)
business trips	(2 482)	(2 330)
insurance premiums	(1 628)	(1 553)
royalties	(1 119)	(966)
change in impairment of receivables	(326)	22
other	(997)	(39)
Total expenses by nature	**(614 754)**	**(528 555)**

5.3 EMPLOYEE BENEFIT EXPENSE

EMPLOYEE BENEFIT EXPENSE	2016	2015
Wages and salaries	(144 901)	(126 822)
Provision for unused and overdue holidays	(453)	(216)
Provision for wages and salaries as well as related expenses	(7 058)	(1 584)
Provision for jubilee and retirement benefits	(751)	(535)
Employee benefits	(34 066)	(31 814)
Total employee benefit expense	**(187 229)**	**(160 971)**

Detailed information on the provision for jubilee awards and retirement benefits is available in Note 27 to the financial statements.

(all amounts are quoted in PLN thousand, unless otherwise stated)

5.4 OTHER OPERATING INCOME / EXPENSES

OTHER OPERATING INCOME / EXPENSES	2016	2015
Gain on disposal of non-financial non-current assets	52	35
Compensation received	183	220
Costs refund	86	77
Reversal of provision for costs of fees for perpetual usufruct of land	2 782	0
Other	1 349	424
Total other operating income	**4 452**	**756**
Indemnities, fines and penalties paid	(474)	(110)
Losses arising from fortuitous events	(81)	(106)
Receivables redeemed and written off	(993)	(801)
Other	(1 250)	(71)
Total other operating expenses	**(2 798)**	**(1 088)**
Net other operating income/(expenses)	**1 654**	**(332)**

5.5 RESULT ON SALE OF REAL PROPERTY

RESULT ON SALE OF REAL PROPERTY	2016	2015
Proceeds from disposal of real properties	78 782	49 800
Net value of real properties disposed of	(61 589)	(23 462)
Additional costs related to disposal	(577)	(1 004)
Total result on sale of real property	**16 616**	**25 334**

Orbis S.A. achieved the following results on sale of real properties in 2016:

- proceeds from sale of an organised part of the enterprise formed by the **Mercure Mrągowo Resort & SPA hotel** amounted to PLN 20,000 thousand, while the result on the transaction, with extra costs, was PLN - 310 thousand;
- additional proceeds gained from the sale of the real property located **in Warsaw at Bitwy Warszawskiej 1920 r. street** amounted to PLN 4,420 thousand net, while the extra costs incurred by Orbis S.A. in 2016 in connection with this transaction stood at PLN 66 thousand;
- organised part of the enterprise formed by **the Mercure Opole hotel** was sold for PLN 10,500 thousand net, while the gain on this transaction amounted to PLN 5,947 thousand;
- **the Mercure Częstochowa Centrum and the ibis Częstochowa hotels** were sold for a total net price of 29,500 thousand, while the gain on the transaction of sale of the two hotels was PLN 4,498 thousand;
- non-hotel real property located **in Warsaw at Łopuszańska 47 street** was sold for PLN 14,362 thousand net, while the result on this transaction was PLN 2,127 thousand.

More information about real properties sale transactions finalised in 2016 is included in Note 3.

(all amounts are quoted in PLN thousand, unless otherwise stated)

5.6 REVALUATION OF NON-CURRENT ASSETS

REVALUATION OF NON-CURRENT ASSETS	2016	2015
Recognised impairment loss on tangible assets	(6 630)	(3 152)
Recognised impairment loss on assets under construction	0	(3 442)
Recognised impairment loss on investment property	0	(375)
Recognised impairment loss on interests in subsidiaries	0	(3 352)
Reversed impairment loss on tangible assets	10 787	12 495
Reversed impairment loss on investment property	0	1 526
Total revaluation of non-current assets	**4 157**	**3 700**

Information on impairment losses is provided in Notes 9, 10 and 12.

5.7 RESTRUCTURING COSTS

RESTRUCTURING COSTS	2016	2015
Incurred costs of employment restructuring	(1 174)	(2 131)
(Recognised)/released provisions for employment restructuring	(608)	340
Total restructuring costs	**(1 782)**	**(1 791)**

5.8 FINANCE INCOME

FINANCE INCOME	2016	2015
Dividends and share of profits *	55 358	37 506
Interest on deposits	1 227	770
Foreign exchange gains	4 185	4 950
Interest income on loans and receivables	1 244	7
Actuarial gains/(losses) arising from valuation of provisions for jubilee awards	713	0
Other	0	373
Total finance income	**62 727**	**43 606**

** In 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).*
In 2015, the Company recognised income from dividends from its subsidiary Hekon-Hotele Ekonomiczne S.A., in the amount of PLN 27,081 thousand and from Orbis Kontrakty Sp. z o.o., in the amount of PLN 10,425 thousand.

(all amounts are quoted in PLN thousand, unless otherwise stated)

5.9 FINANCE COSTS

FINANCE COSTS	2016	2015
Interest and debt service costs accrued on credit facilities	(5 136)	(10 705)
Interest and debt service costs accrued on bonds	(11 219)	(4 469)
Interest expense arising from provisions for employee benefits	(698)	(638)
Actuarial gains/(losses) arising from valuation of provisions for jubilee awards	0	(301)
Other	(284)	(249)
Total finance costs	**(17 337)**	**(16 362)**

In presented financial figures for 2016 and in comparable figures for 2015, the Company recognised all borrowing costs in the profit or loss for the period in which the costs were incurred. In 2016 and 2015, there were no borrowing costs that would be eligible for capitalisation.

In 2016, the Company paid PLN 4,427 thousand as interest on credit facilities and PLN 414 thousand of commissions and other debt service costs on credit facilities.

In 2016, Orbis paid PLN 8,259 thousand as interest on issued bonds and PLN 614 thousand as commissions and other costs of bond issue. Moreover, in 2016 the Company paid PLN 203 thousand as interest payments under the IRS transaction (please refer to Note 30.3).

6. CURRENT AND DEFERRED TAX

Major components of tax charge are as follows:

	2016	2015
Current tax	**(25 556)**	**(24 217)**
- current tax charge	(25 728)	(24 812)
- adjustments of current tax from previous years	172	595
Deferred tax	**(320)**	**3 995**
- related to recognised and reversed temporary differences	(320)	3 995
Tax charge in the income statement	**(25 876)**	**(20 222)**

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

	2016	2015
Profit before tax	**180 620**	**129 425**
Tax calculated at the statutory rate of 19%	(34 318)	(24 591)
Tax effect of dividends received	10 518	7 126
Tax effect of non-taxable revenue and non-deductible expenses	(2 076)	(2 757)
Tax charge at the effective tax rate	**(25 876)**	**(20 222)**

(all amounts are quoted in PLN thousand, unless otherwise stated)

Income tax receivables/payables are composed of the following items:

INCOME TAX RECEIVABLES/(PAYABLES)	as at December 31, 2016	as at December 31, 2015
Income tax receivable from/(payable to) the tax office	1 616	(1 737)
Income tax receivable from/(payable to) tax group companies	0	(1 329)
Income tax receivables/(payables) total	**1 616**	**(3 066)**

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 (more information in Note 2.4.20.4).

The deferred tax results from the following temporary differences:

DEFERRED TAX	as at December 31, 2016	as at December 31, 2015
Deferred tax assets, of which:	**19 354**	**13 373**
Posted to profit or loss	19 069	12 919
- provision for wages and salaries, bonuses as well as for unused holidays	6 427	3 951
- provision for retirement benefits and similar obligations	3 917	3 912
- other provisions and accrued expenses	7 460	4 345
- revaluation of receivables	400	339
- revaluation of interests in related parties	314	7
- valuation of liabilities arising from credit facilities taken and bonds issued at amortised cost	491	220
- other	60	145
Posted to equity	285	454
- actuarial gains/losses arising from the defined benefit plan	263	303
- valuation of derivative instruments to hedge future cash flows	22	151
Deferred tax liabilities, of which:	**16 826**	**16 823**
Posted to profit or loss	16 735	16 732
- difference between tax value and book value of non-financial non-current assets	16 205	15 037
- non-invoiced revenue	43	459
- foreign exchange differences	214	214
- commissions on credit facilities	0	565
- receivables under loans granted – accrued interest and carrying amount	265	0
- other	8	457
Posted to equity	91	91
- long term investments	91	91
Net deferred tax assets/(liabilities), of which:	**2 528**	**(3 450)**
Long-term	(12 557)	(11 871)
Short-term	15 085	8 421

As at December 31, 2016 deferred tax is presented according to the net balance, under deferred tax assets items. As at December 31, 2015 deferred tax was presented under deferred tax liabilities item.

(all amounts are quoted in PLN thousand, unless otherwise stated)

7. EARNINGS PER SHARE

Earnings per ordinary share are calculated by dividing the net profit for the financial year attributable to ordinary shareholders of Orbis S.A. by the weighted average number of issued ordinary shares outstanding during the financial year.

Diluted earnings per share are calculated by dividing the net profit for the financial year attributable to ordinary shareholders by the weighted average number of issued ordinary shares outstanding during the financial year adjusted for the impact of dilutive elements.

No factors resulting in the dilution of earnings per share occurred in the reported period nor in the comparative period.

Figures related to profit and the number of shares used in the calculation of basic and diluted earnings per share are presented below:

	2016	2015
Net profit for the period	154 744	109 203
Weighted average number of ordinary shares issued (in thous.)	46 077	46 077
Earnings per share	**3,36**	**2,37**

8. DIVIDEND PAID OR PROPOSED TO BE PAID

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

No decision concerning distribution of the net profit for 2016 has been taken by the date of publication of these financial statements.

(all amounts are quoted in PLN thousand, unless otherwise stated)

9. PROPERTY, PLANT AND EQUIPMENT

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

PROPERTY, PLANT AND EQUIPMENT	as at December 31, 2016	as at December 31, 2015
Tangible assets	1 632 563	988 444
Assets under construction	17 757	59 958
Total	**1 650 320**	**1 048 402**

The table below presents property, plant and equipment (tangible assets) as at **December 31, 2016:**

	Land and rights to perpetual usufruct of land acquired against consideration	Rights to perpetual usufruct of land acquired free of charge	Buildings and structures	Plant, machinery and equipment	Vehicles	Total tangible assets
			As at January 1, 2016			
Opening gross book amount	**45 383**	**245 187**	**2 063 214**	**286 794**	**514**	**2 641 092**
Accumulated depreciation and impairment	(3 223)	(36 295)	(1 418 126)	(194 490)	(514)	(1 652 648)
Opening net book amount	**42 160**	**208 892**	**645 088**	**92 304**	**0**	**988 444**
Increase due to business combination with a subsidiary	**50 983**	**0**	**233 837**	**35 234**	**5**	**320 059**
Additions	**13 185**	**52 522**	**292 475**	**128 380**	**0**	**486 562**
purchase	0	0	47 932	69 327	0	117 259
transfer from investments in progress	0	0	50 527	8 501	0	59 028
transfer from investment property	13 185	52 522	194 016	29 265	0	288 988
other	0	0	0	21 287	0	21 287
Disposals	**(4 302)**	**(4 890)**	**(59 209)**	**(5 990)**	**0**	**(74 391)**
sale	(3 028)	(1 437)	(21 455)	(3 307)	0	(29 227)
liquidation	0	(139)	(44)	(105)	0	(288)
other	0	0	(21 332)	0	0	(21 332)
transfer to assets held for sale	(1 274)	(3 314)	(16 378)	(2 578)	0	(23 544)
Increase in impairment	0	0	(6 630)	0	0	(6 630)
Decrease in impairment	0	0	10 787	0	0	10 787
Depreciation charge for the period	(409)	(3 188)	(62 712)	(25 958)	(1)	(92 268)
Closing net book amount	**101 617**	**253 336**	**1 053 636**	**223 970**	**4**	**1 632 563**
			As at December 31, 2016			
Closing gross book amount	**112 116**	**301 209**	**2 529 716**	**598 079**	**414**	**3 541 534**
Accumulated depreciation and impairment	(10 499)	(47 873)	(1 476 080)	(374 109)	(410)	(1 908 971)
Closing net book amount	**101 617**	**253 336**	**1 053 636**	**223 970**	**4**	**1 632 563**

In the third quarter of 2016 the merger between Orbis S.A. with its subsidiary - Hekon-Hotele Ekonomiczne S.A. took place. As a result of this merger, tangible assets of Orbis S.A. increased by PLN 320,059 thousand. Moreover, hotel buildings of PLN 288,988 thousand, rented to Hekon S.A. for the purpose of its operating activities, were reclassified from investment properties to tangible assets as a result of the merger.

Increases on account of transfer from investments in progress disclosed in 2016 comprise predominantly expenditure for the developing of new hotels, opened in 2016 - the Mercure Kraków Stare Miasto and the ibis Gdańsk Stare Miasto, as well as for the modernisation of the former Orbis Wrocław hotel and its division into two hotels of different brands - ibis and Novotel.

The disposal on account of sale comprises the net value of buildings, perpetual usufruct and other components of property, plant and equipment of the Mercure Opole hotel, that were sold as organised parts of enterprise. Moreover, this item presents the net value of the Mercure Częstochowa Centrum hotel and the ibis Częstochowa hotel, which were sold in December 2016.

The decrease due to reclassification to assets held for sale concerns the transfer of perpetual usufruct of land in connection with the execution of a preliminary agreement for the sale of land in Gdańsk at Heweliusza street, as well as the transfer of components of property, plant and equipment (including perpetual usufruct and buildings) in connection with the execution on February 9, 2017 of a preliminary agreement for the sale of two Mercure hotels - Jelenia Góra and Karpacz Resort. Pursuant to the agreement, they will be sold as organised parts of the enterprise.

(all amounts are quoted in PLN thousand, unless otherwise stated)

The table below presents property, plant and equipment (tangible assets) as at **December 31, 2015:**

	Land and rights to perpetual usufruct of land acquired against consideration	Rights to perpetual usufruct of land acquired free of charge	Buildings and structures	Plant, machinery and equipment	Vehicles	Total tangible assets
As at January 1, 2015						
Opening gross book amount	**26 829**	**250 737**	**2 239 183**	**258 217**	**735**	**2 775 701**
Accumulated depreciation and impairment	(3 071)	(34 252)	(1 555 565)	(180 608)	(734)	(1 774 230)
Opening net book amount	**23 758**	**216 485**	**683 618**	**77 609**	**1**	**1 001 471**
Increase due to business combination with a subsidiary	**0**	**0**	**217**	**1 042**	**0**	**1 259**
Additions	**18 801**	**0**	**41 940**	**34 082**	**0**	**94 823**
purchase	0	0	9 023	10 750	0	19 773
transfer from investments in progress	18 801	0	32 917	15 308	0	67 026
other	0	0	0	8 024	0	8 024
Disposals	**(216)**	**(4 809)**	**(35 947)**	**(2 575)**	**0**	**(43 547)**
sale	(29)	(1 812)	(11 470)	(2 106)	0	(15 417)
liquidation	0	0	(33)	(73)	0	(106)
other	0	0	(8 028)	0	0	(8 028)
transfer to assets held for sale	(187)	(2 997)	(16 416)	(396)	0	(19 996)
Increase in impairment	0	0	(2 716)	(436)	0	(3 152)
Decrease in impairment	0	0	12 495	0	0	12 495
Depreciation charge for the period	(183)	(2 784)	(54 519)	(17 418)	(1)	(74 905)
Closing net book amount	**42 160**	**208 892**	**645 088**	**92 304**	**0**	**988 444**
As at December 31, 2015						
Closing gross book amount	**45 383**	**245 187**	**2 063 214**	**286 794**	**514**	**2 641 092**
Accumulated depreciation and impairment	(3 223)	(36 295)	(1 418 126)	(194 490)	(514)	(1 652 648)
Closing net book amount	**42 160**	**208 892**	**645 088**	**92 304**	**0**	**988 444**

The increase on account of merger in 2015 relates to the acquisition by Orbis S.A. of a subsidiary company Hotek Polska Sp. z o.o. The amount of the increase includes components of property, plant and equipment associated with business pursued by the acquired company in the Sofitel Wrocław Old Town hotel.

The table below presents assets under construction and impairment losses thereon as at December 31, 2016.

ASSETS UNDER CONSTRUCTION	as at December 31, 2016	as at December 31, 2015
Gross value of assets under construction	29 121	71 322
Impairment loss on assets under construction	(11 364)	(11 364)
Total	**17 757**	**59 958**

(all amounts are quoted in PLN thousand, unless otherwise stated)

Change in the value of assets under construction during the period from December 31, 2015 to December 31, 2016 is the result of capital expenditure incurred in the amount of PLN 135,830 thousand and disposals of PLN 178,031 thousand. Capital expenditure incurred in 2016 were allocated primarily for the development of new hotels, opened for guests in the third quarter of 2016, i.e. Mercure Kraków Stare Miasto and ibis Gdańsk Stare Miasto, as well as for modernisation of the Orbis Wrocław Hotel related to the division of that hotel and its rebranding into ibis and Novotel. Capital expenditure was also allocated for renovation of the Novotel Poznań Centrum hotel, which was launched in 2016 and is planned to be continued in 2017. This modernisation is connected with a partial rebranding of the hotel into the ibis brand (more information about capital expenditure is provided in Section 3.8 of the Directors' Report on the Operations of the Orbis Group and Orbis S.A.).

In 2016 there were no reasons for recognising impairment loss in respect of assets under construction. In the previous year, impairment loss of PLN 3,442 thousand was recognised.

Detailed information on collaterals established on property, plant and equipment is provided in Note 28 to the financial statements.

The Company does not have any tangible assets held under finance leases.
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 2.3 of the Introduction to the financial statements.

As at December 31, 2016, 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 and the option of hotel buyback is provided for. Moreover, as at December 31, 2016, the Company held 88 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 LIABILITIES	as at December 31, 2016	as at December 31, 2015
Future minimum operating lease payments, due in:		
one year	9 206	8 368
from 1 to 5 years	30 932	30 951
above 5 years	0	7 606
Total future minimum operating lease payments	**40 138**	**46 925**

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

In the current period, lease payments disclosed in the income statement amounted to PLN 8,546 thousand, of which PLN 7,820 thousand was presented under real property rent costs, while PLN 726 thousand in respect of car leases was presented under outsourced services. In 2015 the Company incurred a cost of PLN 7,469 thousand in respect of lease of the Sofitel Wrocław Old Town hotel and PLN 863 thousand in respect of car leases.

(all amounts are quoted in PLN thousand, unless otherwise stated)

Detailed information about impairment losses on property, plant and equipment and assets under construction is as follows:

IMPAIRMENT LOSS ON TANGIBLE ASSETS AND ASSETS UNDER CONSTRUCTION	as at December 31, 2016	as at December 31, 2015
Opening balance	**(58 096)**	**(91 080)**
increase due to merger	(7 112)	0
recognised impairment loss on tangible assets	(6 630)	(3 152)
recognised impairment loss on assets under construction	0	(3 442)
reversed impairment loss on tangible assets	10 787	12 495
decrease in impairment losses in connection with sale	9 561	15 554
impairment loss on tangible assets not subject to reversal *	1 531	2 474
reclassification to assets held for sale	17 882	9 055
reclassification from investment property	(10 282)	0
Closing balance	**(42 359)**	**(58 096)**

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

At the end of the reporting period the Company reviewed the economic value of cash generating units (hotels) as well as other tangible assets and assets under construction in the context of on-going operations and prevailing adverse market conditions.

The economic value of the Company hotel properties was measured on the basis of their value in use, determined using the DCF method. Future cash flows were estimated independly for each hotel on the basis of changes in Occupancy and Avarage Room Rate projected for subsequent years, and taking into account the location and present standard of each hotel (including hotels that require investment expenditure) and on the basis of budgets approved by the Management Board for a 5-year period. The rate of growth in the value of cash flows following the 5-year projection period was estimated at 2%. The adopted discount rate of 8,0% was calculated based on the weighted average cost of capital (WACC) of the Company. In case of special conditions resulting in material distortion of the values of DCF valuations, the recoverable amounts of assets were determined by means of estimating their fair value.

As a result of the review, the Company recognised and impairment loss of PLN 6,630 thousand and reversed an impairment loss of PLN 10,787 thousand.
The recognised impairment loss concerned three hotels located in smaller cities (none of the individual impairment losses was material) and the reasons for its recognition included a negative assessment of the prospects of development on those markets, as well as the offers to buy real property received by the Company.
The reason for reversal of impairment losses in respect of four hotels (none of the reversed individual impairment losses was material) was the improvement in the hotels' results, which was owed to better business trends on the individual markets, as well as capital expenditures incurred in preceding years to improve the hotels' standard.
Recognised and reversed impairment losses on tangible assets and assets under construction are presented in the revaluation of non-current assets item of the income statement.

In 2016 the Company reduced impairment loss on tangible assets of PLN 9,561 thousand in connection with the sale of the Mercure Opole hotel and the Mercure Częstochowa Centrum hotel.
Impairment loss on tangible assets concerning the Mercure Jelenia Góra hotel and the Mercure Karpacz Resort hotel, in a total amount of PLN 17,882 thousand, was reclassified to item "Assets classified as held for sale", due to the preliminary sale agreement in respect of those hotels, signed in February 2017.

(all amounts are quoted in PLN thousand, unless otherwise stated)

In addition, due to the merger with its subsidiary Hekon-Hotele Ekonomiczne S.A., Orbis S.A. acquired impairment loss on tangible assets of PLN 7,112 thousand. Moreover, the impairment loss on tangible assets rose by PLN 10,282 thousand due to reclassification from investment properties to tangible assets of hotel buildings which had been rented to Hekon until the day of merger.

10. INVESTMENT PROPERTY

The table below presents investment properties as at **December 31, 2016:**

	Land and rights to perpetual usufruct of land acquired against consideration	Rights to perpetual usufruct of land acquired free of charge	Buildings and structures	Plant, machinery and equipment	Total investment property
As at January 1, 2016					
Opening gross book amount	**14 048**	**65 814**	**354 746**	**49 265**	**483 873**
Accumulated depreciation and impairment	(748)	(9 382)	(147 846)	(19 189)	(177 165)
Opening net book amount	**13 300**	**56 432**	**206 900**	**30 076**	**306 708**
Increase due to merger with a subsidiary	**0**	**0**	**2 874**	**0**	**2 874**
Additions	**0**	**0**	**4**	**1 396**	**1 400**
purchase	0	0	4	500	504
other	0	0	0	896	896
Disposals	**(13 185)**	**(52 522)**	**(195 053)**	**(29 265)**	**(290 025)**
sale	0	0	(182)	0	(182)
other	0	0	(855)	0	(855)
transfer to tangible assets	(13 185)	(52 522)	(194 016)	(29 265)	(288 988)
Depreciation charge for the period	(115)	(516)	(8 059)	(2 206)	(10 896)
Closing net book amount	**0**	**3 394**	**6 666**	**1**	**10 061**
As at December 31, 2016					
Closing gross book amount	**0**	**4 026**	**19 127**	**1 068**	**24 221**
Accumulated depreciation and impairment	0	(632)	(12 461)	(1 067)	(14 160)
Closing net book amount	**0**	**3 394**	**6 666**	**1**	**10 061**

The significant decrease in the balance of investment properties at the end of 2016 compared to December 31, 2015, results in particular from a change of classification of hotel properties which, until the day of merger, were operated by the subsidiary Hekon-Hotele Ekonomiczne S.A. Until September 1, 2016, Orbis earned revenue from renting out these properties.

(all amounts are quoted in PLN thousand, unless otherwise stated)

The table below presents investment properties as at **December 31, 2015:**

	Land and rights to perpetual usufruct of land acquired against consideration	Rights to perpetual usufruct of land acquired free of charge	Buildings and structures	Plant, machinery and equipment	Total investment property
As at January 1, 2015					
Opening gross book amount	**14 049**	**65 814**	**355 540**	**48 583**	**483 986**
Accumulated depreciation and impairment	(589)	(8 640)	(136 944)	(16 086)	(162 259)
Opening net book amount	**13 460**	**57 174**	**218 596**	**32 497**	**321 727**
Additions	**0**	**0**	**973**	**866**	**1 839**
purchase	0	0	973	0	973
other	0	0	0	866	866
Disposals	**(1)**	**0**	**(863)**	**0**	**(864)**
sale	(1)	0	0	0	(1)
liquidation	0	0	(863)	0	(863)
Increase in impairment	0	0	(375)	0	(375)
Decrease in impairment	0	0	1 526	0	1 526
Depreciation charge for the period	(159)	(742)	(12 957)	(3 287)	(17 145)
Closing net book amount	**13 300**	**56 432**	**206 900**	**30 076**	**306 708**
As at December 31, 2015					
Closing gross book amount	**14 048**	**65 814**	**354 746**	**49 265**	**483 873**
Accumulated depreciation and impairment	(748)	(9 382)	(147 846)	(19 189)	(177 165)
Closing net book amount	**13 300**	**56 432**	**206 900**	**30 076**	**306 708**

The Company measures investment property at historical cost less depreciation charges and impairment.

In the current accounting period the Company tested investment property for impairment in the context of on-going operations and prevailing adverse market conditions.

A review of the value of investment properties did not show any need to recognise or reverse impairment loss in their respect in 2016. Pursuant to the accounting policy any recognised and reversed impairment losses on investment property are disclosed in the revaluation of non-current assets item of the income statement.

(all amounts are quoted in PLN thousand, unless otherwise stated)

Detailed information concerning impairment of investment property is as follows:

IMPAIRMENT OF INVESTMENT PROPERTY	as at December 31, 2016	as at December 31, 2015
Opening balance	**(10 867)**	**(12 387)**
increase due to merger	(596)	0
recognised impairment loss of investment property	0	(375)
reversed impairment loss	0	1 526
decrease in impairment losses in conection with sale/liquidation	354	0
impairment loss on investment property not subject to reversal	235	369
transfer to tangible assets	10 282	0
Closing balance	**(592)**	**(10 867)**

No valuation of investment property based on a valuation by an independent expert was made as at December 31, 2016.

The fair value of investment property is estimated by the Company internally, based on received offers to buy property and market analyses made by the property management department of the Company. As at December 31, 2016, the fair value of investment property was estimated at approx. PLN 21.3 million.
In terms of procedures applied, measurement of investment property is classified to Level 3 of the fair value hierarchy (fair value is determined on the basis of non-observable inputs).

The following amounts were recognised in profit or loss:

	2016	2015
Income from rent on investment property	22 752	32 557
Direct operating expenses of investment property which generates income from rent	(14 113)	(21 789)
Direct operating expenses of investment property which does not generate income from rent	(817)	(963)

The year 2016 saw a significant drop in income from rent of investment properties, as well as direct operating costs connected with that income compared to the previous year. This is in particular a result of the merger, at the beginning of September 2016, with the subsidiary Hekon-Hotele Ekonomiczne S.A., which rented hotel buildings from Orbis S.A.

As at December 31, 2016 investment property includes:
- in Bielsko-Biała – ownership title to office premises;
- in Gdańsk – building and right to perpetual usufruct of land;
- in Katowice – cooperative ownership title to three garages;
- in Konin – interest in an office building and right to perpetual usufruct of land;
- in Lublin – construction facility (coach depot),
- in Łódź – car park and right to perpetual usufruct of land;
- in Poznań – buildings and structures as well as right to perpetual usufruct of land;
- in Szczecin – right to perpetual usufruct of land, ownership title to buildings;
- in Warsaw – non-residential premises with two parking spaces;
- in Włocławek – cooperative ownership title to premises;
- in Zakopane – building of the Giewont hotel and right to perpetual usufruct of land.

(all amounts are quoted in PLN thousand, unless otherwise stated)

11. INTANGIBLE ASSETS

The table below presents intangible assets as at **December 31, 2016:**

	Goodwill	Permits, patents, licenses and similar	Computer software	Other intangible assets	Total intangible assets
			As at January 1, 2016		
Opening gross book amount	**0**	**36**	**13 724**	**235**	**13 995**
Accumulated depreciation and impairment	0	(4)	(9 683)	0	(9 687)
Opening net book amount	**0**	**32**	**4 041**	**235**	**4 308**
Increase due to merger with a subsidiary	**107 252**	**0**	**1 164**	**0**	**108 416**
Additions	**0**	**0**	**1 448**	**1 213**	**2 661**
purchase	0	0	0	1 213	1 213
other	0	0	1 448	0	1 448
Disposals	**0**	**0**	**(204)**	**(1 426)**	**(1 630)**
sale	0	0	(117)	0	(117)
other	0	0	0	(1 426)	(1 426)
reclassification to assets held for sale	0	0	(87)	0	(87)
Depreciation charge for the period	0	(4)	(1 873)	0	(1 877)
Closing net book amount	**107 252**	**28**	**4 576**	**22**	**111 878**
			As at December 31, 2016		
Closing gross book amount	**108 153**	**36**	**14 656**	**22**	**122 867**
Accumulated depreciation and impairment	(901)	(8)	(10 080)	0	(10 989)
Closing net book amount	**107 252**	**28**	**4 576**	**22**	**111 878**

Increase due to the merger relate to the acquisition of the subsidiary company Hekon-Hotele Ekonomiczne S.A. by Orbis S.A. Goodwill amounting to PLN 107,252 thousand was recognised in intangible assets; the goodwill arose upon assuming control over the acquired subsidiary, i.e. at the day of purchase of shares in Hekon-Hotele Ekonomiczne S.A

(all amounts are quoted in PLN thousand, unless otherwise stated)

The table below presents intangible assets as at **December 31, 2015:**

	Permits, patents, licenses and similar	Computer software	Other intangible assets	Total intangible assets
As at January 1, 2015				
Opening gross book amount	**21**	**11 500**	**2 344**	**13 865**
Accumulated depreciation and impairment	(1)	(9 508)	0	(9 509)
Opening net book amount	**20**	**1 992**	**2 344**	**4 356**
Increase due to merger with a subsidiary	**0**	**84**	**0**	**84**
Additions	**15**	**3 408**	**1 279**	**4 702**
purchase	15	20	1 279	1 314
other	0	3 388	0	3 388
Disposals	**0**	**(62)**	**(3 388)**	**(3 450)**
sale	0	(57)	0	(57)
liquidation	0	(1)	0	(1)
other	0	0	(3 388)	(3 388)
reclassification to assets held for sale	0	(4)	0	(4)
Depreciation charge for the period	(3)	(1 381)	0	(1 384)
Closing net book amount	**32**	**4 041**	**235**	**4 308**
As at December 31, 2015				
Closing gross book amount	**36**	**13 724**	**235**	**13 995**
Accumulated depreciation and impairment	(4)	(9 683)	0	(9 687)
Closing net book amount	**32**	**4 041**	**235**	**4 308**

Increase due to the merger in 2015 relate to the take-over of the subsidiary company Hotek Polska Sp. z o.o. by Orbis S.A.

All intangible assets recognised by the Company, apart from goodwill, have defined useful lives. The Company does not have any internally generated intangible assets.

Neither in 2016 nor in 2015 were there any reasons to recognise impairment loss on intangible assets.

As at the end of the reporting period, no intangible assets secure the Company's liabilities.

Goodwill impairment test

Goodwill amounting to PLN 107,252 thousand arose as a result of acquisition of interests in the subsidiary Hekon-Hotele Ekonomiczne S.A.

Goodwill is tested for impairment. For testing purposes, goodwill was allocated to hotels of the company Hekon S.A. that fall within two operating segments:

- Up&Midscale Hotels – allocated goodwill amounts to PLN 37,803 thousand;
- Economy Hotels – allocated goodwill amounts to PLN 69,449 thousand.

(all amounts are quoted in PLN thousand, unless otherwise stated)

The recoverable amount of both segments was determined based on the value in use, calculated by means of projected cash flows adopted for a 5-year period, and of a discount rate of 8.0% per year. Future cash flows were estimated for each hotel separately on the basis of changes in Occupancy and Average Room Rate projected for subsequent years, and taking into account the location and present standard of each hotel (including hotels that require investment expenditure). The growth rate of cash flows following the projected period was estimated at 2%. The discount rate was calculated based on the weighted average cost of capital (WACC) of the Company.

No impairment was ascertained in the segments identified in Hekon – Hotele Ekonomiczne S.A. as at December 31, 2016.

The Management Board is of the opinion that even in case of any reasonable change in major assumptions used to determine the recoverable amount, the total carrying amount of each segment would not exceed its total recoverable amount.

12. INVESTMENTS IN SUBSIDIARIES

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 Corporate Sp. z o.o.	directly 100,00%	directly 100,00%	Poland	tourism, transport, hotel and F&B services	45	(45)	0
Orbis Kontrakty Sp. z o.o.	directly 100,00%	directly 100,00%	Poland	organisation of purchasing	100	0	100
UAB Hekon	directly 100,00%	directly 100,00%	Lithuania	hotel and F&B services	13 688	(1 608)	12 080
Katerinska Hotel s.r.o.	directly 100,00%	directly 100,00%	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 100,00%	directly 100,00%	Romania	hotel and F&B services	91 804	0	91 804
Razem							**465 921**

All investments in subsidaries are recognised at cost.

(all amounts are quoted in PLN thousand, unless otherwise stated)

The below-presented data concern 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 the subsidiary	% share of equity	% share of votes at the GM	Country of registration	Business operations
Nový Smíchov Gate a.s. *	indirectly 100,00%	indirectly 100,00%	Czech Republic	real property rental
H-DEVELOPMENT CZ a.s.	indirectly 100,00%	indirectly 100,00%	Czech Republic	real property services
Business Estate Entity a.s.	indirectly 100,00%	indirectly 100,00%	Czech Republic	real property rental
Accor-Pannonia Slovakia s.r.o.	indirectly 99,92%	indirectly 99,92%	Slovakia	hotel and F&B services

** On January 1, 2017, a merger of subsidiaries, i.e. Katerinska Hotel s.r.o. (merging company) with Nový Smíchov Gate a.s. (merged company) took place, in which the merging company held 100% of shares.*

In December 2016 a subsidiary Accor-Pannonia Hotels Zrt. sold a non-controlling block (44.46%) in the company Blaha Hotel Szállodaüzemeltető Kft., which owns the real property on which the Nemzeti Budapest MGallery hotel is located, for EUR 3.6 million. The transaction was concluded in exercise of the majority shareholder's (Fernand Le Rachinel S.a.r.l.) right to buy out the non-controlling block and will not cause any changes in the hotel's operating activities, which will take place according to the currently applicable principles. As a result of the above transaction, as at December 31, 2016, Orbis S.A. no longer indirectly holds interests in Blaha Hotel Szállodaüzemeltető Kft.

In addition, in 2016 the process of liquidation of the subsidiary World Trade Center Budapest Management Szolgáltató Kft. with corporate seat in Budapest was completed and in May 2016 it was removed from the register of business operators.

Investments in subsidiaries are not directly exposed to the risk of change in interest rate and to the price risk.

Change in investments in subsidiaries

INVESTMENT IN SUBSIDIARIES	as at December 31, 2016	as at December 31, 2015
Opening balance	**1 025 569**	**441 121**
Additions	**12 110**	**610 042**
Increases on account of merger with a subsidiary	12 100	0
Acquisition of shares/interests in subsidiary companies	0	610 042
Additional payment to the capital	10	0
Disposals	**(571 758)**	**(25 594)**
Impairment loss on interests	(10)	(3 352)
Decrease on account of merger with a subsidiary	(571 748)	(22 242)
Closing balance	**465 921**	**1 025 569**

The decrease in investments in subsidiaries results from the merger in 2016 of Orbis S.A. with its subsidiary company Hekon-Hotele Ekonomiczne S.A., and in 2015 with the subsidiary Hotek Polska Sp.z o.o.

The increases on account of merger with the subsidiary are due to taking up shares in the subsidiaries in which shares were held by Hekon-Hotele Ekonomiczne S.A. As a result of the merger, Orbis S.A. became the direct holder of shares in UAB Hekon with its corporate seat in Lithuania and increased its direct share in the share capital of Orbis Kontrakty Sp. z o.o. from 80% to 100%.

Acquisition of investments in subsidiary companies in 2015 concerns the transaction of acquisition of shares in companies operating in Central and Eastern Europe.

Moreover, in 2016 the Company made additional payments to Orbis Corporate Sp. z o.o. in the amount of PLN 10 thousand to cover the costs of operation of that entity. At the same time, an impairment loss was recognised in respect of those additional payments.

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

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

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

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

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

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

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

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

Net sales of the merged company for the period from the day of the merger, i.e. September 1, 2016, till the end of the reporting period, recognised in the income statement of Orbis S.A., amounted to PLN 87.9 million, while the operating result (EBIT) of hotels operated within the merged company for the same period was PLN 30.5 million.

If the merger had taken place on January 1, 2016, net sales of Orbis S.A. for 2016 would have amounted to PLN 862.4 million, while operating result (EBIT) would have totalled PLN 166.3 million.

The costs of merger of Orbis S.A. with Hekon-Hotele Ekonomiczne S.A. in 2016 amounted to PLN 116.1 thousand and were included in costs of outsourced services.

Change in investments in other entities

As at December 31, 2016 Orbis S.A. held minority shares and interest in the company Polskie Hotele Sp. z o.o. in liquidation, which were fully written off.

In 2016, no changes in investments in other entities occured.

Changes in investments in subsidiaries and other companies are presented below:

IMPAIRMENT OF INTERESTS IN SUBSIDIARIES AND OTHER COMPANIES	as at December 31, 2016	as at December 31, 2015
Opening balance	**(37)**	**(1 348)**
increase on account of merger with a subsidiary	(1 608)	0
recognised impairment loss	(10)	(3 352)
utilised impairment loss	0	4 663
Closing balance	**(1 655)**	**(37)**

Due to the merger with its subsidiary Hekon-Hotele Ekonomiczne S.A., Orbis S.A. acquired PLN 1,608 thousand of impairment loss on the value of interests in UAB Hekon. In addition, impairment loss was recognised in respect of 100% of the value of additional payments made in 2016 to interests in Orbis Corporate Sp. z o.o.

(all amounts are quoted in PLN thousand, unless otherwise stated)

13. LOANS GRANTED

As at December 31, 2016, receivables under granted loans included a loan granted to Accor Pannonia Hotels Zrt. with its corporate seat in Budapest for a total of EUR 81.0 million. The loan was granted in the following drawdowns:

- EUR 16.0 million – loan granted on February 15, 2016, by Hekon-Hotele Ekonomiczne S.A. in order for the Hungarian company to finance the buyout of two hotels located in Budapest, which had been leased until the buyout by Accor Pannonia Hotels Zrt. (more information about the bought-out hotels is included in section 3.8 of the Directors' report on the operation of the Orbis Group and Orbis S.A. for 2016). As a result of the merger, Orbis S.A. became the successor of Hekon - Hotele Ekonomiczne S.A. in the aforementioned loan agreement.
- EUR 65.0 million – under the agreement of December 20, 2016, Orbis S.A. granted to Accor Pannonia Hotels Zrt. a loan in order for the latter to finance the agreement of buy-back of 5 hotels in Budapest, operated by the Hungarian company under lease agreements. The transaction of buy-back of those hotels was completed by acquisition of 100% of the share capital of company 5 Hotel Kft. with its corporate seat in Budapest, which owns those hotels. More details of the transactions are provided in current report No. 52/2016 and in section 7.6 of the Directors' report on the operation of the Orbis Group and Orbis S.A. for 2016).

Under an agreement concluded in December 2016, both the above-mentioned loans are consolidated in a single loan with a total value of EUR 81.0 million. Pursuant to the agreement, the loan is granted for a period of three years, principal instalments being payable in each 12-month period from the date of execution of the loan agreement in amounts not lower than EUR 3 million.

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 December 31, the balance of loans was as follows:

LOAND GRANTED	as at December 31, 2016	as at December 31, 2015
Long-term loans	345 072	0
Short-term loans	13 489	0
Total loans granted	**358 561**	**0**

In 2016, Orbis S.A. received PLN 1,182 thousand (equivalent to EUR 268 thousand) as interest on the first drawdown of loan granted to Accor Pannonia Hotels Zrt.

As at December 31, 2015, the Company had no loans granted.

(all amounts are quoted in PLN thousand, unless otherwise stated)

14. OTHER FINANCIAL ASSETS

The item “Other financial assets” includes receivables on account of sale of real properties on which the Mercure Mrągowo & SPA hotel is located. An organised part of the enterprise formed by the Mercure Mrągowo & SPA hotel was sold on February 29, 2016, whereas sale of the real property where the OPE 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 short-term 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 & SPA hotel.

Other financial assets comprise also receivables on account of disposal of an organised part of the enterprise of the Mercure Kasprowy hotel in Zakopane. In accordance with the concluded sale and purchase agreement, 20% of the price, i.e. an amount of PLN 11,270 thousand will be paid in instalments. This amount receivable has been secured at an escrow account. 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 short-term 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.

The fair value of other financial assets is close to their carrying amount.

15. OTHER LONG-TERM ASSETS

OTHER LONG-TERM ASSETS	as at December 31, 2016	as at December 31, 2015
Long-term prepayments - insurance costs	429	421
Other long-term investments - works of art	464	464
Total other long-term assets	**893**	**885**

The long-term prepayments item concerns prepayments relating to insurance of hotels, as well as other long-term investments , i.e. works of art possessed by the Orbis S.A.

16. INVENTORIES

INVENTORIES	as at December 31, 2016	as at December 31, 2015
Raw materials	4 051	3 180
Merchandise	52	79
Total inventories	**4 103**	**3 259**

The Company did not have any reasons to recognise any impairment of inventories in 2016 and 2015.
The Company has not pledged any inventories as collateral for liabilities.

(all amounts are quoted in PLN thousand, unless otherwise stated)

17. SHORT-TERM RECEIVABLES

Trade receivables are presented in the table below:

TRADE RECEIVABLES	as at December 31, 2016	as at December 31, 2015
Trade receivables	22 797	27 585
of which: receivables from related parties	*1 323*	*14 543*
Impairment loss on receivables	(546)	(430)
Net trade receivables	**22 251**	**27 155**

Other short-term receivables are composed of the following items:

OTHER SHORT-TERM RECEIVABLES	as at December 31, 2016	as at December 31, 2015
Short-term receivables	**15 147**	**5 067**
Taxes, social insurances and other benefits receivables	34	1 604
Disputed receivables	2 300	2 065
Amount receivable on account of sale of tangible assets	14 671	3 381
Other receivables	442	82
Impairment of receivables	(2 300)	(2 065)
Short-term prepayments	**1 759**	**1 035**
Net other short-term receivables	**16 906**	**6 102**

The item of “Amounts receivable on account of sale of fixed assets” includes amounts receivable on account of the sale of non-hotel real property in Warsaw at Łopuszańska 47 street, equal to PLN 6,227 thousand (including tax), payable by March 31, 2017, as well as the short-term part of the amount receivable on account of sale of the Mercure Mrągowo Resort & SPA hotel (PLN 4,500 thousand) and the short-term receivable on account of sale of an organised part of the enterprise of the Mercure Kasprowy Zakopane hotel (PLN 3,944 thousand). More information about receivables on account of the sale of the Mercure Mrągowo Resort & SPA hotel and the Mercure Kasprowy Zakopane hotel is included in Note 14 to this report.

Changes in impairment losses on receivables are presented below:

IMPAIRMENT LOSS ON RECEIVABLES	as at December 31, 2016	as at December 31, 2015
Opening balance	**(2 495)**	**(2 552)**
increase resulting from merger with subsidiary	(313)	(39)
recognised impairment loss	(778)	(560)
reversed impairment loss	452	582
utilised impairment loss	288	74
Closing balance	**(2 846)**	**(2 495)**

Recognised and reversed impairment losses on receivables are reported in the other expenses by nature item of the income statement and presented in Note 5.2 to the financial statements.

The credit risk related to receivables does not differ from the average credit risk on the Polish market. The maximum credit risk related to the Company’s receivables equals the amount presented in the statement of financial position. No significant concentration of risk occurs in view of a considerable share of relatively small transactions in total turnover.

(all amounts are quoted in PLN thousand, unless otherwise stated)

All receivables at risk are covered by an impairment loss. The Company has adopted a policy to recognise an impairment loss covering 100% of receivables overdue for over 180 days. In case the Company has a strong and formal commitment from the client about the future payment (i.e. agreement on payment by instalments), an impairment loss for debt overdue more than 180 days may be withheld. As a result of a negative risk assessment of a particular case, an impairment loss for doubtful debt, amounting to 100% of the debt, may be recognised earlier. In this case, an impairment loss is recognised based on the formal request of a Hotel GM or an authorised Director/Manager in the Head Office. In case of a negative risk assessment of a given client, even when not all receivables are over 180 days overdue, an impairment loss is recognised for the total balance receivable from the client.

More information on credit risk is provided in Note 29.2.3. in these financial statements.

The fair value of receivables does not significantly differ from their value presented in the financial statements.

The table below presents the age structure of overdue short-term receivables together with impairment losses:

RECEIVABLES AGEING	as at December 31, 2016	as at December 31, 2015
Non-overdue receivables	32 094	27 734
Overdue receivables, of which:	9 909	8 018
- overdue for up to 1 month	4 920	3 628
- overdue for a period from 1 to 3 months	1 543	1 597
- overdue for a period from 3 to 6 months	644	463
- overdue for a period from 6 months to 1 year	318	156
- overdue for more than 1 year	2 484	2 174
Total gross short-term receivables	**42 003**	**35 752**
Impairment loss on non-overdue receivables	0	(1)
Impairment loss on overdue receivables, of which:	(2 846)	(2 494)
- overdue for up to 1 month	(10)	(13)
- overdue for a period from 1 to 3 months	(21)	(44)
- overdue for a period from 3 to 6 months	(16)	(123)
- overdue for a period from 6 months to 1 year	(315)	(144)
- overdue for more than 1 year	(2 484)	(2 170)
Total impairment loss on receivables	**(2 846)**	**(2 495)**
Net short-term receivables	**39 157**	**33 257**

(all amounts are quoted in PLN thousand, unless otherwise stated)

As at December 31, 2016, receivables amounting to PLN 7,063 thousand were overdue but not impaired. Ageing of these receivables is presented below:

RECEIVABLES AGEING	as at December 31, 2016	as at December 31, 2015
Overdue non-impaired receivables, of which:	**7 063**	**5 524**
- overdue for up to 1 month	4 910	3 615
- overdue for a period from 1 to 3 months	1 522	1 553
- overdue for a period from 3 to 6 months	628	340
- overdue for a period from 6 months to 1 year	3	12
- overdue for more than 1 year	0	4

No collateral in respect of these receivables were established for the Company.

Information on currency risk is provided in Note 29.2.2 in these financial statements.

18. CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS	as at December 31, 2016	as at December 31, 2015
Cash at bank and in hand	91 135	44 300
Short-term bank deposits	25 627	17 200
Other cash and cash equivalents	1 196	441
Total cash and cash equivalents	**117 958**	**61 941**

Other cash and cash equivalents include cash in transit and other monetary assets with maturity dates not exceeding 3 months.

The Company transfers temporarily disposable cash to short-term bank deposits with maturity dates ranging from 1 to 365 days. The Company did not have any deposits denominated in foreign currencies.

(all amounts are quoted in PLN thousand, unless otherwise stated)

19. ASSETS CLASSIFIED AS HELD FOR SALE

As at December 31, 2016, assets classified as held for sale comprise:

- the right to perpetual usufruct of land in Heweliusza street in Gdańsk, and
- the components of property, plant and equipment (including perpetual usufruct and buildings) of the Mercure Jelenia Góra and the Mercure Karpacz Resort hotels, in connection with the execution as at February 9, 2017 of a preliminary agreement for the combined sale of these hotels in the form of the organised parts of the enterprise (more information is provided in Note 33).

The table below presents changes in assets classified as held for sale in 2016 and 2015.

ASSETS CLASSIFIED AS HELD FOR SALE	as at December 31, 2016	as at December 31, 2015
Opening balance	**32 200**	**20 189**
Additions	**23 634**	**20 000**
transfer from tangible assets	23 544	19 996
transfer from intangible assets	87	4
transfer from other assets	3	0
Disposals	**(32 203)**	**(7 989)**
sale	(32 203)	(7 989)
Closing balance	**23 631**	**32 200**

Increase in assets classified as held for sale is related to the preliminary sale agreement, signed in the first half of 2016, relating to the right to the perpetual usufruct of land located at Heweliusza street in Gdańsk and to the preliminary agreement, signed in February, 2017, for the combined sale of hotels Mercure Jelenia Góra and Mercure Karpacz Resort in the form of the organised parts of the enterprise. On the other hand, disposal as a result of sale is the effect of completion of the sale transaction of an organised part of the Mercure Mrągowo Resort & SPA hotel and the sale of non-hotel property located in Łopuszańska street in Warsaw.

Assets classified as held for sale are reported at their net carrying amount, which is not higher than the fair value, less costs to sell.

Information concerning impairment on assets classified as held for sale presents as follows:

IMPAIRMENT ON ASSETS CLASSIFIED AS HELD FOR SALE	as at December 31, 2016	as at December 31, 2015
Opening balance	**(12 060)**	**(3 005)**
decrease in impairment losses in connection with sale/liquidation	12 060	0
transfer from tangible assets	(17 882)	(9 055)
Closing balance	**(17 882)**	**(12 060)**

As at December 31, 2016, the Company had impairment loss on assets classified as held for sale amounting to PLN 17,882 thousand. This impairment loss concerned the Mercure Jelenia Góra and the Mercure Karpacz Resort hotels and it was reclassified from tangible assets due to execution of a preliminary agreement for sale of these hotels in the form of OPE. In 2016 the balance of impairment loss decreased due to the sale of the Mercure Mrągowo Resort & SPA hotel and the real property in Łopuszańska street in Warsaw. An increase in impairment in 2015 results from reclassification of components of property, plant & equipment of the Mercure Mrągowo & SPA hotel due to the execution, in early 2016, of a preliminary agreement for the sale of this hotel.

20. EQUITY

20.1 SHARE CAPITAL

The share capital of Orbis S.A. is disclosed in the amount set out in the Statutes and entered in the court register, adjusted for effects of hyperinflation.

Series / issue	Type of shares	Number of shares (pcs)	Value of series / issue at par (PLN'000)	Terms of acquisition	Date of registration
A	bearer shares	37 500 000	75 000	contribution in kind	Jan. 9, 1991
B	bearer shares	8 523 625	17 047	cash	Apr. 21, 1998
C	bearer shares	53 383	107	cash	Apr. 21, 1998
Total number of shares		**46 077 008**			
Total share capital			**92 154**		
Par value per share = PLN 2					
Hyperinflation restatement of share capital			**425 600**		
Carrying amount of share capital			**517 754**		

In connection with the restatement of the in-kind contribution value using hyperinflation indexes as at the date of transition to the International Financial Reporting Standards, the value of the share capital from the A series share issue increased by PLN 425,600,452 to reach PLN 500,600,452. The aggregate restated value of share capital equals PLN 517,754,468.

	as at December 31, 2016	as at December 31, 2015
Number of shares issued and paid	46 077 008	46 077 008
Par value per share	2	2
Shares at the beginning of period	**46 077 008**	**46 077 008**
Change in the period	0	0
Shares at the end of period	**46 077 008**	**46 077 008**

(all amounts are quoted in PLN thousand, unless otherwise stated)

As at February 21, 2017, shareholders who hold, directly or indirectly through subsidiaries, at least 5% of the total number of voting rights at the General Meeting of Shareholders, determined as at February 21, 2016 on the basis of notifications specified in Article 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, include:

Shareholder (description)	Number of shares held as at Feb. 21, 2017	Percentage share of share capital as at Feb. 21, 2017	Change in the structure of ownership of major blocks of shares from Jan. 1, 2016 till Feb. 21, 2017
	(no. of voting rights at the GM)	(percentage share of total number of voting rights at the GM)	
Accor S.A.	24 276 415	52,69%	-
of which a subsidiary of Accor S.A. - Accor Polska Sp. z o.o.	*2 303 849*	*4,99%*	-
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	4 577 880	9,94%	-
Metlife Otwarty Fundusz Emerytalny and Metlife Dobrowolny Fundusz Emerytalny managed by Metlife Powszechne Towarzystwo Emerytalne S.A.	2 357 156	5,12%	-
Nationale-Nederlanden Otwarty Fundusz Emerytalny	2 391 368	5,19%	-

The Orbis S.A. shareholding status determined based on notifications received (above) differs from the shareholding status of individual shareholders established on the basis of lists of shareholders present at the Annual General Meeting of Shareholders convened for June 2, 2016, and has been presented under Section 5.2 of the Director's Report of the Orbis Group and Orbis S.A. for 2016.

20.2 RESERVES

Reserves comprise amounts received over and above the nominal value of shares sold (share premium), effects of valuation of works of art disclosed in the other long-term assets line of the statement of financial position and accumulated gains/(losses) relating to the instrument hedging cash flows.

	as at December 31, 2016			as at December 31, 2015		
	Gross value	Deferred tax	Net value	Gross value	Deferred tax	Net value
Share premium	132 944	0	132 944	132 944	0	132 944
Adjustment of long-term investments to fair value	480	(91)	389	480	(91)	389
Cash flow hedge	(118)	23	(95)	(795)	151	(644)
Total reserves	**133 306**	**(68)**	**133 238**	**132 629**	**60**	**132 689**

Amounts posted in the reserves item are not available for distribution. However, this restriction does not apply to amounts recognised in profit or loss that relate to an effectively realised portion of equity linked to the sold asset.

(all amounts are quoted in PLN thousand, unless otherwise stated)

20.3 RETAINED EARNINGS

Retained earnings include profits from past years, net profit for the current year and profits transferred to equity that are subject to limited distribution, recognised in accordance with provisions of the Code of Commercial Companies and Partnerships in force in Poland. As at December 31, 2016 and December 31, 2015, profits subject to limited distribution totalled PLN 30,718 thousand.

20.4 CAPITAL MANAGEMENT

The objective of capital management is to secure the Company's ability to continue as a going concern, while maintaining an optimum structure of financing that allows to curb the costs of capital employed.

It is assumed that the Company may fuel capital growth through on-going activities taken to generate a good financial result, by regulating the amount of dividend disbursed to the shareholders as well as by issuing new shares or raising the par value of existing shares.

In the period covered by the financial statements, the Company did not issue any shares or raise the value of shares.

In order to finance long-term investment projects that are bound to affect the Company's results over a longer time-horizon, the Company seeks to use both its own cash and borrowings, which allows to effectively apply the leverage at the level that takes into consideration both hotel industry standards and specific features of the Company.

The Company monitors the level of equity, based on the return on equity and the ratio of equity to non-current assets.

The ROE ratio demonstrates the yield generated on the capital invested in an enterprise and is computed for an annual period as a quotient of the net result and average equity during the period. In 2016, return on equity went up owing to an increase in the net profit as compared to 2015.

	2016	2015
Net profit	154 744	109 203
Equity - opening balance	1 924 883	1 904 586
Equity - closing balance	2 004 319	1 924 883
Return on equity	**7,88%**	**5,70%**

The equity-to-non-current assets ratio is the quotient of the Company's equity and non-current assets, and demonstrates the relation between sources of financing and the Company's assets. This ratio went slightly down as at the end of 2016 versus the previous year. It is mainly the result of an increase in non-current assets, in particular due to the loan granted in 2016 to a subsidiary Accor Pannonia Hotels Zrt.

	as at December 31, 2016	as at December 31, 2015
Equity	2 004 319	1 924 883
Non-current assets	2 597 617	2 393 760
Equity-to-non-current assets ratio	**77,16%**	**80,41%**

The analysis of equity is supplemented by the debt-to-equity ratio presented in Note 29.2.4 to the financial statements.

(all amounts are quoted in PLN thousand, unless otherwise stated)

21. BORROWINGS

On December 19, 2014, Orbis S.A. (as the borrower) together with the subsidiary Hekon – Hotele Ekonomiczne S.A. (as the guarantor) executed a credit facility agreement with Bank Polska Kasa Opieki S.A. and Société Générale S.A. by virtue of which the Banks granted to Orbis S.A. a credit facility of up to 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 Central & Eastern Europe purchased by Orbis S.A.;
- corporate purposes of Orbis S.A., up to the sum not higher than PLN 50,000 thousand.

The interest rate on the credit facility was determined according to a variable interest rate equal to WIBOR for three-month deposits (WIBOR 3M) plus the banks' margin. Interest will be paid at the end of each quarter, while principal 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.

On June 30, 2015, the Company made an early payment of PLN 300,000 thousand, earmarking for this purpose all sums obtained from the issue of bonds (please refer to Note 22). In December, 2015, pursuant to the agreement, the Company repaid PLN 17,645 thousand of the principal.

As at December 31, 2016, Orbis S.A. had liabilities under a credit facility of PLN 122,945 thousand. During 12 months of 2016, Orbis S.A. repaid two principal instalments under the credit facility, totalling PLN 35,289, as well as PLN 4,427 thousand as interest on credit facilities and PLN 414 thousand as commissions and other borrowing costs resulting from credit facilities.

BORROWINGS	as at December 31, 2016	as at December 31, 2015
Liabilities arising from credit facilities (outstanding capital)	123 512	158 801
Credit facilities valued at amortised cost	(567)	(1 046)
Total borrowings	**122 945**	**157 755**

Moreover, as at December 31, 2016 and 2015, 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 28.1 to the financial statements.

22. 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 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 were launched in the BondSpot alternative trading system operating on the Catalyst market.

(all amounts are quoted in PLN thousand, unless otherwise stated)

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

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

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

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

In 2016, Orbis paid PLN 8,259 thousand as interest on issued bonds and PLN 614 thousand as commissions and other costs of bond issue. Moreover, in 2016 the Company paid PLN 203 thousand as interest payments under the IRS transaction (please refer to Note 30.3).

BONDS	as at December 31, 2016	as at December 31, 2015
Proceeds from the bond issue	500 000	300 000
Valuation of bonds at amortised cost	1 372	(771)
Total liabilities under bonds	**501 372**	**299 229**

Information on securities established in connection with the issue of bonds is provided in Note 28.1 to the financial statements.

(all amounts are quoted in PLN thousand, unless otherwise stated)

23. DEFERRED REVENUE

NON-CURRENT DEFERRED REVENUE	as at December 31, 2016	as at December 31, 2015
Advance payments received	4 001	5 300
Total non-current deferred revenue	**4 001**	**5 300**

Advance payments received in the amount of PLN 3,428 thousand are a result of a preliminary sale and purchase agreement concerning the Giewont hotel in Zakopane and the accompanying rental contract, concluded on April 3, 2012. Pursuant to the executed preliminary sale and purchase agreement, the Company received an advance payment towards the selling price amounting to PLN 5,428 thousand. 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.
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 December 31, 2016 is PLN 872 thousand, of which the current portion of PLN 299 thousand is presented under the current deferred revenue.

CURRENT DEFERRED REVENUE	as at December 31, 2016	as at December 31, 2015
Advance payments towards the sale of real property	2 074	2 000
Other prepayments and advances	12 441	8 766
Total current deferred revenue	**14 515**	**10 766**

As at December 31, 2016, the balance of deferred revenue arising from the sale of real property comprises earnest money towards the sale of the right of perpetual usufruct of land in Heweliusza street in Gdańsk. As at the end of 2015, under this item the Company disclosed an advance payment towards the sale of real property in Łopuszańska street in Warsaw.

Other prepayments and advances result predominantly from prepayments received for rooms.

24. OTHER NON-CURRENT LIABILITIES

OTHER NON-CURRENT LIABILITIES	as at December 31, 2016	as at December 31, 2015
Liabilities associated with tangible assets	4 522	2 246
Deposits received	592	826
Total other non-current liabilities	**5 114**	**3 072**

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, as well as non-current deposits received on account of rental of real properties.

(all amounts are quoted in PLN thousand, unless otherwise stated)

25. PROVISIONS FOR LIABILITIES

MOVEMENTS IN 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**

MOVEMENTS IN PROVISIONS FOR LIABILITIES	Provision for litigations	Provision for restructuring costs	Total provisions for liabilities
As at January 1, 2015	**777**	**413**	**1 190**
Provision recognised in the period	0	74	74
Provision utilised in the period	0	(128)	(128)
Provision released in the period	0	(286)	(286)
As at December 31, 2015	**777**	**73**	**850**
Short-term provisions	777	73	850
Long-term provisions	0	0	0
Total provisions as at December 31, 2015	**777**	**73**	**850**

Description of major disputes in which the Company is involved is provided in Note 28.3.

Information on provisions for retirement benefits and similar obligations is provided in Note 27.

(all amounts are quoted in PLN thousand, unless otherwise stated)

26. TRADE PAYABLES AND OTHER CURRENT LIABILITIES

The table below presents trade payables:

TRADE PAYABLES	as at December 31, 2016	as at December 31, 2015
Trade payables	52 441	30 484
of which: liabilities towards subsidiaries	*11 758*	*5 562*
Total trade payables	**52 441**	**30 484**

LIABILITIES ASSOCIATED WITH TANGIBLE ASSETS	as at December 31, 2016	as at December 31, 2015
Liabilities associated with tangible assets	17 651	27 877
Total liabilities associated with tangible assets	**17 651**	**27 877**

The decrease in the balance of liabilities associated with tangible assets results in particular from the fact that in the fourth quarter of 2016 lower capital expenditures were made than in the same period of the preceding year. Capital expenditures incurred in 2016 amounted to PLN 135.8 million, of which 42.7 million, i.e. 31.4%, was incurred in the last quarter of 2016. By way of comparison, in the preceding year, capital expenditure reached PLN 95.4 million, of which in the fourth quarter the sum of 54.2 million was expended (56.8% of the annual expenditure), which was by PLN 11.5 million more than in the last quarter of 2016.

As at December 31, 2016, Orbis S.A. was bound by future capital commitments under executed contracts amounting in total to PLN 36.4 million. The most sizeable amounts relate to the construction of new hotels: Novotel Poznań Centrum (PLN 21.1 million) in connection with the planned division of the hotel and it's partial rebranding, as well as the renovation of the Novotel Kraków City West hotel (PLN 9,2 million).

Other current liabilities are composed of the following items:

OTHER CURRENT LIABILITIES	as at December 31, 2016	as at December 31, 2015
Current liabilities	**9 007**	**5 115**
Taxes, social insurance and other benefits payable	8 124	4 548
Settlements with employees	88	55
Deposits received	795	498
Other liabilities	0	14
Accrued expenses	**42 630**	**29 590**
Obligations towards employees	33 694	20 794
Public law liabilities	6 947	7 891
Property insurance	134	0
Other	1 855	905
Total other current liabilities	**51 637**	**34 705**

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

As at December 31, 2016 and as at December 31, 2015, the Company does not have any finance lease liabilities.
Operating lease liabilities, presented off the statement of financial position, are described in Note 9 to the financial statements.

27. EMPLOYEE BENEFITS

The Company runs employee benefit plans under which employees are entitled to retirement benefits, disability benefits and jubilee awards.

Amounts of provisions for retirement and similar benefits are measured on the basis of an actuarial valuation. The most recent actuarial valuation was carried out by Trio Management Actuarial Consulting Sp. z o.o.

The actuarial valuation as at December 31, 2016, was made taking into account provisions of the Act of November 16, 2016, on Amendments to the Act on Pensions from the Social Insurance Fund and Certain Other Acts (Dz.U.2017 item 38), which lowered the retirement age to 60 years for women and 65 years for men. The above-mentioned Act will enter into force on October 1, 2017.

Provision for retirement benefits and similar obligations

As at December 31, 2016, the amount of the provision for retirement benefits and similar obligations was measured on an individual basis, separately for each employee.

The provision per employee is calculated based on an anticipated amount of retirement or disability benefit that the Company is obligated to pay under the Departmental Collective Labour Agreement. The cash benefit amounts to a specified percentage of the assessment base, dependent on the length of service in the Company. The assessment base is a one-month salary of the employee. The anticipated amount of the benefit factors in the expected growth in the assessment base until attainment of the retirement age. The established amount is discounted on an actuarial basis as at December 31, 2016. The discounted amount is reduced by the amounts of annual allocations for the provision, discounted on an actuarial basis as at the same date, made by the Company to increase the provisions per employee.

The annual amounts of allocations are calculated in accordance with the projected unit credit method.

The likelihood that a given person reaches retirement age as the Company employee was determined by using the competing risks method that takes into account the following risks:

- possibility of dismissal from job;
- risk of total incapacity to work;
- risk of death.

The likelihood that an employee will resign from work of his own accord was assessed using the distribution function, taking into account the statistical data of the Company. The likelihood that an employee will resign from work of his own accord depends on the employee’s age and remains constant over each year of his work.

The risk of death was expressed in the form of latest statistical data from Polish life expectancy tables for women and men published by the Central Statistical Office [GUS] as at the measurement date.

The likelihood that an employee will become a disability pensioner was assessed on the basis of the pttz2015 table.

Provision for jubilee awards

As at December 31, 2016, the provision for jubilee awards was measured on an individual basis, separately for each employee.

The provision per employee is calculated based on an anticipated amount of jubilee award that the Company agrees to pay under the Departmental Collective Labour Agreement. The jubilee award amounts to a specified percentage of the assessment base, dependent on the length of service in the Company. The assessment base is the minimum salary of the employee. The anticipated amount of the award factors in the expected increase of the assessment base until attainment of the entitlement to the jubilee award. The thus established amount is discounted on an actuarial basis as at December 31, 2016. The discounted amount is reduced by the amounts of annual allocations for the provision, discounted on an actuarial basis as at the same date, made by the Company to increase the provisions per employee.

(all amounts are quoted in PLN thousand, unless otherwise stated)

The employee benefit plan run by the Company exposes the Company to actuarial risks such as the interest rate risk, longevity risk and salary risk.

Interest rate risk

The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields or treasury bond yields (where no developed corporate bond market exists). A decrease in the bond interest rate will increase the plan's liability.

Longevity risk

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

Salary risk

The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

Principal actuarial assumptions are presented below:

Principal actuarial assumptions for retirement & disability benefits	2015	2016	2017	2018 - 2026	successive years
- discount rate	3,00%	3,50%	3,50%	3,50%	3,50%
- projected future growth in the benefit assessment			3,50%	3,00%	2,50%

Principal actuarial assumptions for jubilee awards	2015	2016	2017	2018 - 2025	successive years
- discount rate	3,00%	3,50%	3,50%	3,50%	3,50%
- projected future growth in the benefit assessment			0,00%	4,00%	3,50%

(all amounts are quoted in PLN thousand, unless otherwise stated)

Amounts recognised in comprehensive income in respect of employee benefit plans:

2016	Jubilee awards	Retirement & disability benefits	Total liabilities
Service cost:			
current service cost	1 035	266	1 301
past service cost and (gain)/loss from settlements	(592)	42	(550)
Net interest expense	509	189	698
Remeasurement on the net future employee benefit liability:			
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
Components of future employee benefit plan costs recognised in profit of loss	**(1 007)**	**497**	**(510)**
Components of future employee benefit plan costs recognised in other comprehensive income	**0**	**(90)**	**(90)**
Total	**(1 007)**	**407**	**(600)**

2015	Jubilee awards	Retirement & disability benefits	Total liabilities
Service cost:			
current service cost	840	212	1 052
past service cost and (gain)/loss from settlements	(422)	(95)	(517)
Net interest expense	474	164	638
Remeasurement on the net future employee benefit liability:			
actuarial gains and losses arising from changes in demographic assumptions	(156)	22	(134)
actuarial gains and losses arising from changes in financial assumptions	301	204	505
actuarial gains and losses arising from experience adjustments	1 191	869	2 060
Components of future employee benefit plan costs recognised in profit of loss	**2 228**	**281**	**2 509**
Components of future employee benefit plan costs recognised in other comprehensive income	**0**	**1 095**	**1 095**
Total	**2 228**	**1 376**	**3 604**

The current service cost and (gain)/loss from settlements are included in the Company's profit or loss as employee benefit expense under the employee benefits line. The net interest expense is presented in finance costs.

The remeasurement of the net liability on account of retirement and disability benefits is disclosed in other comprehensive income. The remeasurement of the net liability on account of jubilee awards is recognised in profit or loss, while related actuarial gains/losses arising from changes in financial assumptions are disclosed in finance income/costs and other remeasurements are presented in employee benefit cost.

(all amounts are quoted in PLN thousand, unless otherwise stated)

Movements in the present value of future employee benefit obligation:

	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**

	Jubilee awards	Retirement & disability benefits	Total liabilities
Present value of obligation - as at January 1, 2015	**15 085**	**5 090**	**20 175**
Current service cost	840	212	1 052
Past service cost and (gain)/loss from settlements	(422)	(95)	(517)
Interest cost	473	164	637
Remeasurement (gains)/losses:			
actuarial gains and losses arising from changes in demographic assumptions	(156)	22	(134)
actuarial gains and losses arising from changes in financial assumptions	301	204	505
actuarial gains and losses arising from experience adjustments	1 192	869	2 061
Benefits paid	(1 412)	(182)	(1 594)
Present value of obligation - as at December 31, 2015	**15 901**	**6 284**	**22 185**
Short-term provisions	1 808	545	2 353
Long-term provisions	14 093	5 739	19 832
Total present value of obligation - as at December 31, 2015	**15 901**	**6 284**	**22 185**

(all amounts are quoted in PLN thousand, unless otherwise stated)

At the time of calculation of the provision for jubilee awards and retirement benefit obligations, a sensitivity analysis was conducted. The analysis concerned the impact of the discount rate and projected growths in benefit assessment bases on the amount of the provision as at December 31, 2016. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

If the applied financial discount rate were 0.5 percentage point lower than the adopted rate, the total amount of provisions would increase by PLN 757 thousand. On the other hand, if the applied discount rate exceeded the base rate by 0.5 percentage point, the amount of the provision would be lower by PLN 709 thousand.

The sensitivity analysis of projected growths in benefit assessment bases has shown that the adoption of a base 0.5 percentage point lower would decrease the provision by PLN 697 thousand, whereas if the base were increased by 0.5 percentage point, the amount of the provision would go up by PLN 931 thousand.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation. It is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation was calculated using the projected unit credit method at the end of the reporting period, which is the same as applied in calculating the defined benefit obligation recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior year.

The weighted average duration of the defined benefit plan as at December 31, 2016 is 5 years (2015: 7 years).

An analysis of the due dates of the benefits to be paid is as follows:

Forecast cash flows due to employee benefits in the next 10 years	Jubilee awards	Retirement & disability benefits	Total liabilities
2017	1 982	956	2 938
2018	2 174	540	2 714
2019	2 316	619	2 935
2020	1 922	764	2 686
2021	2 479	807	3 286
years 2022 - 2026	13 321	3 254	16 575
Total	**24 194**	**6 940**	**31 134**

28. CONTINGENT ASSETS AND LIABILITIES

28.1 LIABILITIES ARISING FROM CREDIT FACILITY AGREEMENTS AND BOND ISSUE

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

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

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

The market value of 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 120,504 thousand as at December 31, 2016.

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 Mercure Warszawa Grand hotel and the Novotel Warszawa Centrum hotel both encumbered by mortgage, determined by independent property valuers as at May 29, 2015, was PLN 468,476 thousand. The book value of these real properties as at Decemberr 31, 2016 is PLN 191,965 thousand. Additionally, the market value of the Mercure Warszawa Centrum hotel determined as at December 01, 2015, by the valuation survey dated July 7, 2016 was PLN 177,229 thousand. The book value of these real properties as at December 31, 2016 is PLN 54,860 thousand.

28.2 LIABILITIES ARISING FROM AGREEMENTS FOR THE SALE OF ASSETS

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

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

(all amounts are quoted in PLN thousand, unless otherwise stated)

28.3 LEGAL CLAIMS

Litigation pending before courts, arbitration or public administration bodies:

LEGAL CLAIMS	DESCRIPTION AND THE COMPANY'S STANCE
Litigation - description Proceedings for handing over of real property located in Warsaw, in the district of Wilanów, at ul. St.Kostki Potockiego 27, marked as the plot of land no. 21/1 with an area of 4 397 sq.m. **Value of the litigation** The Plaintiff determined the value of litigation at PLN 5 million, as the value of real property or, alternatively, at PLN 377 thousand which corresponds to the 3-month lease/tenancy rent due for this type of real property **Date of launching the legal proceedings** Statement of claim dated September 29, 2005 **Parties to the proceedings** Plaintiff: State Treasury, represented by the Municipal Office of the Capital City of Warsaw, Defendant: Orbis S.A.	Orbis S.A. motions that the claim be dismissed in its entirety. Presently, the case is being examined by the Court of Appeals in Warsaw (court of second instance). Proceedings have been suspended until final resolution of the issue concerning the ownership title to the real property in administrative proceedings. Administrative proceedings initiated by heirs of the former owner, Adam Branicki, for restitution of the real property "Kolonia Adamówka Wilanowska dz. 15" are currently pending before the Head of Mazowieckie Voivodship, i.e. the authority of first instance. During these proceedings, at a hearing on January 5, 2010 the applicants' attorney filed a written declaration, informing that the party he represents would not seek compensation from Orbis S.A. for the use of the real property. The declaration forms an appendix to the record of the hearing. However, the declaration was not supported by a relevant power of attorney granted by the heirs of Adam Branicki authorizing the attorney to renounce claims on their behalf. As at the day of report publication no steps are being taken in this case.
Litigation – description Proceedings for declaration of invalidity of an administrative decision of the President of the City of Warsaw dated April 11, 1950, No. L dz. WPB/3116/49/P concerning refusal to reinstate a time limit for filing an application for a temporary ownership title to the land located at ul. Wspólna 19, land and mortgage reg. no. 1651/2 letter C (the area of a former real property with land and mortgage reg. no. 1651/2 letter C, corresponds partially to the current plot of land no. 133/2 administered by Orbis S.A., on which a driveway to the building of the Grand Warszawa hotel is situated, and to the plot of land no. 133/1 that is held by Orbis S.A. in perpetual usufruct, on which a part of the Hotel building is situated). **Value of the litigation** Unknown **Date of launching the legal proceedings** Application dated March 2, 2000 **Parties to the proceedings** Applicant: J. Ostrowska - Bazgier (heirs of Abraham Juda vel Adam Kaltman) Participant: ”Parking- Wspólnota” Sp. z o.o in liquidation Participant: Orbis S.A.	On August 10, 2010, the Minister of Infrastructure issued a decision (served on Orbis S.A. on August 19, 2010) declaring invalidity of the administrative decision of the President of the City of Warsaw of 1950 refusing to grant to the applicants the temporary ownership title to the land concerned. On September 1, 2010, Orbis S.A. applied for re-consideration of the case. The Law Office “Domański, Zakrzewski. Palinka” [DZP] was appointed to defend the case on behalf of Orbis S.A. In subsequent pleadings, DZP challenged the timely filing of the decree motion by former owners. The proceedings have been suspended. On August 25, 2012, the Applicant filed a motion with the Ministry of Transport, Construction and Maritime Economy for revocation of decision No. 755/93 of the Head of Mazowieckie Voivodship concerning the acquisition by Orbis S.A. of the right to perpetual usufruct of the land built-up with the Grand Hotel at ul. Krucza 28 in Warsaw. Orbis S.A. motioned for refusal to initiate proceedings on this case. The Minister of Transport, Construction and Maritime Economy suspended proceedings on this case. Orbis S.A. filed petition for ascertainment of acquisition of the estate of the deceased persons with unknown place of residence. The Court resumed proceedings on this case and in first instance issued decision dismissing the application of Orbis S.A. Orbis S.A. filed an appeal against this decision. The Regional Court revoked the decision of the District Court for Warszawa – Śródmieście dated March 14, 2014 concerning dismissal of the application of Orbis S.A. for ascertainment of acquisition of the estate of Bajla Arager and Ita Frajdla Sadowska and referred the case to the District Court for reconsideration. The case was joined by the City of Warsaw, which made an application for ascertaining acquisition of estate of Bajla Arager and Ita Frajdla. The case is pending.

(all amounts are quoted in PLN thousand, unless otherwise stated)

Litigation - description Request to reimburse aid received from the Polish Agency for Enterprise Development PARP **Value of the litigation** PLN 616 thousand plus interest **Date of launching the legal proceedings** July 21, 2014 **Parties to the proceedings** Requesting party: Polish Agency for Enterprise Development [PARP] Requested party: Orbis S.A.	As a beneficiary under the Human Capital Operational Programme 2007-2013, Orbis S.A. received aid for a training programme, co-financed by the European Union. As a result of a control of programme implementation, PARP claimed that Orbis S.A. had violated the terms of the programme by applying discriminating criteria and assessments in drawing up the offer. Hence, PARP requested Orbis S.A., under the sanction of issuing a decision, to pay a penalty of 25% of eligible expenditure under the programme, which is equivalent to an amount of PLN 616 thousand. Orbis S.A. challenged PARP's position in its entirety. Despite absence of an administrative decision on the reimbursement, in 2014 PARP used the bank guarantee and drew an amount of approx. PLN 504 thousand. Orbis S.A. will claim this amount by means of civil proceedings. On April 11, 2016, a decision reaffirming PARP's position was delivered. In this decision, PARP demands reimbursement of PLN 200 thousand with interest accruing from different payment deadlines specified in the decision. Orbis S.A. appealed against the decision. The Minister of Infrastructure upheld PARP decision. On July 11, 2016 Orbis S.A. paid to PARP a sum of PLN 261 thousand. Orbis S.A. intends to file an appeal with the Voivodship Administrative Court.
Litigation - description Statement of claim for determining that the contractual penalty for the delay in constructing a hotel in Elbląg was not due, or was invalidly reserved. **Value of the litigation** PLN 350 thousand **Date of launching the legal proceedings** Statement of claim dated April 19, 2013 **Parties to the proceedings** Plaintiff: Orbis S.A. (legal successor of: Hekon-Hotele Ekonomiczne S.A.) Defendant: Municipal Office of the town of Elbląg	Hekon Hotele-Ekonomiczne S.A. lost its case in proceedings before the court of first instance and subsequently, as a result of the filed appeal, the court of second instance held that the provision concerning the contractual penalty had been invalid from the beginning, and the court held that the contractual penalties paid by Hekon Hotele-Ekonomiczne S.A. should be reimbursed. The municipality of the town of Elbląg filed a last-resort (cassation) appeal and Hekon S.A. filed for dismissal of the appeal. The Supreme Court decided to consider the case at a hearing in camera on October 22, 2015. The Court revoked the decision of the Court of Appeal prepared a written statement of reason and referred the case to be reconsidered. On March 1, 2016, the Appellate Court issued a ruling on this case and statement of reasons was issued in April. The Court ruled that only the contractual penalty of PLN 100 thousand for the year 2010 is due to the town of Elbląg. According to the statement of reasons for this judgement, contractual penalties for subsequent years are not due, since according to the position of the Supreme Court contained in the last-resort (cassation) judgment, the contractual penalty so imposed would have to be paid indefinitely. The Court dismissed the remaining claims of Hekon-Hotele Ekonomiczne S.A. and ruled on the value of costs. In June 2016 Hekon filed a cassation appeal against the judgment of the Appellate Court in Gdańsk. Orbis S.A. (as the legal successor of Hekon-Hotele Ekonomiczne S.A.) a decision whether or not the cassation appeal will be considered. On the basis of the request for payment received in October, Orbis S.A. paid to the municipality of the town of Elbląg a sum of PLN 163 thousand by way of the awarded penalty and costs of litigation.

Furthermore, as at December 31, 2016, 12 proceedings were pending before the Self-Government Appellate Board concerning revaluation of annual rates of fees for perpetual usufruct of land located in the following cities:

- Warsaw (ibis & ibis budget Reduta, ibis Warszawa Centrum, plot of land in Łopuszańska street - concerning the fees up to the day of sale of the real property);
- Poznań (Novotel Malta);
- Częstochowa (Mercure Częstochowa Centrum - 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 Mayors 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 6,848 thousand and is disclosed in other current liabilities.

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

29. RISK AREAS

29.1 BUSINESS RISK

29.1.1 Risk related to the macroeconomic situation and condition of the hospitality sector

The situation of companies operating in the hospitality sector depends largely on the overall macroeconomic landscape that is beyond their control. Main risk factors affecting demand for hotel services include:

- economic recession or stagnation affecting demand for hotel services, both from individual and business clients. Deteriorating financial situation of the population and rising unemployment not only limit financial capacity but adversely affect the mood and propensity to travel as well. Poor financial standing of companies leads to the curbing of budgets for trainings, corporate travel and, consequently, results in the cancellation, postponement or renegotiation of contracts for business groups,
- growth in fuel, energy and food prices that is mirrored in the level of hotel operators' operating expenses,
- strengthening of the local currency that reduces attractiveness of the country for foreign tourists,
- reduction of the number of airline and railway connections,
- adversely changing geopolitical situation, also as a result of social conflicts and tensions, that curbs the number of travellers.

29.1.2 Competition risk

The hotel industry is a highly competitive market. Year in, year out, new hotels open in cities where Orbis S.A. operates. Some of them belong to global operators with a wide network of establishments operating under recognisable brands, effective loyalty programmes and high marketing budgets. Hotel operators compete also in terms of gaining new franchisees in attractive locations.

Growing competition may have an adverse impact on the price and occupancy of hotel establishments run by Orbis S.A. and, consequently, on financial performance.

Orbis S.A. pursues an active product and pricing policy in all its hotels and puts special emphasis on the addition of new and interesting products to its offer, thereby staying ahead of its competitors on the hotel market.

29.1.3 Risk related to cooperation with travel agents

The objective of Orbis S.A. is to sell through traditional channels and the Accor website. However, nowadays customers regularly use the websites of on-line travel agencies. Some of these major intermediaries develop their own loyalty programmes for their booking systems. In case of a considerable rise in the level of sales via On-line Travel Agencies (OTAs), it could have an adverse effect of the Company's performance.

29.2 FINANCIAL RISK

The main areas of risk to which the company Orbis S.A. is exposed include credit risk, liquidity risk and interest rate risk, resulting from money and capital markets' volatility, reflected in the statement of financial position and in the income statement.

The Company pursues a uniform policy of financial risk management and permanently monitors risk areas, using available strategies and mechanisms aimed at minimizing the negative effects of market volatility and securing cash flows.

Orbis S.A. curbs financial risk (defined as cash flows volatility) and the risk related to money and capital markets' volatility. This objective is implemented using methods described below.

Exposure to additional risks not related to the accepted business operations is deemed improper.

Orbis S.A. does not use any financial instruments, including derivatives, for speculative purposes.

The risk management policy and strategy are defined and monitored by the Management Board of Orbis S.A. Current responsibilities in the area of risk management are dealt with by special units established for this purpose in Orbis S.A.

29.2.1 Interest rate risk

The Company is exposed to the interest rate risk since it has obtained financing at variable interest rates, i.e. credit facilities and issued bonds, as well as granted a loan to its subsidiary Accor Pannonia Hotels Zrt.

A potential rise in interest rates on credit facilities and bonds issued will increase Orbis' finance costs and adversely affect the Company's financial results. In case of the granted loan, the result will be the opposite.

As at December 31, 2016, Orbis S.A.'s liabilities with variable interest rates comprised:
- Credit facility at Bank Pekao S.A. and Société Générale S.A. of PLN 122.9 million bearing interest at a rate equal to WIBOR 3M plus margin. Interest rate on this credit facility is based on variable reference rates that are updated on a quarterly basis.
- Liabilities arising from the bond issue – PLN 501.4 million. The first tranche of bonds issued on June 26, 2015 (PLN 300.0 million) bear interest per annum at a variable interest rate equal to WIBOR for six-month deposits (WIBOR 6M), plus interes rate margin of 0.97 p.p. The second tranche of bonds issued on July 29, 2016 (PLN 200.0 million) bear interest per annum at a variable interest rate equal to WIBOR for six-month deposits (WIBOR 6M), plus interes rate margin of 1.05 p.p.

In 2016, interest rates on credit facilities and bonds were based on the following rates:
- WIBOR 3M: 1.67 – 1.73
- WIBOR 6M: 1.74 – 1.81

An analysis of sensitivity to the interest rate risk arising from credit facilities taken and bonds issued was performed on the basis of the balance of debt incurred and bonds issued as at the balance sheet closing date. A change in the interest rate on the credit facility by 0.5 p.p would increase/decrease finance costs by PLN 618 thousand. A 0.5 p.p. change in the interest rate on bonds would result in an increase/decrease in finance costs by PLN 2,500 thousand.

In case of bonds, cash flow volatility is offset by means of the executed Interest Rate Swap transaction (described in Note 30.3). The Company performed an analysis of sensitivity to interest rate risk with regard to the executed contract. If interest rates were by 0.5 p.p. higher, the Company's other comprehensive income would go up by PLN 735 thousand. In case interest rates declined by 0.5 p.p., other comprehensive income of the Company would decrease by PLN 743 thousand.

As at December 31, 2016, the Company also had receivables under a loan granted to its subsidiary Accor Pannonia Hotels Zrt., bearing interest at a variable interest rate equal to EURIBOR 6M, plus interest rate margin of 2.5%. As per the agreement, if EURIBOR 6M is below zero, the loan interest rate will be equal to 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.

(all amounts are quoted in PLN thousand, unless otherwise stated)

In 2016 EURIBOR 6M, on which rate the interest rate on the loan granted to the subsidiary is based, remained below zero. In cases when EURIBOR 6M is less than zero, the agreement provides for interest rate is equal to the interest rate margin. Consequently, the Company decided not to carry out an analysis of sensitivity to the interest rate risk with regard to the granted loan.

29.2.2 Currency risk

Orbis S.A. executes transactions denominated in foreign currencies. Hence, a risk of fluctuations in foreign currency exchange rates arises. Certain expenses, like rent costs for example, are denominated in or indexed to foreign currencies, predominantly the euro. There is a risk that unfavourable changes in the exchange rate will adversely impact return on sales and, thereby, the financial result of the Company.

As at December 31, 2016, the Company held cash and had loan granted to the subsidiary denominated in a foreign currency. More information on the loan granted is provided in Note 13. As at the end of reporting period, the Company has neither foreign currency borrowings nor borrowings denominated in a foreign currency.

In order to reduce the risk of its currency exposure, Orbis S.A. seeks first of all to use the natural hedging mechanism. Furthermore, derivative instruments, such as forwards, swaps and options, may be used for the purpose of managing risk.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities as at the end of reporting period are as follows:

		as at Dec. 31, 2016	as at Dec. 31, 2015
Cash and cash equivalents			
foreign currency	EUR	930	137
Polish currency equivalent	PLN	4 114	585
Loans granted (short- and long-term)			
foreign currency	EUR	81 049	0
Polish currency equivalent	PLN	358 561	0
Receivables			
foreign currency	EUR	262	17
Polish currency equivalent	PLN	1 159	72
Payables			
foreign currency	EUR	2 954	1 487
Polish currency equivalent	PLN	13 068	6 335
foreign currency	USD	0	8
Polish currency equivalent	PLN	0	30

The Company is mainly exposed to the risk related to the EUR currency.

The following table details the Company's sensitivity to a 10% increase and decrease in the rate of exchange of PLN against foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and equity where the PLN strengthens 10% against the relevant currency. For the 10% weakening of the PLN against the relevant currency, there would be a comparable impact on the profit and equity, and the balances below would be negative.

(all amounts are quoted in PLN thousand, unless otherwise stated)

The table below demonstrates the effect of a decrease/increase in PLN exchange rate on the result:

	10% increase of the exchange rate	
	2016 result	2015 result
Cash and cash equivalents	411	59
Loans granted	35 856	0
Receivables/Payables	(1 191)	(629)
Total effect of exchange rate fluctuations on result	**35 076**	**(570)**

In the Management Board's opinion, the sensitivity analysis is unrepresentative of the inherent exchange rate risk because the exposure at the end of the year does not reflect the exposure during the entire reporting period.

29.2.3 Credit risk

The credit risk to which Orbis S.A. is exposed may result from:
- credit risk following from creditworthiness of financial institutions (banks, brokers), parties to security agreements or security agents,
- creditworthiness of entities whose securities the Company purchases or invests in,
- creditworthiness of franchisees and investors with which Orbis S.A. execute franchise and management agreements,
- creditworthiness of corporate clients that, owing to the absence of any significant concentration of credit risk and a large share of relatively small transactions in total turnover, does not require the application of special transaction hedges, apart from the monitoring of customers from the point of view of their credit ratings.

In the Company's assessment, the risk related to its clients does not differ from the average credit risk on the Polish market.

In settlements with clients, preference is given to payments by credit card, cash and prepayments. Credit decisions are made taking into account results of a solvency study, contract value, payment date, and forecasted outstanding balance.

Solvency checks are performed before a credit is granted to each new customer and at each renewal of the contract for a successive term. To meet these requirements, the hotels and the Head Office units may use the following set of tools:
- reports from information agencies to help in assessing customers' creditworthiness,
- customer payment history: significant payment delays, particularly inclusion on the internal "debtor blacklist" of the Company prevents further crediting.
- presence of other negative information on customer's solvency. Any information from the local or global market about the customer's payment failures must be carefully examined and the credit blocked, where justified.

It is a policy that if a solvency check is not positive in all the above aspects, additional guarantees (bank guarantee or credit card preauthorisation) must be required.

The Company's exposure to customer creditworthiness risk is constantly monitored. Credit risk control is ensured through regular meetings of the Credit Management Committee held to discuss all major risks relative to merchant credit and to take decisions on granting a credit to new customers with unclear financial standing.

To minimize the credit risk, Orbis S.A. cooperates with reputable banks with good financial standing.

The following table presents ratings of banks, in which Orbis S.A. has substantial cash balances:

Bank / Ratings of banks	Cash as at December 31, 2016 in PLN'000	Agency		
		Fitch	Standard & Poor's	Moody's
Société Générale SA	**26 059**			
Long-term/Short-term Counterparty		A	N/A	A1(cr)/P-1(cr)
Long-term senior unsecured debt		A	A	A2
Short-term senior unsecured debt		F1	A-1	P-1
Long-term senior unsecured debt non preferred		A	BBB+	Baa3
Dated subordinated Tier 2		A-	BBB	Baa3
Undated subordinated Tier 2		BBB	BBB-	Ba1(hyb)
Tier 1 and preferred shares		BBB-	BB+	Ba2(hyb)
Additional Tier 1 Basel 3		BB+	BB+	Ba2(hyb)
Outlook		Stable	Stable	Stable
Bank Handlowy w Warszawie SA	**69 190**			
Rating for long-term deposits		A-		
Rating for short-term deposits		F1		
Viability rating		a-		
Support rating		1		
Long-term rating Counterparty Risk Assesment		AA+ (pol)		
Short-term rating Counterparty Risk Assesment		F1 (pol)		
Outlook		Stable		
Bank Pekao SA	**21 498**			
Long-term rating		A-	BBB+	A2
Short-term rating		F2	A-2	Prime -1
Viability rating		a-		
Stand - alone rating			bbb+	
Baseline Credit Assessment				baa1
Support rating		2*		
Long-term counterparty risk assessment				A1(cr)
Short-term counterparty risk assessment				Prime -1(cr)
Outlook		Stable	Stable	Stable/ Negative **
** on watch list with negative outlook*				
*** stable for rating of liabilities in the domestic currency and negative for liabilities in foreign currencies*				
Bank of Tokyo-Mitsubishi UFJ (Polska) SA	**318**			
Long-term rating			A+	
Short-term rating			A-1	

It is not possible to forecast the impact of the above risk on financial results of the Company.

(all amounts are quoted in PLN thousand, unless otherwise stated)

29.2.4 Liquidity risk

Orbis S.A. hedges liquidity through credit facilities, external long-term loans and overdrafts.

As at December 31, 2016 and as at December 31, 2015, the Company had unused credit lines amounting to PLN 20,000 thousand under an overdraft facility available at Bank Handlowy w Warszawie S.A.

Temporarily disposable cash is invested in short-term bank deposits.

Orbis S.A. monitors financial liquidity on the basis of the debt-to-equity ratio and current ratio.

The debt-to-equity ratio is calculated as a quotient of total debt and total equity and liabilities. As at the end of 2016, the debt-to-equity rate rose, primarily owing to to the issue of a second tranche of bonds of PLN 200.0 million.

	as at December 31, 2016	as at December 31, 2015
Total debt	793 252	599 534
Total equity and liabilities	2 797 571	2 524 417
Debt-to-equity ratio	**28,4%**	**23,7%**

The current ratio is calculated as a quotient of current assets and current liabilities. The ratio improved compared to the previous year due to an increase in the balance of cash at the end of the financial year. The higher value of cash results in particular from the issue of PLN 200 million worth of bonds in July 2016

Net working capital as at the end of 2016 amounted to PLN 38,468 thousand, compared to negative net working capital at the end of the preceding year (PLN -4,762 thousand). This is in particular a result of a higher balance of cash at the end of 2016 versus the previous year.

	as at December 31, 2016	as at December 31, 2015
Current assets and assets classified as held for sale	199 954	130 657
Current liabilities	176 001	146 185
Current ratio	**1,14**	**0,89**

The Company forecasts future flows arising from financial payables. The forecast takes into account payables existing as at the date of preparation of the financial statements. Interest rates applicable as at December 31, 2016 are assumed for future interest periods. Interest as well as borrowings and bonds installments are classified in accordance with their maturity dates.

Projected expenditure payable in the period	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 3 years	from 3 years to 5 years
Borrowings	0	908	37 897	74 454	18 001
Bonds	2 864	0	11 156	28 040	515 558
Trade payables	51 802	609	30	0	0
Other payables*	16 551	789	1 194	4 741	373
Total expenditure on account of payables	**71 217**	**2 306**	**50 277**	**107 235**	**533 932**

** The Other payables due in over 1 year item includes guarantee deposits according to the deadline for their reimbursement set forth in executed contracts for refurbishment and construction services.*

The above amounts are presented at gross (undiscounted) values.

29.3 LEGAL RISK

The hotel sector is exposed to legal risk relating to changes in regulations governing:
- protection of personal data,
- obligations and fees imposed on owners and users of land as well as buildings and structures,
- protection of the environment,
- employment, e.g. in terms of minimum wages, obligatory pension and health insurance contributions,
- taxes and other public law fees levied on entrepreneurs.

Orbis S.A. monitors changes in the legal environment on a current basis.

29.4 REPUTATIONAL RISK

Brands under which hotels of Orbis S.A. operate and their reputation are among the Company's most important assets. Customer acquisition and maintenance depend on the standard and quality of services and application of the best market (commercial) practices in management. Incidents undermining guests' confidence and safety may harm the brands' image. In addition, the Company's image may be adversely affected by non-compliance with corporate governance rules, incidents impairing the environment, violations of employees' rights and improper relations with local authorities. Given the expansion of the social media, the potential scale (range) of negative perception and public disclosure of such events may be large, even disproportionate to the adverse effects such events actually produce. The occurrence of the above-mentioned situations may contribute to the growth in operating expenses or may have an adverse impact on revenue.

Orbis S.A. monitors media activity on a current basis and responds to problems notified on social media portals. Also, the Company has implemented detailed procedures for responding to (acting in) crisis situations in order to prevent negative events and, if they occur, to minimise their effects.

29.5 RISK FACTORS RELATED TO THE BONDS

29.5.1 Risk of earlier redemption of the Bonds for reasons other than the Bondholder's request

Pursuant to Article 74.5 of the Bonds Act, in the event of liquidation of Orbis S.A. the Bonds become immediately redeemable on the date of commencing the liquidation, even if their redemption date has not yet lapsed.

29.5.2 Risk of earlier redemption of the Bonds on the Bondholder's request

The Conditions of Bonds contain several clauses that, if defaulted, give the bondholder (upon taking specific actions and following a proper procedure) the right to request earlier redemption of the Bonds by Orbis S.A. There is a risk that in case an earlier redemption of the Bonds is requested, Orbis S.A. will not have sufficient funds to fulfil such a request. Nevertheless, the Company stresses that the Bonds have been secured by mortgages established on the Issuer's real properties (hotels) whose value exceeds that of the issued Bonds.

(all amounts are quoted in PLN thousand, unless otherwise stated)

30. FINANCIAL INSTRUMENTS

30.1. CATEGORIES OF FINANCIAL INSTRUMENTS

The following table presents the main categories of financial instruments:

	as at December 31, 2016	as at December 31, 2015
Financial assets		
Cash and cash equivalents	117 958	61 941
Loans and receivables (including trade receivables)	406 869	38 506
Financial assets excluded from the scope of IAS 39 (including investments in equity instruments not quoted on an active market)	465 921	1 025 569
Financial liabilities		
Amortised cost (including trade payables)	700 406	518 984
Derivative instruments in designated hedge accounting relationships	118	795

30.2. FAIR VALUE OF FINANCIAL INSTRUMENTS

As at December 31, 2016 and December 31, 2015, the only assets and liabilities that were subject to measurement at fair value following their initial recognition and were recognised at fair value in the statement of financial position were 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 December 31, 2016		as at December 31, 2015	
	The carrying amount	The fair value	The carrying amount	The fair value
Financial assets				
Cash and cash equivalents	117 958	117 958	61 941	61 941
Loans granted	358 561	358 561	0	0
Other financial assets	10 944	10 944	7 888	7 888
Trade receivables and others short-term receivables	37 364	37 364	30 618	30 618
Investment in subsidiaries (excluded from the scope of IAS 39)	465 921	-	1 025 569	-
Financial liabilities				
Borrowings	122 945	124 904	157 755	160 551
Debt securities - bonds issued	501 372	507 500	299 229	303 000
Derivative instruments (liabilities)	118	118	795	795
Trade payables and other long-term and short-term payables	76 089	76 089	62 000	62 000

According to the Management Board, as at December 31, 2016 and December 31, 2015 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.

30.3. 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 2016, the Company paid PLN 203 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 2016, no ineffectiveness arising from cash flow hedges occurred that would require to be disclosed in the financial result of the Company.

(all amounts are quoted in PLN thousand, unless otherwise stated)

31. RELATED PARTY DISCLOSURES (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.

31.1. COMPENSATION OF MEMBERS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Wages, salaries and other short-term benefits arising from serving a function in governing bodies of Orbis S.A.	for 2016	for 2015
Management Board		
Gilles Stephane Clavie	2 100	1 784
Ireneusz Andrzej Węgłowski	1 023	1 048
Dominik Sołtysik	591	0
Marcin Szewczykowski	960	934
Laurent Francois Picheral	0	203
Supervisory Board		
Jan Ozinga	0	0
Bruno Coudry	73	66
Artur Gabor	98	89
Christian Karaoglanian	0	0
Jacek Kseń	98	85
Jean-Jacques Morin	0	0
Laurent Francois Picheral	0	0
Andrzej Procajło	77	70
Andrzej Przytuła	77	70
Jarosław Szymański	77	70
Sophie Isabelle Stabile (Chairman of the Supervisory Board untill June 2, 2016)	0	0
Jean-Jacques Dessors (Member of the Supervisory Board untill May 31, 2015)	0	0

Starting from June 1, 2014, members of the Supervisory Board who are employees of Accor S.A. do not receive salary for serving a function in Orbis S.A.

In both the years under comparison, no post-employment benefits, no other long-term benefits, no benefits resulting from termination of employment and no share-related payments were paid to members of the Management Board or the Supervisory Board.

(all amounts are quoted in PLN thousand, unless otherwise stated)

31.2. RELATED PARTY TRANSACTIONS

Revenues from the sale of services to the Accor Group companies comprise revenues for sales support, promotion of the Accor network and development of Le Club Accorhotels programme 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 programme.

Revenues from the sale of services to subsidiaries comprise mainly management fees (concerns Orbis Kontrakty Sp. z o.o. and Hekon Hotele Ekonomiczne S.A. - till the date of merger) and revenues from lease of hotel properties (concerns Hekon Hotele Ekonomiczne S.A. - till the date of merger).

Purchases from subsidiary companies comprise predominantly mutually provided services.

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

Within the framework of the agreement signed by Accor S.A. and Orbis S.A. on January 15, 2016, Orbis S.A. received a sum of EUR 4 million (equivalent to PLN 17.3 million). The payment of this sum concerned directly the release of Accor S.A. from the guarantee it granted to Orbis S.A. as part of the agreement to purchase shares in subsidiaries and was connected with the operations of specified assets (the ibis Budapest Heroes Square hotel and the Mercure Budapest City Center hotel) in Hungary, which assets were purchased in 2016 by a subsidiary Accor-Pannonia Hotels Zrt. The transaction with the shareholder and, consequently, the sum received does not constitute income of Orbis S.A. according to the International Financial Reporting Standards, because it is not connected in any way with the operations of the Company or the Group, which is why it was recognized directly in Orbis S.A. equity (in “retained earnings” item).

RELATED PARTY TRANSACTIONS - REVENUES	2016	2015
Net sales of services	**33 369**	**47 194**
- sale to parent company	1 520	1 933
- sale to other Accor Group companies	609	488
- sales to subsidiaries	31 240	44 773
Total sales	**33 369**	**47 194**
Finance income	**56 600**	**37 506**
- from subsidiaries	56 600	37 506
Total revenue	**89 969**	**84 700**

RELATED PARTY TRANSACTIONS - EXPENSES	2016	2015
Purchases of services	**33 894**	**26 136**
- from parent company	25 154	18 819
- from other Accor Group companies	8 737	7 179
- from subsidiaries	3	138
Total expenses	**33 894**	**26 136**

(all amounts are quoted in PLN thousand, unless otherwise stated)

RECEIVABLES AND PAYABLES	as at December 31, 2016	as at December 31, 2015
Trade receivables	**1 323**	**14 543**
- from parent company	767	72
- from other Accor Group companies	471	177
- from subsidiaries	85	14 294
Receivables under loans granted	**358 561**	**0**
- from subsidiaries	358 561	0
Total receivables	**359 884**	**14 543**
Trade payables	**11 758**	**5 562**
- to parent company	11 314	5 055
- to other Accor Group companies	438	394
- to subsidiaries	6	113
Payables towards the Tax Group companies	**0**	**1 329**
Total payables	**11 758**	**6 891**

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

Financial income from subsidiaries in 2016 includes interest on the loan granted to Accor Pannonia Hotels Zrt. and to Katerinska Hotel s.r.o. by Hekon-Hotele Ekonomiczne S.A., which were taken over on September 1, 2016, by Orbis due to its merger with Hekon. The loan acquired by Orbis, granted to the Czech company, was repaid on September 19, 2016.

Receivables under granted loans comprise a loan granted to Accor-Pannonia Hotels Zrt. More information on the loan granted is provided in Note 13.

As at December 31, 2016 and December 31, 2015, the Company did not have any loans received from related parties.

No impairment loss was recognised on the presented receivables.

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

Transactions with related companies are executed at arms' length.

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. from January 1, 2016 till December 31, 2018. Due to the merger of both companies, the Tax Group lost its tax status as of September 1, 2016.

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., or its 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., or its subsidiaries.

(all amounts are quoted in PLN thousand, unless otherwise stated)

32. EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

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

	2016	2015
Change in receivables in the statement of financial position	**(8 956)**	**3 430**
change arising from the merger with a subsidiary	9 233	989
change in other long-term receivables and prepayments	(8)	(147)
commissions on credit facilities	0	(226)
change in receivables on account of sale of tangible assets	13 183	0
Change in the statement of cash flows	**13 452**	**4 046**
Change in liabilities, except borrowings, in the statement of financial position	**30 705**	**12 049**
change arising from the merger with a subsidiary	(25 397)	(2 358)
change in investment liabilities	6 992	(8 025)
Change in the statement of cash flows	**12 300**	**1 666**
Change in deferred revenue in the statement of financial position	**2 450**	**2 475**
change arising from the merger with a subsidiary	(4 038)	(281)
advance payments received towards the sale of real property	(74)	20
Change in the statement of cash flows	**(1 662)**	**2 214**
Change in provisions in the statement of financial position	**423**	**1 671**
change arising from the merger with a subsidiary	(2 740)	0
actuarial gains and losses in respect of defined employee benefit plan recognised in other comprehensive income	90	(1 095)
Change in the statement of cash flows	**(2 227)**	**576**
Change in inventories in the statement of financial position	**(844)**	**127**
change arising from the merger with a subsidiary	686	208
Change in the statement of cash flows	**(158)**	**335**
Other adjustments	**(4 147)**	**(3 700)**
revaluation of non-current assets	(4 157)	(7 052)
revaluation of investments in subsidiaries	10	3 352
Change in the statement of cash flows	**(4 147)**	**(3 700)**

33. EVENTS AFTER THE REPORTING PERIOD

On January 2, 2017, completion of a buy-back agreement of five leased hotels in Hungary took place (the transaction is described in Section 3.1 of the Directors' Report on the Operations of the Orbis Group and Orbis S.A.). On that date the price was paid and application was filed to register the new shareholder of 5 Hotel Kft. In connection with the transaction, from January 2, 2017, Orbis S.A. indirectly holds 99.92% share in the share capital of 5 Hotel Kft.

On January 30, 2017, the major shareholder of Orbis S.A. (which holds 52.7% of Orbis shares), Accor S.A., exercised its buy–out option right over the hotel "Sofitel Budapest Chain Bridge" located in Budapest, with a buy-out date of 31 May 2017 (the "Option Right"), indicating that the Option Right will be exercised by the Orbis subsidiary - Accor-Pannonia Hotels Zrt., a private company limited by shares, with its corporate seat in Budapest which currently operates the Hotel under a lease agreement. The Option Right will be exercised with respect to the sellers: HVB Leasing Maestoso Ingatlanhasznosito Kft with its corporate seat in Budapest and Universale International Realitäten GmbH with its corporate seat in Vienna.
At the same time Accor authorized Orbis to take all legal and actual actions necessary to exercise the Option Right, including taking a decision whether the Option Right will be exercised through the purchase of shares in a company which is the owner of the Hotel or direct purchase of real estate.
Orbis S.A. accepted exercising of the Option Right, including in particular the obligation to pay the purchase price for the Hotel of the maximum EUR 44 million, where the final amount depends on the type of transaction (share deal or real estate deal), which will be executed under the Option Right.
The exercise of Option Right by the Orbis subsidiary is aimed at optimization of hotel business by elimination of costs associated with leasing of the Hotel and obtaining potential possibility of future sale of the Hotel under the management back sale transaction, which will be subject to further financial and operational analysis.

On February 9, 2016 Orbis S.A. concluded a preliminary sale agreement of organized parts of the enterprise in the form of the Mercure Jelenia Góra hotel and Mercure Karpacz Resort hotel for a total net price of PLN 26,500 thousand. The preliminary agreement provides that the final sale agreement shall be concluded until March 31, 2017, subject to the consent of the Issuer's General Meeting of Shareholders for the sale of the Hotels. The payment of the sale price by the Buyer shall be made in accordance to the following arrangements:
- 10% of the net sale price, that is PLN 2,650 thousand was paid as an earnest payment, to the account of the Issuer, prior to the signing of the preliminary agreement,
- the remaining 90% of the net sale price, that is PLN 23,850 thousand shall be paid no later than 5 working days from the conclusion of the final sale agreement.

(all amounts are quoted in PLN thousand, unless otherwise stated)

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

Date	Name and Surname	Position/Function	Signature
Feb. 21, 2017	Gilles Stephane Clavie	President of the Management Board	
Feb. 21, 2017	Ireneusz Andrzej Węgłowski	Vice-President of the Management Board	
Feb. 21, 2017	Dominik Sołtysik	Member of the Management Board	
Feb. 21, 2017	Marcin Szewczykowski	Member of the Management Board	

SIGNATURE OF THE MEMBER IN CHARGE OF BOOKKEEPING

Date	Name and Surname	Position/Function	Signature
Feb. 21, 2017	Marcin Szewczykowski	Member of the Management Board	

DECLARATIONS OF THE MANAGEMENT BOARD

True and fair view of the financial statements

The Management Board of Orbis S.A. hereby declares that according to its best knowledge the financial statements of Orbis S.A. for the year 2016 and comparative figures for the year 2015 have been prepared in accordance with the accounting principles applied by the Company and with the International Financial Reporting Standards and reflect, in a true, fair and transparent manner, the economic and financial standing of Orbis S.A. and its financial result.

The Directors' Report on the operations of the Orbis Group and Orbis S.A. for 2016 gives a true view of the development, achievements and situation of Orbis S.A. including a description of the basic threats and risks.

Selection of an entity authorised to audit the financial statements

The Management Board of Orbis S.A. hereby declares that the entity authorised to audit the financial statements, entrusted with the task of audit financial statements of Orbis S.A. has been selected in conformity with the law. This entity and the licensed auditors in charge of the said review met the requirements necessary to issue an unbiased and independent report on the review, pursuant to the applicable regulations and professional standards.

Signatures of Members of the Management Board of Orbis S.A.:

Gilles Clavie
President of the Management Board, Chief Executive Officer

Ireneusz Węgłowski
Vice-President of the Management Board

Dominik Sołtysik
Member of the Management Board, Finance Director

Marcin Szewczykowski
Member of the Management Board, Finance Director

Warsaw, February 21, 2017.